



Translation from Arabic

**Telecom Egypt Company**  
**(An Egyptian Joint Stock Company)**  
**Condensed Consolidated Interim Financial Statements**  
**For The Six Months Ended June 30, 2016**  
**And The Limited Review Report**



*Translation from Arabic*

**Telecom Egypt Company**  
**(An Egyptian Joint Stock Company)**  
**Condensed Consolidated Interim Financial Statements**  
**For The Six Months Ended June 30, 2016**  
**And The Limited Review Report**

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*Translation from Arabic*

### **Limited Review Report on The Condensed Consolidated Interim Financial Statements To The Board of Directors of Telecom Egypt Company**

#### ***Introduction***

We have performed a limited review on the accompanying condensed consolidated statement of financial position of Telecom Egypt Company “an Egyptian joint stock company” as at June 30, 2016 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these condensed consolidated interim financial statements in accordance with Egyptian Accounting Standard number (30) “Interim Financial Reporting”. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our limited review.

#### ***Scope of Limited Review***

We conducted our limited review in accordance with Egyptian Standard on Review Engagements number (2410), "Limited Review of Interim Financial Statements Performed by the Independent Auditor of the Entity". A limited review of condensed consolidated interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters in the Company, and applying analytical and other limited review procedures. A limited review is substantially less in scope than an audit conducted in accordance with Egyptian Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on these condensed consolidated interim financial statements.

#### ***Conclusion***

Based on our limited review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements do not present fairly, in all material respects, the consolidated financial position of the company as at June 30, 2016 and of its consolidated financial performance and its consolidated cash flows for the six months then ended in accordance with Egyptian Accounting Standard number (30) “Interim Financial Reporting”.

*Emphasis of Matter*

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Without qualifying our conclusion, we draw attention to note no. (30-1) of the notes to the condensed consolidated interim financial statements, which describes the dispute between the company and Orange Egypt Company (previously named Mobinil ) in regards to the interconnection rates. Several resolutions were issued by the National Telecommunication Regulatory Authority (NTRA) determining the interconnection rates based on the complaint filed by the company. As a result, Orange filed lawsuits for ceasing the implementation of the said resolutions. In addition, to the lawsuits and arbitral, litigations filed by or against the company and Orange, several rulings were issued but were appealed before the relevant authorities. These litigations and appeals are still under deliberation before the court and the arbitral tribunals and the final ruling has not been issued yet.

According to the opinion of the company's legal consultant, the company has the right to apply the interconnection rates used between Mobile Operators, and that the company's position is based on the relevant agreements and laws, and there are several arbitral and judicial stages to finalize this dispute. It is difficult, in the meantime to determine the outcome of the above mentioned lawsuits and arbitral litigations till the final ruling of the judicial and arbitral bodies is issued.

Cairo, August 10, 2016

**KPMG Hazem Hassan  
Public Accountants & Consultants**

**KPMG Hazem Hassan  
Public Accountants and Consultants**

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Translation from Arabic

**Telecom Egypt Company**  
**(An Egyptian Joint Stock Company)**  
**Condensed Consolidated Statement of Financial Position as of:**

	Note No.	30/6/2016 L.E. (000)	31/12/2015 L.E. (000)
<b>Assets</b>			
<b>Non Current Assets</b>			
Fixed assets	(11)	12 631 513	11 839 332
Projects in progress	(12)	1 561 363	2 077 482
Investments in associates	(13)	9 500 558	10 462 026
Available-for-sale investments		91 139	98 639
Other assets	(14)	957 720	933 047
<b>Total Non Current Assets</b>		<b>24 742 293</b>	<b>25 410 526</b>
<b>Current Assets</b>			
Inventories	(15)	601 682	556 880
Trade and notes receivable	(16)	4 040 092	4 611 579
Debtors and other debit balances	(17)	2 104 542	1 412 071
Held-to-maturity investments (treasury bills)		150 039	173 338
Cash and cash equivalents	(18)	2 827 028	2 413 451
<b>Total Current Assets</b>		<b>9 723 383</b>	<b>9 167 319</b>
<b>Total Assets</b>		<b>34 465 676</b>	<b>34 577 845</b>
<b>Equity</b>			
Capital	(22)	17 070 716	17 070 716
Reserves	(23)	4 446 323	6 380 134
Retained earnings		7 701 123	5 508 940
Foreign entities translation reserve		21 252	4 310
<b>Equity attributable to owners of the company</b>		<b>29 239 414</b>	<b>28 964 100</b>
Non - controlling interest		9 312	10 330
<b>Total Equity</b>		<b>29 248 726</b>	<b>28 974 430</b>
<b>Non Current Liabilities</b>			
Loans and credit facilities	(19)	323 532	326 914
Creditors and other credit balances	(20)	147 005	182
Deferred tax liabilities	(24-1)	54 285	6 867
<b>Total Long Term Liabilities</b>		<b>524 822</b>	<b>333 963</b>
<b>Current Liabilities</b>			
Loans and credit facilities installments due within one year	(19)	67 423	62 476
Creditors and other credit balances	(20)	3 945 163	4 189 290
Provisions	(21)	679 542	1 017 686
<b>Total Current Liabilities</b>		<b>4 692 128</b>	<b>5 269 452</b>
<b>Total Liabilities</b>		<b>5 216 950</b>	<b>5 603 415</b>
<b>Total Equity and Liabilities</b>		<b>34 465 676</b>	<b>34 577 845</b>

The attached notes on pages (8) to (27) are an integral part of these Condensed Consolidated Interim Financial Statements.

Financial Director

*Shaher Shokry*

Acc. Shaher Shokry

Vice President For  
Financial Affairs

*M. Shamroukh*

Eng. Mohamed Shamroukh

Managing Director  
& Chief Executive Officer

*Tamer Gadalla*

Eng. Tamer Gadalla

Board of Directors approval

Chairman

*M. O.*

Dr. Maged Osman

Limited Review Report "attached"



*Translation from Arabic*

**Telecom Egypt Company**  
**(An Egyptian Joint Stock Company)**  
**Condensed Consolidated Income Statement**

	Note <u>No.</u>	<u>For the six months ended</u>		<u>For the three months ended</u>	
		30/6/2016	30/6/2015	30/6/2016	30/6/2015
		<u>L.E.(000)</u>	<u>Reclassified L.E.(000)</u>	<u>L.E.(000)</u>	<u>Reclassified L.E.(000)</u>
Operating revenues	(3)	6 359 308	5 786 254	3 294 420	3 025 115
Operating costs	(4)	(3 225 026)	(3 448 083)	(1 668 918)	(1 742 497)
<b>Gross Profit</b>		<b>3 134 282</b>	<b>2 338 171</b>	<b>1 625 502</b>	<b>1 282 618</b>
Other income		172 269	85 660	88 490	29 892
Selling and distribution expenses	(5)	( 672 090)	( 653 712)	( 335 357)	( 338 261)
General and administrative expenses	(6)	(1 044 988)	( 898 525)	( 549 520)	( 449 995)
Other expenses		( 87 734)	( 171 245)	( 43 935)	( 164 749)
<b>Operating profit</b>		<b>1 501 739</b>	<b>700 349</b>	<b>785 180</b>	<b>359 505</b>
Finance income		482 244	222 554	62 608	66 462
Finance cost		( 18 466)	( 9 723)	( 11 339)	( 7 544)
<b>Net finance income</b>	(7)	<b>463 778</b>	<b>212 831</b>	<b>51 269</b>	<b>58 918</b>
<b>Share of profit of equity accounted investees</b>	(8)	<b>716 356</b>	<b>427 172</b>	<b>344 284</b>	<b>168 284</b>
<b>Profit before tax</b>		<b>2 681 873</b>	<b>1 340 352</b>	<b>1 180 733</b>	<b>586 707</b>
Income tax		( 318 461)	( 327 418)	( 115 381)	( 191 281)
Deferred tax	(24-1)	( 47 418)	( 80 098)	( 25 456)	( 18 710)
<b>Total income tax</b>		<b>(365 879)</b>	<b>(407 516)</b>	<b>(140 837)</b>	<b>(209 991)</b>
<b>Profit for the period</b>		<b>2 315 994</b>	<b>932 836</b>	<b>1 039 896</b>	<b>376 716</b>
<b>Profit attributable to :</b>					
Owners of the company		2 315 058	931 956	1 039 339	377 885
Non-controlling interest		936	880	557	( 1 169)
<b>Profit for the period</b>		<b>2 315 994</b>	<b>932 836</b>	<b>1 039 896</b>	<b>376 716</b>
<b>Basic earnings per share for the period (L.E. / Share)</b>	(10)	<b>1.36</b>	<b>0.55</b>	<b>0.61</b>	<b>0.22</b>

The attached notes on pages (8) to (27) are an integral part of these Condensed Consolidated Interim Financial Statements.



*Translation from Arabic*

**Telecom Egypt Company**  
**(An Egyptian Joint Stock Company)**  
**Condensed Consolidated Statement of Comprehensive Income**

	<u>For the six months ended</u>		<u>For the three months ended</u>	
	<u>30/6/2016</u>	<u>30/6/2015</u>	<u>30/6/2016</u>	<u>30/6/2015</u>
		<u>Reclassified</u>		<u>Reclassified</u>
	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>
Profit for the period after income tax	2 315 994	932 836	1 039 896	376 716
<b><u>Other Comprehensive Income items :</u></b>				
Translation differences of foreign entities	16 942	( 447)	( 2 368)	( 2 591)
<b>Total Comprehensive Income</b>	<b>2 332 936</b>	<b>932 389</b>	<b>1 037 528</b>	<b>374 125</b>
<b>Attributable to :</b>				
Owners of the company	2 332 000	931 509	1 036 971	375 278
Non-controlling interest	936	880	557	( 1 153)
<b>Total Comprehensive Income</b>	<b>2 332 936</b>	<b>932 389</b>	<b>1 037 528</b>	<b>374 125</b>

The attached notes on pages (8) to (27) are an integral part of these Condensed Consolidated Interim Financial Statements.



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**Telecom Egypt Company**  
**(An Egyptian Joint Stock Company)**  
**Condensed Consolidated Statement of Changes in Equity**  
**For The Six Months Ended June 30, 2016**

	Capital	Legal reserve	Other reserves	Retained earnings	Foreign entities translation reserve	Total of equity attributable to owners of the company	Non-controlling interest	Total
	L.E.(000)	L.E.(000)	L.E.(000)	L.E.(000)	L.E.(000)	L.E.(000)	L.E.(000)	L.E.(000)
Balance as of January 1, 2015 (restated)	17 070 716	1 553 184	4 796 578	3 334 061	3 009	26 757 548	16 623	26 774 171
<b>Comprehensive Income</b>								
Profit for the period	-	-	-	931 956	-	931 956	880	932 836
Translation differences of foreign entities	-	-	-	-	( 447)	( 447)	-	( 447)
Total Comprehensive Income	-	-	-	931 956	( 447)	931 509	880	932 389
<b>Transactions with owners of the company :</b>								
Transferred to legal reserve	-	28 600	-	( 28 600)	-	-	-	-
Dividends for year 2014 (shareholders)	-	-	-	( 341 414)	-	( 341 414)	( 1 430)	( 342 844)
Dividends for year 2014 (Employees & Board of Directors)	-	-	-	( 444 074)	-	( 444 074)	( 230)	( 444 304)
Dividends in associates (Employees & Board of Directors)	-	-	-	( 4 497)	-	( 4 497)	-	( 4 497)
Acquisition of non-controlling interest in subsidiaries	-	1 136	-	( 3 313)	11	( 2 166)	( 6 683)	( 8 849)
Total transactions with owners of the company	-	29 736	-	( 821 898)	11	( 792 151)	( 8 343)	( 800 494)
Balance as of June 30, 2015	17 070 716	1 582 920	4 796 578	3 444 119	2 573	26 896 906	9 160	26 906 066
Balance as of January 1, 2016	17 070 716	1 583 556	4 796 578	5 508 940	4 310	28 964 100	10 330	28 974 430
<b>Comprehensive Income</b>								
Profit for the period	-	-	-	2 315 058	-	2 315 058	936	2 315 994
Translation differences of foreign entities	-	-	-	-	16 942	16 942	-	16 942
Total Comprehensive Income	-	-	-	2 315 058	16 942	2 332 000	936	2 332 936
<b>Transactions with owners of the company :</b>								
Transferred to retained earnings from general reserve	-	-	( 2 000 000)	2 000 000	-	-	-	-
Transferred to legal reserve	-	66 189	-	( 66 189)	-	-	-	-
Dividends for year 2015 (shareholders)	-	-	-	( 1 280 304)	-	( 1 280 304)	( 1 702)	( 1 282 006)
Dividends for year 2015 (Employees & Board of Directors)	-	-	-	( 608 735)	-	( 608 735)	( 245)	( 608 980)
Dividends in associates companies (Employees & Board of Directors)	-	-	-	( 167 647)	-	( 167 647)	-	( 167 647)
Acquisition of non controlling interest in subsidiaries	-	-	-	-	-	-	( 7)	( 7)
Total transactions with owners of the company	-	66 189	( 2 000 000)	( 122 875)	-	( 2 056 686)	( 1 954)	( 2 058 640)
Balance as of June 30, 2016	17 070 716	1 649 745	2 796 578	7 701 123	21 252	29 239 414	9 312	29 248 726

The attached notes on page from (8) to (27) are an integral part of these Condensed Consolidated Interim Financial Statements.





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**Telecom Egypt Company**  
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**Condensed Consolidated Statement of Cash Flows**

	Note No.	<b>For the Six months ended:</b>	
		<b>30/6/2016</b>	<b>30/6/2015</b>
		<b>L.E. (000)</b>	<b>Reclassified L.E. (000)</b>
<b><u>Cash flows from operating activities:-</u></b>			
Cash receipts from customers		6 462 418	4 429 611
Sales tax collected from customers		119 387	118 384
Stamp tax and fees collected (from third party)		27 120	26 770
Deposits returned to customers		2 886	( 1 690)
Cash paid to suppliers		( 742 213)	( 464 310)
Payments of NTRA license fees		( 206 648)	( 409 568)
Dividends paid to employees and board of directors		( 472 660)	( 394 705)
Cash paid to employees and board of directors		(1 528 259)	(1 533 165)
Cash paid on behalf of employees to third party		( 306 034)	( 270 721)
<b>Cash provided by operating activities</b>		<b>3 355 997</b>	<b>1 500 606</b>
Interest paid		( 5 059)	( 4 791)
Payments to Tax Authority - income tax		( 292 529)	( 653 420)
Payments to Tax Authority - sales tax		( 373 159)	( 300 269)
Payments to Tax Authority - other taxes		( 291 759)	( 316 808)
Other proceeds		90 554	95 521
<b>Net cash provided by operating activities</b>		<b>2 484 045</b>	<b>320 839</b>
<b><u>Cash flows from investing activities:-</u></b>			
Payments for purchase of fixed assets, projects in progress and other assets		(1 570 984)	(1 323 653)
Proceeds from sale of fixed assets and other assets		572	147
Acquisition of investements		( 7)	( 8 849)
Payments for purchase of held to maturity investments - treasury bills		( 148 564)	( 363 041)
Interest received		25 000	17 506
Dividends collected from investments		719 790	161
Proceeds from sale of available for sale investment		11 183	-
Proceeds from sale of held-to-maturity investment - treasury bills		173 612	845 652
Proceeds from securities (treasury bills - mutual fund)		44 325	112 096
<b>Net cash used in investing activities</b>		<b>( 745 073)</b>	<b>( 719 981)</b>
<b><u>Cash flows from financing activities:-</u></b>			
Payments for loans and other facilities		( 49 790)	( 42 578)
Proceeds form loans and other facilities		59	2 859
Dividends paid to Shareholders		(1 281 920)	( 352 842)
<b>Net cash used in financing activities</b>		<b>(1 331 651)</b>	<b>( 392 561)</b>
<b>Net change in cash and cash equivalents during the period</b>		<b>407 321</b>	<b>( 791 703)</b>
Translation differences of foreign entities		4 867	390
Cash and cash equivalents at the beginning of the period	(18)	2 404 010	2 896 961
<b>Cash and cash equivalents at the end of the period</b>	<b>(18)</b>	<b>2 816 198</b>	<b>2 105 648</b>

The attached notes on pages from (8) to (27) are an integral part of these Condensed Consolidated Interim Financial statements.



*Translation from Arabic*

**Telecom Egypt Company  
(An Egyptian Joint Stock Company)**

**Notes to the Condensed Consolidated Interim Financial Statements  
For The Six Months Ended June 30, 2016**

**1. BACKGROUND**

**1-1 Legal Entity**

- Arab Republic of Egypt National Telecommunication Organization (ARENTO) was established according to Law No.153 of 1980. Effective from March 27, 1998 and according to law No.19 of 1998, the legal form of (ARENTO) was amended after the revaluation of its assets on March 26, 1998 to become "Telecom Egypt Company" (TE).
- Telecom Egypt Company (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 Condensed Consolidated interim Financial Statements of the Company for the three months ended March 31, 2016 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.
- The company is subject to the provisions of the Companies Law No. 159 of 1981 and Capital Market law No. 95 of 1992.
- The registered office of the company is 26 Ramses Street, Cairo, Egypt.
- The nominal shares for the company are traded in the Egyptian Stock Exchange and the London market for securities.

**1-2 Purpose of the company**

The main purpose of the company represents in the following:

- Owning, setting up, operating, maintenance and development of telecommunication networks and infrastructure necessary for communication services for using and / or managing and / or leasing to others and / or dealing on them.
- Providing voice, video and data transmission telecommunication services to subscribers and / or managing and / or leasing to others and / or dealing on them.
- Participating or contributing to global communication systems, such as: - submarine cables and satellites and obtaining capacities or circuits for using and / or managing and / or leasing to others and / or dealing on them.
- Dealing or contracting or Participating with authorities, agencies, companies, organizations or any entity exercising an activity similar to or identical to the company's activities or relates or assists the company to achieve its purposes either in Arab Republic of Egypt or abroad.
- Managing, selling, leasing, purchasing, possessing, renting and dealing on any property and rights or benefit or right in any property. Including the movable and immovable property which could be acquired or owned by the company.
- Selling, purchasing and distributing of fixed line sets , mobile phones and computers, its peripherals, accessories and supplies, complementary devices and necessary spare parts and related maintenance works.
- Setting up voice, video and written data transmission networks and providing value-added services, content services, marketing, electronic signature and online money transfer.
- Investment properties for serving its purposes and executing its projects.

**1-3 Issuance of financial statements**

These Condensed Consolidated Interim Financial Statements were approved by the Board of Directors on August 10, 2016.



## **2. BASIS OF PREPERATION OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

### **2-1 Statement of compliance**

- These Condensed Consolidated Interim Financial Statements as of June 30, 2016 have been prepared in accordance with Egyptian Accounting Standard No.30 "Interim Financial Reporting" accordingly it is condensed comparative view to the annual consolidated financial statements for the company, and in the light of applicable Egyptian laws and regulations.
- These Condensed Consolidated Interim Financial Statements don't include all the required information needed for preparing the full annual consolidated financial statements and must be read with the annual consolidated financial statements as of December 31, 2015.

### **2-2 Basis of measurement**

These Condensed Consolidated Interim Financial Statements have been prepared under the historical cost basis, except for certain financial investments which are evaluated at fair value in according to the Egyptian Accounting Standards.

For presentational purposes, the current and non-current classification has been used for the condensed consolidated balance sheet, while expenses are analyzed in the condensed consolidated income statement using a classification based on their function. The direct method has been used in preparing the condensed consolidated statement of cash flows.

### **2-3 Functional and presentation currency**

These Condensed Consolidated Interim Financial Statements are presented in Egyptian pound (L.E.), which is the group functional currency. All financial information presented in "L.E." has been rounded to the nearest thousand unless otherwise stated.

### **2-4 Use of estimates**

The preparation of the Condensed Consolidated Interim Financial Statements in conformity with Egyptian Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other various factors that are believed to be reasonable under the circumstances, the results of these assumption represent the judgmental basis for the value of assets and liabilities that may not apparently available from other sources. The actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on going basis. 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.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements is included in the following notes:

- Impairment loss on non-financial and financial assets.
- Provisions and contingencies.
- Deferred tax assets.
- Operational useful life of fixed assets.



Notes To The Condensed Consolidated Interim Financial Statements  
For The Six Months Ended June 30, 2016 (continued)

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**2-5 Fair value measurement**

- The fair value of financial instruments are determined based on the market value of those financial instruments or similar financial instruments at the date of the financial statements without deducting any estimated future costs of sale. Financial assets values are determined at current prices for the purchase of those assets, while determining the value of financial liabilities at the current prices, which would settle those commitments.
- In the absence of an active market to determine the fair value of financial instruments, the fair value is estimated using various valuation techniques, taking into account recent transactions prices, guided by the current fair value of other substantially similar instruments - discounted cash flow method - or any other methods to produce reliable results.
- When using the discounted cash flow method as a method of evaluation, future cash flows are estimated based on the best estimate of the management. Discount rate used is determined in the light of the prevailing market price at the date of the financial statements for financial instruments similar in nature and terms.

**3. OPERATING REVENUES**

	<u>For the six months ended</u>		<u>For the three months ended</u>	
	<u>30/6/2016</u>	<u>30/6/2015</u>	<u>30/6/2016</u>	<u>30/6/2015</u>
	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Home	2 008 998	1 717 906	1 009 427	876 552
Enterprise	1 122 004	890 477	569 996	511 093
Domestic wholesale	1 534 413	1 338 925	813 001	698 502
International carrier	1 387 952	1 534 911	742 028	773 622
International cables and networks	305 941	304 035	159 968	165 346
	<u>6 359 308</u>	<u>5 786 254</u>	<u>3 294 420</u>	<u>3 025 115</u>

Total operating revenues have increased by an amount of L.E. 573 054 K mainly due to the increase in home revenues by an amount of L.E. 291 092 K, due to the increase in internet customers which led to the increase in internet revenue and enterprise revenues by an amount of L.E. 231 527 K due to the increase in access service revenue by an amount of L.E.142 981 K in addition to increase in domestic wholesale revenue by an amount of L.E. 195 488 K due to the increase in infrastructure revenue but the decrease in international carrier revenues by an amount of L.E 146 959 K led to limitation of this increase.

**4. OPERATING COSTS**

	<u>For the six months ended</u>		<u>For the three months ended</u>	
	<u>30/6/2016</u>	<u>30/6/2015</u>	<u>30/6/2016</u>	<u>30/6/2015</u>
	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Interconnection cost	1 056 449	1 227 751	560 759	619 649
Depreciation and amortization	594 447	752 573	304 463	367 796
Other operating cost*	1 574 130	1 467 759	803 696	755 052
	<u>3 225 026</u>	<u>3 448 083</u>	<u>1 668 918</u>	<u>1 742 497</u>

Operating costs have decreased by an amount of L.E. 223 057 K due to the following: -

- The decrease of interconnection cost by an amount of L.E. 171 302 K which is mainly due to the decrease in international fees of transit service and international interconnection cost.
- The decrease of depreciation and amortization by an amount of L.E. 158 126 K mainly due to the amendment of the useful life of some fixed assets categories according to Board of director's decree which was held on 8/5/2016.
- The increase of other operating cost by an amount of L.E. 106 371 K is due to the increase in frequencies and license charge (NTRA) by an amount of L.E. 34 136 K.

\* Reclassification was made on comparative figures as shown in Note no (31-1).



Notes To The Condensed Consolidated Interim Financial Statements  
For The Six Months Ended June 30, 2016 (continued)

Translation from Arabic

**5. SELLING AND DISTRIBUTION EXPENSES**

	<u>For the six months ended</u>		<u>For the three months ended</u>	
	<u>30/6/2016</u>	<u>30/6/2015</u>	<u>30/6/2016</u>	<u>30/6/2015</u>
	<u>L.E. (000)</u>	<u>Reclassified L.E. (000)</u>	<u>L.E. (000)</u>	<u>Reclassified L.E. (000)</u>
Salaries & wages	412 824	401 847	212 775	205 448
Company's social insurance contribution	50 844	44 880	25 224	22 029
Depreciation and amortization	3 801	4 324	1 793	2 138
Discount allowed	93 805	101 798	47 781	51 225
Advertising and marketing	37 408	38 189	16 624	22 963
Other expenses *	73 408	62 674	31 160	34 458
	<u>672 090</u>	<u>653 712</u>	<u>335 357</u>	<u>338 261</u>

The increase in selling and distribution expenses by an amount of L.E. 18 378 K is mainly due to the increase in salaries and wages by an amount of L.E. 10 977 K and company's social insurance contribution by an amount of L.E. 5 964 K as a result of the annual raise by 8 % from the basic salary starting from January 2016.

\* Reclassification was made on comparative figures as shown in Note no (31-1).

**6. GENERAL AND ADMINISTRATIVE EXPENSES**

	<u>For the six months ended</u>		<u>For the three months ended</u>	
	<u>30/6/2016</u>	<u>30/6/2015</u>	<u>30/6/2016</u>	<u>30/6/2015</u>
	<u>L.E. (000)</u>	<u>Reclassified L.E. (000)</u>	<u>L.E. (000)</u>	<u>Reclassified L.E. (000)</u>
Salaries and wages	700 616	564 784	365 164	279 427
Company's social insurance contribution	59 669	49 346	29 335	25 756
The company's contribution in loyalty and belonging fund	95 104	94 318	47 552	47 159
Depreciation and amortization	35 652	29 729	17 937	15 184
Tax and duty	48 448	55 935	33 734	23 494
Other expenses*	105 499	104 413	55 798	58 975
	<u>1 044 988</u>	<u>898 525</u>	<u>549 520</u>	<u>449 995</u>

The increase in general and administrative expenses by an amount of L.E. 146 463 K is mainly due to the increase in salaries and wages by an amount of L.E. 135 832 K and company's social insurance contribution item by an amount of L.E. 10 323 K as a result of the annual raise by 8 % from the basic salary starting from January 2016.

\* Reclassification was made on comparative figures as shown in Note no (31-1).



Notes To The Condensed Consolidated Interim Financial Statements  
For The Six Months Ended June 30, 2016 (continued)

Translation from Arabic

**7. NET FINANCE INCOME**

	<u>For the six months ended</u>		<u>For the three months ended</u>	
	<u>30/6/2016</u>	<u>30/6/2015</u>	<u>30/6/2016</u>	<u>30/6/2015</u>
	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Total finance income	482 244	222 554	62 608	66 462
Total finance cost	( 18 466)	( 9 723)	( 11 339)	( 7 544)
<b>Net finance income</b>	<b>463 778</b>	<b>212 831</b>	<b>51 269</b>	<b>58 918</b>

The increase in net finance income by an amount of L.E. 250 947 K during the period is mainly due to the increase in foreign exchange currency gain by an amount of L.E. 312 734 K but the decrease in treasury bills interest by an amount of L.E. 61 847 K which led to limitation of this increase

**8. SHARE OF PROFIT OF EQUITY ACCOUNTED INVESTEEES**

	<u>For the six months ended</u>		<u>For the three months ended</u>	
	<u>30/6/2016</u>	<u>30/6/2015</u>	<u>30/6/2016</u>	<u>30/6/2015</u>
	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Vodafone Egypt	716 352	427 172	344 284	168 284
Egypt trust	4	-	-	-
	<u>716 356</u>	<u>427 172</u>	<u>344 284</u>	<u>168 284</u>

**9. EMPLOYEES' BENEFITS**

**9-1 Early retirement scheme**

The Company has an early retirement scheme whereby employees who wish to retire, prior to the legal retirement age, are entitled to receive a compensation amounting to 75% of their latest basic salary for the remaining service period up to the retirement age with a maximum of 10 years for men and 15 years for women.

Compensations relating to early retirement amounted to L.E. 6 204 K for the financial period ending June 30, 2016 (against LE 876 K for the same period of year 2015) are included in general and administrative expenses Note no.6.

**9-2 End of service benefits (the company's contribution in loyalty and belonging fund)**

The employees are granted an end of service benefits through a Loyalty & belonging Fund established in January 2004. Employees' benefit are based on the employees' basic salary in January 1, 2005 increasing at a compound rate of 5%. The subscription for employees hired after January 1, 2005, is calculated according to a subscription schedule for new hires and increasing at a compound rate of 5% starting from the next year from the hiring date.

The employees share in loyalty & belonging fund according to constant subscription are based on the same employees' basic salary where the end of service benefit calculated. The Company's contribution for the period ended June 30, 2016 amounted to L.E. 95 104 K (against L.E. 94 318 K for the same period as of year 2015). The Company's contribution is included in general and administrative expenses Note no.6.



Notes To The Condensed Consolidated Interim Financial Statements  
For The Six Months Ended June 30, 2016 (continued)

Translation from Arabic

**10. BASIC EARNINGS PER SHARE FOR THE PERIOD**

	For the six months ended		For the three months ended	
	30/6/2016	30/6/2015	30/6/2016	30/6/2015
<b>The holding company owners' equity :</b>				
Profit for the period (LE 000)	2 315 058	931 956	1 039 339	377 885
Number of shares available during the period (share)	1707 071 600	1707 071 600	1707 071 600	1707 071 600
<b>Basic earnings per share for the period (LE / share)</b>	<b>1.36</b>	<b>0.55</b>	<b>0.61</b>	<b>0.22</b>

**11. FIXED ASSETS**

Description	30/6/2016	31/12/2015	30/6/2016	31/12/2015	30/6/2016	31/12/2015
	Cost	Cost	Accumulated depreciation	Accumulated depreciation	Net	Net
	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>
Land	2 374 578	2 374 023	-	-	2 374 578	2 374 023
Buildings & Infrastructure*	22 193 372	21 478 019	14 401 960	14 238 641	7 791 412	7 239 378
Centrals and technical equipment & information technologies*	22 178 459	21 685 428	19 918 824	19 641 962	2 259 635	2 043 466
Vehicles*	148 611	129 933	110 045	110 475	38 566	19 458
Furniture	453 773	431 089	356 715	341 937	97 058	89 152
Tools & supplies	130 843	128 760	85 452	82 866	45 391	45 894
Decoration & fixtures	119 041	116 808	94 168	88 847	24 873	27 961
Fixtures on trunk radio network	315	315	315	315	-	-
<b>Total</b>	<b>47 598 992</b>	<b>46 344 375</b>	<b>34 967 479</b>	<b>34 505 043</b>	<b>12 631 513</b>	<b>11 839 332</b>

-The increase in net carrying value of fixed assets mainly due to the additions during the period amounting to L.E. 1 391 709 K, but the depreciation of the period by an amount of L.E. 597 782 K led to limitation of this increase

-The cost of fixed assets as of June 30, 2016 includes an amount of L.E. 23 411 Million fully depreciated fixed assets and still in use.

\*Useful life of some fixed assets items were amended during the period according to the technical report approved by the company's management and according to Board of director's decree which dated 8/5/2016 which led to decrease in the depreciation of the period by an amount of L.E. 159 314 K approximately, as a result of using the amended useful lives starting from 1/1/2016.



Notes To The Condensed Consolidated Interim Financial Statements  
For The Six Months Ended June 30, 2016 (continued)

Translation from Arabic

**12. PROJECTS IN PROGRESS**

	<b>30/6/2016</b>	<b>31/12/2015</b>
	<b><u>LE (000)</u></b>	<b><u>LE (000)</u></b>
Land	13 885	14 420
Buildings and Infrastructure	609 484	731 589
Centrals and information technology equipment	361 154	700 790
Furniture	119	8 881
Other assets	481 556	501 665
Advanced payments	95 165	120 137
	<b><u>1 561 363</u></b>	<b><u>2 077 482</u></b>

The balance of projects in progress are represented in the part that have been completed from commitments and capital contracts until June 30, 2016, and its down payments.

**13. INVESTMENTS IN ASSOCIATES**

	<b>30/6/2016</b>		<b>31/12/2015</b>	
	<b><u>Ownership</u></b>	<b><u>amount</u></b>	<b><u>Ownership</u></b>	<b><u>amount</u></b>
	<b><u>%</u></b>	<b><u>L.E. (000)</u></b>	<b><u>%</u></b>	<b><u>L.E. (000)</u></b>
- Vodafone Egypt Telecommunication company*	44.95	9 499 785	44.95	10 461 257
- Wataneya for Telecommunication**	50.00	125	50.00	125
- International Telecommunication Consortium Limited. (ITCL)**	50.00	54	50.00	54
- Egypt Trust**	35.71	7 500	35.71	7 500
- Consortium Algerien de Telecommunications (CAT)**	33.00	133	33.00	133
- Sofisat	25.00	-	25.00	-
		<b><u>9 507 597</u></b>		<b><u>10 469 069</u></b>
<b>Add:</b>				
<b><u>Payments for investments purchase</u></b>				
Egypt Trust***		773		769
<b>Less</b>				
Impairment loss on investment in associates		( 7 812)		( 7 812)
		<b><u>9 500 558</u></b>		<b><u>10 462 026</u></b>

\*The investments in Vodafone Egypt on June 30, 2016 represents the ownership of 107 869 799 shares with a percentage of 44.95% from the total shares of Vodafone Egypt.

The financial year of Vodafone Egypt ends on March 31 of each year and the equity method was applied in recognizing the investment in Vodafone Egypt during preparing the Condensed Consolidated Interim Financial Statements as of June 30, 2016 by using the consolidated financial statements of Vodafone Egypt approved by the board of directors for the financial year ended in March 31, 2016 which presents the 12 months from the 1st of April 2015 till March 31, 2016, deduct the movements of the period from April 1, 2015 till December 31, 2015 from the interim financial data of Vodafone Egypt as of December 31, 2015, and adding the movements for the period from April 1, 2016 till June 30, 2016 from the interim data on June 30, 2016 to determine the share of financial period from January 1 to June 30, 2016 of business results.





Notes To The Condensed Consolidated Interim Financial Statements  
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Translation from Arabic

\*\*The impairment loss on investments for Egypt Trust, Wataneya for Telecommunication, Consortium Algerian Telecommunications (CAT) and International Telecommunication Consortium Limited (ITCL) due to the realized losses by these investee companies, which exceeded this investments amount, as the Extra Ordinary General Assembly meeting of Consortium Algeria Telecommunication held on July 1, 2009, approved the dissolution and liquidation of CAT.

\*\*\* The remaining 25% represents the company's share in Egypt Trust capital after deducting the company's share in the associate accumulated losses, the commercial registration related to it is in process.

**14. OTHER ASSETS**

	<b>30/6/2016</b>	<b>31/12/2015</b>
	<b><u>L.E. (000)</u></b>	<b><u>L.E. (000)</u></b>
<b><u>Cost</u></b>		
Submarine Cables (right of way)	787 648	791 636
Right of Use (ROU)	148 494	148 065
License (internet service - programs )	78 113	90 675
Land (possession-usufruct)	440 684	440 684
	<b><u>1 454 939</u></b>	<b><u>1 471 060</u></b>
<b><u>Less:</u></b>		
Accumulated amortization & Impairment	497 219	538 013
<b>Net other assets</b>	<b><u>957 720</u></b>	<b><u>933 047</u></b>

- The increase in net carrying value of other assets is due to period additions by an amount L.E. 80 267 K but the amortization of the period by an amount of 36 118 K and the disposals during the period by an amount of L.E. 27 872 K led to limitation of this increase.

**15. INVENTORIES**

	<b>30/6/2016</b>	<b>31/12/2015</b>
	<b><u>L.E. (000)</u></b>	<b><u>L.E. (000)</u></b>
Spare parts	414 863	390 707
Project cables and supplies	103 612	78 794
Others	83 207	87 379
	<b><u>601 682</u></b>	<b><u>556 880</u></b>

The value of inventories was written down by L.E. 28 954 K (against LE 28 128 K as at December 31, 2015) for obsolete and slow moving items directly from the cost of each type of inventory.



Notes To The Condensed Consolidated Interim Financial Statements  
For The Six Months Ended June 30, 2016 (continued)

Translation from Arabic

**16. TRADE AND NOTES RECEIVABLE**

	<b>30/6/2016</b>	<b>31/12/2015</b>
	<b><u>L.E. (000)</u></b>	<b><u>L.E. (000)</u></b>
Trade receivables - National	4 442 090	4 581 254
Trade receivables - International	2 000 523	2 421 243
	<b>6 442 613</b>	<b>7 002 497</b>
<b>Less:</b>		
Impairment loss on trade receivables	2 402 660	2 391 151
	<b>4 039 953</b>	<b>4 611 346</b>
<b>Add:</b>		
Notes receivable	139	233
	<b>4 040 092</b>	<b>4 611 579</b>

The decrease in net carrying value of trade and notes receivable by an amount of L.E. 571 487 K is due to the decrease in trade receivables-international balance by an amount of L.E. 420 720 K as a result of collecting some of trade receivables-international carriers, decrease in trade receivables-national by an amount of L.E. 139 164 K and the increase in impairment loss on trade receivables balance by an amount of L.E. 11 509 K.

**17. DEBTORS AND OTHER DEBIT BALANCES**

	<b>30/6/2016</b>	<b>31/12/2015</b>
	<b><u>L.E.(000)</u></b>	<b><u>L.E.(000)</u></b>
Accrued revenues	748 219	29 858
Suppliers – debit balances	156 803	47 204
Tax Authority - withholding tax	143 142	162 976
Due from organizations and companies	230 389	296 179
Payments on the account of income tax	116 239	104 636
Payments on the account of employee dividends	146 099	282 428
Other debit balances*	713 193	687 667
	<b>2 254 084</b>	<b>1 610 948</b>
<b>Less:</b>		
Impairment loss on debtors and other debit balances	149 542	198 877
	<b>2 104 542</b>	<b>1 412 071</b>

Net debtors and other debit balances have been increased by an amount of L.E. 692 471 K mainly due to the increase in accrued revenue by an amount of L.E. 718 361 K as a result of booking debts of cash dividends of investments in associates companies in addition to the increase in suppliers – debit balances by an amount of L.E. 109 599 K, but the decrease in payments on the account of employee dividends by an amount of L.E. 136 329 K and due from organizations and companies by an amount of L.E. 65 790 K led to limitation of this increase.



Notes To The Condensed Consolidated Interim Financial Statements  
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Translation from Arabic

**18. CASH AND CASH EQUIVALENTS**

	Note No.	30/6/2016 L.E. (000)	31/12/2015 L.E. (000)
Banks - time deposits (less than 3 months)		2 129 555	1 862 855
Banks - current accounts		61 540	( 20 322)
Cash on hand		59 521	50 845
Treasury bills (less than 3 months)		456 800	102 170
Money market funds (less than 3 months)		119 612	417 903
<b>Cash and cash equivalents</b>		<b>2 827 028</b>	<b>2 413 451</b>
<b>Less:</b>			
Restricted cash and cash equivalents	(26)	10 830	9 441
<b>Cash and cash equivalents as per statement of cash flows</b>		<b>2 816 198</b>	<b>2 404 010</b>

**19. LOANS AND CREDIT FACILITIES**

The increase in the balance of loans and credit facilities mainly resulting from the increase in foreign currency rate against L.E. and taking into consideration that foreign suppliers facilities in Euro amounted to L.E. 777 K equivalent to Euro 79 K against letters of guarantee issued by National Bank of Egypt in favor of "Siemens" as a guarantee for payment of this facility and there are no other guarantee.

**20. CREDITORS AND OTHER CREDIT BALANCES**

	30/6/2016 L.E. (000)	31/12/2015 L.E. (000)
Suppliers and notes payable	237 734	330 006
Tax Authority-Income Tax	309 239	472 807
Tax Authority (taxes other than income tax)	234 496	247 983
Deposits from others	709 443	696 702
Fixed assets creditors	503 273	978 601
Dividends payable	3 143	22 559
Accrued expenses	367 649	349 583
Trade receivables - credit balances	391 183	334 223
Due to organizations and companies	467 588	72 592
Deferred revenues	318 351	134 722
National Telecommunication Regulatory Authority (NTRA)	186 647	166 356
Other credit balances	363 422	383 338
	<b>4 092 168</b>	<b>4 189 472</b>
<b>Less:</b>		
Credit balances due within more than one year	147 005	182
	<b>3 945 163</b>	<b>4 189 290</b>

- Creditors and other credit balances decreased by an amount of L.E. 97 304 K mainly due to the decrease in fixed assets creditors by an amount of L.E. 475 328 K but the increase in due to organization and companies item by an amount of L.E. 394 996 K let to limitation of this decrease.



Notes To The Condensed Consolidated Interim Financial Statements  
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Translation from Arabic

**21. PROVISIONS**

	30/6/2016	31/12/2015
	<u>L.E.(000)</u>	<u>L.E.(000)</u>
Balance at the beginning of the period /year	1 017 686	558 341
Reclassification during the period/year	( 14 312)	135 134
Charged to income statement for the period / year*	79 250	444 623
Provision used during the period / year	( 403 086)	( 120 412)
Translation differences	4	-
<b>Balance at the end of the period / year</b>	<b><u>679 542</u></b>	<b><u>1 017 686</u></b>

\* The provision charged to income statement included in other expenses to meet contingent tax liabilities.

**22. CAPITAL**

- The company's issued and fully paid-up capital is L.E. 17 070 716 K, represented in 1 707 071 600 shares at a par value of L.E. 10 each.
- The Egyptian Government owns 80% after floating 20% of company's shares in public offering during December 2005.

**23. RESERVES**

	30/6/2016	31/12/2015
	<u>L.E.(000)</u>	<u>L.E.(000)</u>
Legal reserve	1 649 745	1 583 556
Other reserves	2 796 578	4 796 578
	<b><u>4 446 323</u></b>	<b><u>6 380 134</u></b>

The increase in the legal reserve balance mainly as a result of retaining an amount of L.E. 66 189 K from 2015 profit in accordance with the company's article of association and its subsidiaries.

The balance of other reserve has decreased due to transfer an amount of L.E. 2 000 000 K from general reserve to retained earning "according to Ordinary General Assembly decree which was held on March 30, 2016"



## 24. DEFERRED TAX

### 24-1 Deferred tax assets and liabilities

	<u>30/6/2016</u>		<u>31/12/2015</u>	
	<u>Assets</u> <u>L.E.(000)</u>	<u>Liabilities</u> <u>L.E.(000)</u>	<u>Assets</u> <u>L.E.(000)</u>	<u>Liabilities</u> <u>L.E.(000)</u>
Total deferred tax asset / (liability)	<u>244 981</u>	<u>( 299 266)</u>	<u>350 763</u>	<u>( 357 630)</u>
Net liabilities deferred tax	<u>-</u>	<u>( 54 285)</u>	<u>-</u>	<u>( 6 867)</u>
Deferred tax charged to income statement for the period/year	<u>( 47 418)</u>		<u>545 180</u>	

Deferred tax liability for the undistributed dividends of subsidiaries & associates in accordance with the presidential decree no. (53) for the year 2014 which is amended by presidential decree no. (96) for the year 2015 as shown Note no (27).

There are amendments on income tax law during years 2014 and 2015 and the most important one is the decrease in income tax rate to be 22.5% as shown Note no (27).

### 24-2 Unrecognized deferred tax assets

	<u>30/6/2016</u>	<u>31/12/2015</u>
	<u>L.E.(000)</u>	<u>L.E.(000)</u>
Unrecognized deferred tax assets	<u>627 532</u>	<u>627 315</u>

Deferred tax assets has not been recognized in respect of the above due to the uncertainly of the utilization of their benefits in the foreseeable future.

## 25. CAPITAL COMMITMENTS

The company's capital commitments for the unexecuted parts of contracts until June 30, 2016 amounted to L.E. 944 Million (against L.E. 124 Million as at December 31, 2015) includes uncalled installments of investees' share in capital and haven't been claimed yet by an amount of LE 1 Million. These commitments are expected to be settled in the subsequent period except for the uncalled installments of investees' share in capital, which shall be settled when required by the Board of Directors of those investees companies.



## 26. CONTINGENT LIABILITIES

In addition to the amounts included in the condensed Separate interim financial statements as of June 30, 2016, the company has the following contingent liabilities:

	<u>30/6/2016</u>	<u>31/12/2015</u>
	<u>L.E. (000)</u>	<u>L.E. (000)</u>
- Letters of guarantee issued by banks on behalf of the company*	209 603	184 687
- Letters of credit	297 319	305 718

\* letters of guarantee which were issued by banks on behalf of the company and for the benefits of others as at June 30, 2016 include letters of guarantee issued against cash margin (restricted cash and cash equivalents) (Note no.18)

## 27. TAX POSITION (Telecom Egypt Company)

### 27-1 Corporate tax

- Tax inspection was performed for the years till December 31, 2013 and all due taxes were settled.
- Tax inspection for the year 2014 is in process.

### 27-2 Important Amendments on laws issued during year 2014 and 2015

- On June 4, 2014, law no. 44 of 2014 was issued, imposing temporary additional 5% increase in the tax rate for three years on individuals and corporate entities whose annual income exceeds one million egyptian pounds. This tax will be calculated and collected according to the provisions of the income tax law, and shall come into force on 5 June 2014.
- And on June 30, 2014, a presidential decree no. 53 of 2014 was issued, amending certain provisions of the income tax Law No. 91 of 2005, the main amendments are:
  1. Imposing income tax on dividends.
  2. Imposing income tax on capital gains from selling shares and securities.
- On April 6, 2015 Ministerial Decree No. 172 of 2015 was issued, amending certain provisions of the executive regulations for the Income Tax Law issued by the Minister of Finance decree No. 991 for the year 2005.
- On August 20, 2015, Presidential Decree was issued with Law No. (96) of 2015 amending certain provisions of the Income Tax Law No. (91) of 2005 and the decree no (44) of 2014 to impose temporary additional income tax, the decree will be effective from the day following its publication, the following are the most significant changes that were mentioned in the decree:
  - 1- Decreasing the income tax rate to be 22.5% of the net annual profits.
  - 2- Amending the period of imposing the temporary tax 5%.
  - 3- Amending the tax on dividends.
  - 4- Suspend the adoption of the capital tax imposed on the income from dealing in listed securities for two years starting from 17/5/2015.

### 27- 3 Sales Tax

- Tax inspection was performed for the years till December 31, 2010 and all due taxes were settled.
- Tax inspection for the years 2011 till 2012 were performed and the company was notified with tax differences and the company objected during legal period, tax differences are being negotiated at appeals committee.

### 27- 4 Salary Tax

- Tax inspection was performed for the years till December 31 ,2012, and the Company was notified and all due taxes were settled.
- Tax inspection for the years 2013, 2014 and 2015 is in process.



*Notes To The Condensed Consolidated Interim Financial Statements  
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Translation from Arabic

**27- 5 Stamp tax**

- Tax inspection for the period from March 27, 1998 to December 31, 2000 was performed for certain sectors and the company was notified, 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 period from January 1, 2001 till July 31, 2006 was performed for certain sectors of the company and taxes due were settled. Tax inspection for the remaining sectors is currently being undertaken during the same period.
- Tax inspection for period from August 1, 2006 to December 31, 2009 and due taxes were settled.
- Tax inspection for the years 2010 till 2014 was performed and the disputed items were resolved with the exception of the relative stamp on salaries and wages which have been forwarded to the appeal committee.

**27- 6 Real estate taxes**

- All taxes are paid according to the addition notices received by the company. The company's Legal Affairs Department follows up the disputes according to the Real Estate Tax Law.
- Tax returns were submitted according to the new Real Estate Tax Law No.196 for the year 2008 on the due dates.
- Provisions were formed to meet any tax liabilities that may arise from the tax inspection.



**Notes To The Condensed Consolidated Interim Financial Statements  
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*Translation from Arabic*

**28. RELATED PARTY TRANSACTIONS**

There are transactions between the group and its associates. The related transactions during the period and balances on the condensed consolidated interim financial statements date are stated as follows:

	Nature of transactions during the period	Transactions volume		Balance as of	
		during the period stated in the income statement	Movement during the period	30/6/2016	31/12/2015
		LE000	Debit (Credit) LE000	Debit (Credit) LE000	Debit (Credit) LE000
<b>Debit balances included in trade receivables</b>					
- Vodafone Egypt Telecommunications Company	Outgoing calls and voice services to the associates company	559 857	1 679 076	( 82 794)	125 600
	Incoming and international calls, transmission & lease of company premises and towers to the associates company	547 870			
			<b>1 679 076</b>	<b>( 82 794)</b>	<b>125 600</b>
<b>Debit balances included in debt balances - long term</b>					
- Consortium Algerien de Telecommunications (CAT)*	Paid on behalf of associates to finance operating expenses	-	-	-453 902	-453 902
				<b>-453 902</b>	<b>-453 902</b>
<b>Debit balances included in debtors and other debit balances</b>					
- International Telecommunication Consortium Limited (ITCL)**					
<b>Credit balances included in creditors and other credit balances</b>					
- Vodafone Egypt Telecommunications Company	Telecommunications services	4 092	11 283	(9 134)	(5 042)

\* Impairment was formed to this balance which represented in the value of the finance provided by Telecom Egypt to Consortium Algerien de Telecommunication Company (CAT) where Telecom Egypt participates directly and is indirectly by 50%, this company suffers from financial difficulties and sustains material losses. The Extra-Ordinary General Assembly Meeting of the company (CAT) held on July 1, 2009 approved the dissolution and liquidation of the company. In the light of these circumstances, there is high probability that Telecom Egypt will not be able to collect the finance given to Consortium Algerien de Telecommunication Company.

\*\* The balance is fully impaired due to company's inability to recover this amount in foreseeable future.





## 29. GROUP ENTITIES

te direct and indirect share in subsidiaries companies on June 30, 2016 which were included in the condensed consolidated interim financial statements is as follows:

<u>Company name:</u>	<u>Country of incorporation</u>	<u>Ownership interest</u>	
		<u>30/6/2016</u>	<u>31/12/2015</u>
Telecom Egypt France	France	100.00 %	100.00 %
T.E Data	Egypt	100.00 %	100.00 %
T.E Data Jordan	Jordan	100.00 %	100.00 %
TE Investment Holding	Egypt	100.00 %	100.00 %
The Egyptian Telecommunication Company for Information Systems (Xceed)	Egypt	100.00 %	100.00 %
Xceed Customer Care Maroc	Morocco	100.00 %	100.00 %
Centra Technologies	Egypt	100.00 %	100.00 %
Centra Industries	Egypt	100.00 %	99.89 %
Centra Distribution	Egypt	99.99 %	99.99 %
Middle East Radio Communication (MERC)	Egypt	51.00 %	51.00 %

## 30. SIGNIFICANT CLAIMS AND LITIGATIONS

### 30-1 Interconnection dispute with Orange Egypt previously named Mobinil -

On September 2009, Orange egypt had filed the Arbitration Case no. 644/2009 requesting the application of the interconnection rates mentioned in the signed agreements with te, and objecting the application of NTRA abovementioned decisions, claiming that te made a contractual violations by complaining at NTRA, also request damages for not entering into services level agreements related to the transmission leased line and International gateway services.

On october 2009 te had filed the Arbitration Case against Orange egypt, that's where te's management believes that Orange egypt charged te with rates exceeds the rates where Orange egypt and other operator charging each other and this violates the article (13) of the interconnection agreement between TE and Orange egypt.

The tribunal in Orange egypt Case rejected Orange egypt's request to apply the interconnection rates stated in the interconnection agreement, also the tribunal submit its interpretation to the Egyptian law and the principles that should be followed by both parties to agree on the interconnection rates. Also the tribunal rejected a part of TE's claims for the previous period, the Tribunal depute an expert to review Orange egypt claims whether from the principle or the amount claimed, and these claims still pending before Tribunal.

The company's legal advisor believes that the company has the right to apply the interconnection rates same as other mobile operators, and this opinion in the light of NTRA decisions that still in effect, the provisions Telecommunication law and Competition law.

The amount in dispute as per the company's record between te and Orange egypt in relation to the said dispute for the period from September 3, 2008 to the end of June 2016 is approximtely an amount of L.E 651 615 K.



**30-2 Interconnection dispute with Vodafone Egypt Company (VFE)**

The Ordinary General Assembly dated 30 March 2016 approved the frame agreement of settling all the current disputes between te and VFE and the same frame was approved by the Ordinary General Assembly of VFE dated 14 April 2016. Subject to such settlement, te and VFE settled all disputes raised between both of them, till 31 December 2015.

**30-3 Dispute with one of the investees**

The company has filed an arbitration case against an investee, in which te owns 25%, claiming compensations for breach of obligations stipulated in an agreement concluded between the company, and the investee and requesting the termination of the said agreement. The investee has filed as well another arbitration case against TE claiming compensation for breaching of obligations stipulated in the same agreement.

In 31 August 2015, The tribunal rejected te claims for compensations, it also decided that it has jurisdiction over the investee claims and decided to terminate the contract dated 25 July 2000, and its amendments dated 2004, and the shareholder's contract dated 27 February 2006 and awarded compensation to the investees. The company started to take the necessary legal actions to cease the implementation of such award and to annul it, as per the external advisor recommended to the company.

And the company's Board of Director held in 20 January 2016 and 29 March 2016 approved the frame agreement of settling all the current disputes between TE and the investee, the agreements which are related to the frame settlement were signed between the dispute parties on 31 May 2016.

And the company has made the impairment loss on financial assets to cover any anticipated future loss, may arise as a result of the above cases.



### 31. COMPARATIVE FIGURES

- Reclassifications were made on the comparative figures of some items of condensed consolidated income statement and some items of condensed consolidated statement of cash flows to conform to the current presentation, the following is the effect of these reclassifications on the condensed consolidated interim financial statements :-

#### 31-1 Effect on The Condensed Consolidated Income Statement

<u>Description</u>	<u>For the six months ended</u>		<u>For the six months ended</u>		<u>For the three months ended</u>		<u>For the three months ended</u>	
	<u>30/6/2015</u>		<u>30/6/2015</u>		<u>30/6/2015</u>		<u>30/6/2015</u>	
	<u>as previously reported</u>	<u>Reclassification (debit)/credit</u>	<u>Reclassified</u>	<u>as previously reported</u>	<u>Reclassification (debit)/credit</u>	<u>Reclassified</u>	<u>as previously reported</u>	<u>Reclassification (debit)/credit</u>
	<u>L.E.(000)</u>	<u>LE(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>LE(000)</u>	<u>L.E.(000)</u>	<u>LE(000)</u>	<u>L.E.(000)</u>
Operating Cost	(3 446 716)	(1 367)	(3 448 083)	(1 742 184)	(313)	(1 742 497)		
Selling and distribution expenses	(648 303)	(5 409)	(653 712)	(335 186)	(3 075)	(338 261)		
General and administration expenses	(905 301)	6 776	(898 525)	(453 383)	3 388	(449 995)		

#### 31-2 Effect on The Condensed Consolidated Statement of Cash flows

<u>Description</u>	<u>For the six months ended</u>		<u>For the six months ended</u>	
	<u>30/6/2015</u>		<u>30/6/2015</u>	
	<u>as previously reported</u>	<u>Reclassification credit/(debit)</u>	<u>Reclassified</u>	<u>as previously reported</u>
	<u>L.E.(000)</u>	<u>LE(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>
Cash paid to suppliers	(333 387)	(130 923)	(464 310)	
Other (Payments)/proceeds	(35 402)	130 923	95 521	

### 32- SIGNIFICANT ACCOUNTING POLICIES

32-1 The accounting policies applied in the preparation of the condensed consolidated interim financial statements as of June 30, 2016 is the same as the accounting policies applied in the preparation of the annual consolidated financial statements as of December 31, 2015, these accounting policies have been applied consistently to all periods presented in these condensed consolidated interim financial statements, taking into consideration the new issues and amendments issued to the Egyptian Accounting Standards (EAS) and adopted from 1/1/2016 (Note no. 32-2).

Reclassifications were made to some comparative figures to conform to the current presentation of the condensed consolidated interim financial statements (Note no .31).



**32-2 New issues and amendments issued to the Egyptian Accounting Standards (EAS) and effective on 1/1/2016.**

During the year 2015, a modified version of the Egyptian Accounting Standards (EAS) was issued including some of the new accounting standards and the amendments to some existing standards provided that they shall come into force for the financial periods that start after January 1, 2016, taking into consideration that the early implementation of these standards is not permissible.

\*In the following table, we shall review the most important amendments on the Egyptian Accounting Standards that may have an impact on the condensed consolidated interim financial statements of the company.

New or Amended Standards	Summary of the Most Significant Amendments	Possible Impact on the Financial Statements
<p><b>EAS (1)</b> <b>Presentation of Financial Statements</b></p>	<p><u>Financial Position Statement</u></p> <ul style="list-style-type: none"> <li>The Standard does not require to present the working capital presentation. The reference financial statements that was included in 2006 Standards was excluded; which presented the working capital presentation.</li> <li>A statement shall be added to the statement of financial position including balances of the beginning of the first presented comparative period in case of retrospective implementation or change in an accounting policy or reclassification carried out by the entity.</li> </ul> <p><u>Income Statement (Profit or Loss)/Statement of Comprehensive Income</u></p> <p>The entity shall disclose all recognized income and expense captions during the financial period in two separate statements; one of them presents the profit or loss components (<i>Income Statement</i>) and the other one starts with the profit or loss and presents the other comprehensive income items (<i>Statement of Comprehensive Income</i>).</p>	<ul style="list-style-type: none"> <li>All the presented financial statements have been re-presenting, disclosures and their accompanying notes including the comparative figures to be in conformity with the amendments to the Standard.</li> <li>Added a new statement, <i>Statement of Comprehensive Income</i>, for the current and comparative period was added.</li> </ul>
<p><b>EAS (10)</b> <b>Property, Plant and Equipment (PPE)</b></p>	<ul style="list-style-type: none"> <li>The option of using the revaluation model in the subsequent measurement of PPE has been canceled.</li> <li>The financial shall disclose a reconciliation of the carrying amount – movement of the PPE and its depreciations- in the notes accompanying the financial statements at the beginning and the end of the current period and the comparable period.</li> </ul>	<p>The amendment is not applicable retroactively, the book value and accumulated depreciation on the date of application of the amended standard is to be used.</p> <p>The comparative figures related to the PPE in the notes accompanying the financial statements have been represented to be in conformity with the required amendments on the standard.</p>



Notes To The Condensed Consolidated Interim Financial Statements  
For The Six Months Ended June 30, 2016(continued)

Translation from Arabic

New or Amended Standards	Summary of the Most Significant Amendments	Possible Impact on the Financial Statements
<b>EAS (14)</b> <b>Borrowing Costs</b>	<ul style="list-style-type: none"> <li>Elimination of the previous benchmark treatment that recognized the borrowing cost directly attributable to the acquisition, construction or production of a qualifying asset in the Income Statement without being capitalized on the asset.</li> </ul>	The Standard were applied to the borrowing costs attributable to the qualifying assets, where the start date of capitalization falls within or after 1/1/2016.
<b>EAS (23)</b> <b>Intangible Assets</b>	The option of using the revaluation model in the subsequent measurement of intangible assets has been canceled.	The amendment is not applicable retroactively, the book value and accumulated amortization on the date of application of the amended standard is to be used
<b>EAS (40)</b> <b>Financial Instruments: Disclosures</b>	<ul style="list-style-type: none"> <li>A new Egyptian Accounting Standard No.(40) "<i>Financial Instruments: Disclosures</i>" was issued including all the disclosures required for the financial instruments.</li> <li>Accordingly, EAS (25) was amended by separating the disclosures from it. The name of the Standard became "<i>Financial Instruments: Presentation</i>" instead of "Financial Instruments: Presentation and Disclosure"</li> </ul>	Retroactive amendment to all the comparative figures of the presented disclosures were carried out.
<b>Egyptian Standard No. (45)</b> <b>Fair Value Measurement</b>	<ul style="list-style-type: none"> <li>The new Egyptian Accounting Standard No. (45) "<i>Fair Value Measurement</i>" was issued and shall be applied when another Standard requires or allows measurement or disclosure to be made at fair value. This Standard aims the following:               <ol style="list-style-type: none"> <li>Defining the fair value</li> <li>Laying down a framework to measure the fair value in one Standard and</li> <li>Identifying the disclosure required for the fair value measurements.</li> </ol> </li> </ul>	Proactive application of the standard were carried out on the preparation of the financial statements starting from 2016 including the disclosures required by the standard.