

Notes to the Consolidated Financial Statements

For the Financial Year Ended 31 December 2006

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 nine months ended 30 September 2006 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	6 - 20	years
Vehicles	5 - 10	years
Tools and other equipment	1 - 8	years
Office furniture and fixtures	3 - 16.67	years

(f) Intangible assets

(i) Measurement

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

(ii) Subsequent expenditure

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

(iii) Amortization

Amortization is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Intangible assets are amortized from the date they are available for use. The estimated useful lives range between 10 to 20 years.

(g) Investments

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

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and time deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(k) Impairment

The carrying amounts of the Group's assets, other than inventories (see accounting policy i) and deferred tax assets (see accounting policy s), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated [see accounting policy k (i)].

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

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

(i) Calculation of recoverable amount

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

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

(ii) Reversals of impairment

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

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

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

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

(l) Interest-bearing borrowings

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

(m) Employee benefits

(i) Pension

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

(n) Provisions

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

(o) Trade and other payables

Trade and other payables are stated at cost.

(p) Revenue

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

Voice services: revenues are measured in terms of traffic minutes processed or transmission capacity provided and are recognized in the period in which the connection is provided.

Value added services: these services include call waiting and divert, callers ID and hotline are recognized in the period in which the service is provided.

Data services: revenue from the provision of managed bandwidth to business customers is recognized over the period in which the bandwidth is provided.

Other services: revenue from web hosting and internet access is recognized over the life of the contract and over the period that the service is provided respectively.

Sale of goods: revenue from sale of telephone sets and directories is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

(q) Grants

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

(r) Expenses

(i) Operating lease payments

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

(ii) Finance lease payments

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

(iii) Net financing costs

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

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

(s) Income tax

Income tax on the profit or loss for the 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 years.

Deferred tax is provided using the balance sheet asset & liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3- Revenue

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

	2006	2005
In thousands of Egyptian Pound		
Retail Services:		
Access:		
Connections	183 230	350 834
Subscriptions	1 596 111	1 315 314
	1 779 341	1 666 148
Voice:		
Local *	1 969 324	1 588 530
Long distance	382 408	413 806
Fixed to international	371 000	406 889
Fixed to mobile interconnection	1 042 511	1 049 454
	3 765 243	3 458 679
Internet & Data	184 408	133 515
Others	946 139	995 083
Total retail	6 675 131	6 253 425
Wholesale:		
Domestic:		
Mobile to fixed interconnection	236 321	208 368
Others	236 277	149 960
	472 598	358 328
International:		
Mobile to international	800 698	648 371
Incoming international call	1 568 378	1 289 885
	2 369 076	1 938 256
Total wholesale	2 841 674	2 296 584
Total revenues	9 516 805	8 550 009

* include dial up revenue

4- Operating expenses

	2006	2005
In thousands of Egyptian Pound		
Interconnection fees	1 373 728	1 257 329
Fuel	69 881	62 301
Spare parts	89 913	82 487
Maintenance	173 233	125 297
Satellite subscriptions	24 308	29 012
Depreciation	2 645 303	2 467 735
Amortization	40 529	28 133
Cost of telephone sets & directories	80 018	145 820
Salaries & wages	751 731	798 753
Compulsory social security contributions	104 644	104 210
Frequencies & license charge (NTRA)	198 951	42 991
Employees' share in dividends	79 742	55 690
Other operating costs	229 565	204 496
	5 861 546	5 404 254

5- Other income

	2006	2005
In thousands of Egyptian Pound		
Release of unused provisions	226 131	157
* Deferred revenues amortization	47 025	35 708
Reversal of decline in inventory	-	2 711
Rental income	6 216	2 191
Others	152 806	50 510
	432 178	91 277

* Deferred revenues amortization for the year 2006 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

	2006	2005
In thousands of Egyptian Pound		
Salaries & wages	111 609	112 314
Compulsory social security contributions	14 315	13 748
Fixed assets depreciation	838	1 117
Employees' share in dividends	10 597	7 513
Sales commissions & others	145 887	103 564
	283 246	238 256

7- Administrative expenses

	2006	2005
In thousands of Egyptian Pound		
Salaries & wages	441 215	495 010
Compulsory social security contributions	36 267	35 908
Early retirement compensations	3 889	8 607
Employees' share in dividends	44 196	32 623
Fixed assets depreciation	154 869	115 103
Board of directors' bonus	3 628	2 891
Taxes & customs fees	106 293	77 578
Training & development services	29 885	45 654
Advertising	35 852	35 432
Others	190 132	128 640
	1 046 226	977 446

8- Other expenses

	2006	2005
In thousands of Egyptian Pound		
Increase in provisions	617	50 235
Impairment loss on trade and other receivables	160 142	73 237
Impairment loss on available for sale investments	3 717	1 637
Net loss on disposal of property, plant and equipment	9 443	24 760
Impairment loss on intangible assets	3 848	17 006
Others	10 930	7 268
	188 697	174 143

9- Personnel expenses

	2006	2005
In thousands of Egyptian Pound		
Salaries & wages:		
Operating expenses	751 731	798 753
Selling & distribution expenses	111 609	112 314
Administrative expenses	441 215	495 010
	1 304 555	1 406 077
Compulsory social security contributions	155 226	153 866
Early retirement compensations	3 889	8 607
Employees' share in dividends	134 535	95 826
	1 598 205	1 664 376

On May 9, 2001 the Board of Directors of Telecom Egypt approved an early retirement scheme; under this scheme employees' loyalty program was established, the program was financed by a loan obtained by Telecom Egypt and repayable by the program whilst the related interest is borne by Telecom Egypt. Under the loyalty program the employee who early retired received compensations related to number of years of service. The first phase of the early retirement scheme was completed on August 31, 2002. During 2002, the Board of Directors approved the allocation of LE 100 million to the loyalty program to finance early retirement compensations, funds granted by Telecom Egypt to the employees' loyalty program are to be repaid on the original date of retirement of the employees. During 2003 Telecom Egypt contributed to the loyalty program LE 55 million and became committed to increase such contribution by a compound 10% annually.

Early 2004, the employees' loyalty program was retroactively registered as separate private social insurance fund effective January 2003.

In accordance with Egyptian Law, employees receive 10% of dividends distributed to shareholders with a maximum of one year salary.

10- Net financing (costs) income

	2006	2005
In thousands of Egyptian Pound		
Interest income	51 497	31 345
Unwind of discount & accretion of interest relating to long-term receivable	180 000	217 000
Income from investments – dividend	8 809	44 005
Net gain of disposal of investments	4 494	56 286
Increase of market value of held for trading investments	8 146	–
Net foreign exchange gain	–	332 235
Financial income	252 946	680 871
Interest expense	(406 822)	(390 878)
Net foreign exchange loss	(123 734)	–
Financial expenses	(530 556)	(390 878)
Net financing (costs) income	(277 610)	289 993

11- Income tax expense

Recognized in the income statement

	2006	2005
In thousands of Egyptian Pound		
Current tax expense		
Current year	413 299	371 552

Deferred tax expense

Origination and reversal of temporary differences	54 752	178 924
Total income tax expense in income statement	468 051	550 476

12- Current tax assets and liabilities

The current tax asset of LE 123 416 K, (2005: 109 130 K) represents the amount of income taxes recoverable in respect of current and prior periods that exceed payments. The current tax liability of LE 239 595 K (2005:170 402 K) represents the amount of income taxes for items taxable in future periods in respect of accelerated depreciation and fair value reserve of available for sale securities.

13- Property, plant and equipment

In thousands of Egyptian Pound

Cost

	Land & buildings	Machinery & equipment	Vehicles	Office furniture & fixtures	Tools & other equipment	Under construction	Total
Balance at 1 January 2006	18 649 458	16 197 091	115 824	842 176	60 752	907 964	36 773 265
Adjustments to the opening balance	–	(18 094)	–	(82)	–	18 094	(82)
Reclassification	(9 146)	–	–	9 146	–	–	–
Acquisitions	611 781	1 254 782	7 811	230 774	2 502	1 770 573	3 878 223
Disposals	(4 455)	(7 464)	(2 439)	(1 710)	(6 959)	(1 879 307)	(1 902 334)
Transferred to fixed asset	–	–	–	–	–	–	–
Effect of movements in foreign exchange	–	(17)	–	(22)	–	–	(39)
Balance at 31 December 2006	19 247 638	17 426 298	121 196	1 080 282	56 295	817 324	38 749 033

Depreciation

Balance at 1 January 2006	5 517 931	8 475 510	99 704	302 359	33 523	–	14 429 027
Adjustments to the opening balance	–	(499)	–	(329)	–	–	(828)
Reclassification	(229)	–	–	229	–	–	–
Depreciation charge for the year	921 954	1 676 313	13 794	184 251	4 698	–	2 801 010
Disposals	–	(5 244)	(1 623)	(1 464)	(6 958)	–	(15 289)
Effect of movements in foreign exchange	–	(3)	–	(3)	–	–	(6)
Balance at 31 December 2006	6 439 656	10 146 077	111 875	485 043	31 263	–	17 213 914

Carrying amounts

At 31 December 2005	13 131 527	7 721 581	16 120	539 817	27 229	907 964	22 344 238
At 31 December 2006	12 807 982	7 280 221	9 321	595 239	25 032	817 324	21 535 119

Fully depreciated assets

Property, plant and equipment cost includes LE 1 563 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 2006, the net carrying amount of leased equipment and vehicles was LE 82 640 k (2005: LE 69 021 k).

Depreciation

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

	2006	2005
Operating expenses	2 645 303	2 467 735
Selling & distribution expenses	838	1 117
General & Administrative expenses	154 869	115 103
	2 801 010	2 583 955

In thousands of Egyptian Pound

14- Intangible assets

In thousands of Egyptian Pound

Cost

	Land usufruct	Right of way	Internet service license	Right of using ROU	Total
Balance at 1 January 2006	1	277 951	20 189	48 906	347 047
Adjustment to the opening balance	–	(100)	–	–	(100)
Acquisitions	–	86 700	–	56 556	143 256
Disposals	–	(42 024)	–	–	(42 024)
Effect of movements in foreign exchange	–	–	(4)	–	(4)
Balance at 31 December 2006	1	322 527	20 185	105 462	448 175

Amortization

Balance at 1 January 2006	–	178 153	20 016	22 109	220 278
Adjustment to the opening balance	–	(35)	–	–	(35)
Amortization for the year	–	35 149	20	5 360	40 529
Impairment losses	–	–	–	3 848	3 848
Disposals	–	(35 634)	–	–	(35 634)
Effect of movement in foreign exchange	–	–	(1)	–	(1)
Balance at 31 December 2006	–	177 633	20 035	31 317	228 985

Carrying amounts

At 31 December 2005	1	99 798	173	26 797	126 769
At 31 December 2006	1	144 894	150	74 145	219 190

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:

	2006	2005
Operating expenses	40 529	28 133
Other operating expenses	3 848	17 006
	44 377	45 139

In thousands of Egyptian Pound

15- Investments in associates

The Group has the following investment in associate:

	Ownership		Carrying amount	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005
<i>In thousands of Egyptian Pound</i>				
Vodafone Egypt. (SAE)	44.66%	25.50%	6 528 587	1 526 740
Nile on line. (SAE)	27.27%	27.27%	12 830	12 669
Wataneya for Telecommunication	50.00%	50.00%	125	125
Consortium Algerien de Tele – communications (CAT)	33.00%	33.00%	–	133
International Telecommunication Consortium Limited. (ITCL)	50.00%	50.00%	54	54
Egypt Trust	25.00%	25.00%	2 500	1 000
Total			6 544 096	1 540 721

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

Investment In Vodafone – Egypt

- The investments in Vodafone Egypt as of 31/12/2006 represent the ownership of 107 180 529 shares representing 44.66% of Vodafone Egypt shares.

- During the 4th quarter of 2006 the company purchased 45 980 529 shares of Vodafone Egypt Shares. The purchase of these shares was financed by a syndicate loan granted from local banks with an amount of LE 4 525 000 K, the loan balance as of 31/12/2006 amounted to LE 3 495 000 K while the remaining part of financing the purchase operation of these shares was made from the company's own resources.

- On November 8, 2006 a new strategic co-operation agreement was signed between Vodafone Company and Telecom Egypt Company by virtue of which shall enjoy a prolongation of the term of the agreement between the two companies, and shall continue to provide international telecommunication services.

Summary financial information on associates – 100 percent:

	Assets	Liabilities	Equity	Revenues	Profit/(Loss)
<i>In thousands of Egyptian Pound</i>					
31-12-2005:					
Nile on line	80 738	34 216	46 522	31 685	72
* Vodafone Egypt	7 635 000	4 127 000	3 508 000	4 325 000	1 202 000
	7 715 738	4 161 216	3 554 522	4 356 685	1 202 072

31-12-2006:

* Vodafone Egypt	8 607 000	4 074 000	4 533 000	5 937 000	1 963 000
Nile on line	81 100	34 338	46 762	38 001	520
Consortium Algerien de Tele –communications (CAT)	662 625	879 858	(217 233)	34 951	(193 175)
** Wataneya for Telecommunication	–	–	–	–	–
** International Telecommunication Consortium Limited. (ITCL)	–	–	–	–	–
** Egypt Trust	–	–	–	–	–
	9 350 725	4 988 196	4 362 529	6 009 952	1 770 345

* Reported figures for Vodafone Egypt for 31/12/2005 relating to revenues and profit for the nine months period ended 31 December, 2005, and for 31/12/2006 relating to revenues and profit for the nine months period ended 31 December, 2006

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

16- Available for sale investments

	2006	2005
<i>In thousands of Egyptian Pound</i>		
Equity securities available for sale – Foreign	19 869	18 430
Equity securities available for sale – Local	64 655	69 952
	84 524	88 382

17- Long-term receivable

	2006	2005
<i>In thousands of Egyptian Pound</i>		
National Telecommunication Regulatory Authority (NTRA)	1 080 000	1 600 000
Accretion of interest	256 000	76 000
Amortized cost	1 336 000	1 676 000
Current portion	(478 000)	(467 000)
	858 000	1 209 000
Payments made on behalf of consortium Algerian de Telecommunication to finance the license concession and finance the operating expenses of consortium company in Algeria.	366 892	221 585
Amounts due from the employees in consideration of the company's shares floated in public offering and purchased and distributed by the company to its employees. The value of these purchased shares shall be paid by employees over 24-months starting from 1/1/2006, and these shares are subject to a 6 month ban period starting from the date of closing subscription.	94 490	201 987
Less:		
Current portion	(94 490)	(106 799)
	–	95 188
	1 224 892	1 525 773

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

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

	2007	2008	2009
<i>In thousands of Egyptian Pound</i>			
	520 000	520 000	520 000

The undertaking signed by Telecom Egypt is limited to the frequency band 1800 MHTZ and does not affect TE's ability to obtain a license for the third generation mobile (G3).

On February 2007, part of the third installment due from the National Telecommunication Regulatory Authority (NTRA) amounting to LE 320 million was collected.

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).

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 December 2006	31 December 2005	31 December 2006	31 December 2005
<i>In thousands of Egyptian Pound</i>				
Property, plant and equipment	–	–	232 031	169 916
Intangible assets	–	–	7 564	486
Inventories	3 616	3 391	–	–
Trade & other receivables	33 701	25 793	–	–
Provisions	58 318	50 101	–	–
Accrued liabilities	27 781	29 845	–	–
Total deferred tax assets / liabilities	123 416	109 130	239 595	170 402

19- Inventories

	31 December 2006	31 December 2005
<i>In thousands of Egyptian Pound</i>		
Spare parts, supplies and cables	558 712	452 622
Telephone sets and directories	39 216	42 154
	597 928	494 776

20- Trade and other receivables

	2006	2005
In thousands of Egyptian Pound		
Trade receivables due from associates	42 315	6 200
Other trade and notes receivable:		
Governmental sector	239 969	229 127
Private sector	2 020 933	1 791 279
Foreign telecommunication operators	693 592	532 118
Notes receivables	1 000	949
	2 997 809	2 559 673
Other receivables and pre-payments:		
Advance payments to suppliers	90 961	56 716
Deposits with others	7 667	6 957
Long-term receivable – current portion	572 490	573 799
Payments on the account of corporate tax	285 996	481 799
Sales Tax Authority – advances	196 031	196 656
Other receivables	464 534	289 108
	4 615 488	4 164 708

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 123 090 K represented in the following:

	2006
In thousands of Egyptian Pound	
TE Data a Subsidiary Company	
Value of 1 043 817 unit of commercial International Bank Investment Fund – Osoul Fund with price LE 116.91 for each unit at balance sheet date.	122 033
TE Information Technology – a Subsidiary Company	
Value of 9 067 unit of commercial International Bank Investment Fund – Osoul Fund with price LE 116.61 for each unit at balance sheet date.	1 057
	123 090

22- Cash and cash equivalents

	31 December 2006	31 December 2005
In thousands of Egyptian Pound		
Bank balances	78 346	66 859
Time deposits	491 798	668 147
Cash on hand	18 701	33 010
	588 845	768 016
Bank overdrafts	(77 762)	(158 474)
Blocked time deposits	(24 610)	(11 070)
Cash and cash equivalents in the statement of cash flows	486 473	598 472

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 and approved by the General Shareholders Meeting on 29 March 2007. The dividends have been provided for and there are no income taxes consequences.

	2006	2005
In thousands of Egyptian Pound		
LE 0.70 per qualifying ordinary share for 2006 (2005 : LE 0.50)	1 194 950	853 536
	1 194 950	853 536

24- Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 31 December 2006 was based on the profit attributable to ordinary shareholders of LE 2 442 368 k , (2005 : LE 1 929 985 k) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2006 of 1 707 071 600 (2005 : 1 710 075 492), calculated as follows:

	2006	2005
In thousands of Egyptian Pound		
Profit for the year	2 445 265	1 932 739
Profit attributable to ordinary shareholders	2 442 368	1 929 985

Weighted average number of ordinary shares

	2006	2005
In thousands of Egyptian Pound		
Issued ordinary shares at 1 January	1 707 072	1 711 215
Effect of decrease of shares in September 2005	–	(1 140)
Average number of ordinary shares at 31 December	1 707 072	1 710 075

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).

	31 December 2006	31 December 2005
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In thousands of Egyptian Pound

Non-current liabilities

Unsecured bank loans:

	2006	2005
Local banks	2 952 000	8 919
Governmental loans	673 926	709 214
Foreign loans	876 311	954 644
Finance lease liabilities	65 743	51 346
Foreign suppliers facilities	3 202	62 044
	4 571 182	1 786 167

Current liabilities

Short-term borrowings	–	419 061
Short-term loans	15 396	–

Current portion of unsecured bank loans:

Local banks	551 919	12 581
Governmental loans	98 411	124 613
Foreign loans	174 153	159 914
Current portion of finance lease liabilities	25 461	23 925
Foreign suppliers facilities	66 168	179 379
	931 508	919 473

Security

Foreign suppliers facilities include an amount of LE 3 800 K secured by letters of guarantee issued in favor of the suppliers.

Repayment

In thousands of Egyptian Pound

Telecom Egypt – the parent:

	Loan Currency	Effective Interest Rate	Total	12 months or less	2 - 3 years	4 - 5 years	More than 5 years
Local banks loans	LE	CAIBOR+2.55 %	8 919	8 919	–	–	–
Local banks loans (Vodafone one loan Note no. 15)	LE	Average rate of deposits & loans (corridor) +1%	3 495 000	543 000	1 719 500	1 232 500	–
Total local loans			3 503 919	551 919	1 719 500	1 232 500	–
Governmental Loans *	U.S.\$	4%	740 990	89 977	190 896	178 740	281 377
Governmental Loans	SK	Agency commition+0.15%	1 476	1 476	–	–	–
Governmental Loans	EURO	4 - 6.37%	29 871	6 958	12 803	7 589	2 521
Total Governmental loans			772 337	98 411	203 699	186 329	283 898
Foreign loans	J.Y	3 - 3.5%	77 405	24 093	45 406	7 478	428
Foreign loans	EURO	0.75 -8.2%	973 059	150 060	273 903	120 957	428 139
Total foreign loans			1 050 464	174 153	319 309	128 435	428 567
Foreign suppliers' facilities - foreign	EURO	3.18 - 5.5%	29 023	25 821	3 202	–	–
Foreign suppliers' facilities - foreign	J.Y	2.75%	40 347	40 347	–	–	–
Total foreign suppliers' facilities			69 370	66 168	3 202	–	–
			5 396 090	890 651	2 245 710	1 547 264	712 465

- The available unused balance of Foreign Loans and Facilities at 31/12/2006 amounting to LE 26 868 K.

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 31-12-2006	Interest 31-12-2006	Principal 31-12-2006	Minimum lease payments 31-12-2005	Interest 31-12-2005	Principal 31-12-2005
Less than one year	35 716	10 255	25 461	32 165	8 240	23 925
Between one and five years	76 220	10 604	65 616	60 851	9 505	51 346
More than five years	147	20	127	–	–	–
	112 083	20 879	91 204	93 016	17 745	75 271

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 a period of (5) years. These bonds were offered for public subscription and issued in two tranches as follows:

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

2- The second tranche shall be the other 50% of the bonds at a variable annual interest equal 0.7% plus the discount rate of the Central Bank of Egypt to be paid quarterly.

The purpose of issuing these bonds is partial settlement of long-term loans and bank overdraft accounts in local currency.

The bonds installments due during 2007 amounted LE 400 million has been classified in the balance sheet as current liabilities.

27- Trade and other payables

In thousands of Egyptian Pound

Trade payables:

	31 December 2006	31 December 2005
Local suppliers	145 837	93 127
Foreign suppliers	33 408	7 504
Notes payable	2 473	3 137
	181 718	103 768

Other payables:

Income tax payable	436 538	632 054
Amounts due to associate	1 232	314
Deposits from others	661 859	605 848
Fixed assets creditors	409 288	389 652
Customers advances	226 692	215 058
Accrued expenses	439 182	389 864
Dividends payable	9 752	36 593
Other credit balances	635 844	527 338
	3 002 105	2 900 489

28- Provisions

	31 December 2006			31 December 2005		
	Taxes	Claims	Total	Taxes	Claims	Total

In thousands of Egyptian Pound

Balance at 1 January	595 308	140 055	735 363	646 316	104 125	750 441
Provision formed	617	–	617	14 120	36 115	50 235
Provision used	(7 366)	(21 254)	(28 620)	(65 128)	(28)	(65 156)
Provision reversed	(215 471)	(10 660)	(226 131)	–	(157)	(157)
Balance at end of the year	373 088	108 141	481 229	595 308	140 055	735 363

As at December 31, 2006 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 interest rate risk, foreign currency risk and credit risk.

(i) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur financial loss.

The Group's financial assets, which include receivables from local customers and international telecommunication operators, investments bank balances and time deposits, do not represent a significant concentration of risk. Trade receivables are widely spread among customer's segmentation, strict credit control is maintained, and further appropriate level of impairment allowance is made. The Group manages the credit risk on investments by ensuring that investments are made only after careful credit evaluation of these investments. The time deposits are placed with commercial banks after careful credit evaluation of those banks.

(ii) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to change in foreign exchange rates.

The Group is exposed to foreign currency risk on purchases from foreign suppliers and loans that are denominated in a currency other than the Egyptian Pound. In addition, the Group deals with international telecommunication operators. The Group's currency risk is related to changes in exchange rates applicable to the settlement of foreign currencies. The currencies giving rise to this risk are primarily US Dollar, Euro and Japanese Yen.

Certain loans and foreign suppliers payments are paid in Egyptian Pound based on the prevailing foreign currency.

As of 31 December 2006 the Group's assets and liabilities denominated in foreign currencies amounted to the equivalent of LE 1 562 772 K and LE 2 059 098 K respectively. The Group's net foreign currencies exposure as of 31 December 2006. Was as follow:

(Deficit) / Surplus	
31 December 2006	31 December 2005

Foreign currency

In thousands of Egyptian Pound

	31 December 2006	31 December 2005
US Dollar	107 711	146 348
Euro	(130 783)	(170 998)
Sterling Pound	355	461
Japanese Yen	(2 432 914)	(4 092 891)
Swedish Krona	(15 724)	(15 525)
Jordan Dinar	329	(265)
Libyan Dinar	-	(3 876)
U.A.E Dirham	134	-

(iii) Interest rate risk

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

The Group is exposed to interest rate risk on its time deposit. These are short-term in nature and are denominated in US Dollar, Euro, Sterling Pound and Egyptian Pound. The average interest rate yield from short-term time deposits was:

	31 December 2006	31 December 2005
US Dollar	4.84%	3.39%
Euro	2.59%	2.24%
Sterling Pound	4.30%	4.35%
Egyptian Pound	5.75%	6.63%

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 and Consortium Algerien de Telecommunications (CAT) which were accounted for using the equity method of accounting.

Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

Finance lease liabilities

The fair value is estimated as the present value of future cash flows, discounted at market interest rates for homogeneous lease agreements. The estimated fair values reflect change in interest rates.

Receivables / payables

For receivables / payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables / payables are discounted to determine the fair value.

Interest rates used for determining fair value.

The entity uses the government yield curve as of 31 December 2006 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 2006 amounted to LE 105 million includes LE 13 million payments of uncalled share capital investments (2005: LE 96 million includes LE 15 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

	31 December 2006	31 December 2005
In thousands of Egyptian Pound		
Letters of guarantee issued by banks on behalf of the Group	52 207	8 270
Letters of credit	264 801	452 998

33- Related parties

Identity of related parties

The Group has a relationship with its associate Nile on line, Vodafone Egypt, consortium Algerian Telecommunication and International Communication Consortium LTD.

Transaction with Associates and unconsolidated subsidiaries

During the year ended 31 December 2006, local leased lines to Nile On Line LE 5 294 k in favor of the group and internet services in favor of Nile On Line LE 4 865 k.

During the year ended 31 December 2006 , fixed to mobile interconnection and audio text fees in favor of Vodafone Egypt LE 488 407 k and transmission , international calls , lease of company's premises in favor of the group LE 664 095 k.

During the year ended 31 December 2006, the company paid an amount of 145 307 K on behalf of Consortium Algerian Telecommunication to finance the license fee and operating expenses of consortium company in Algeria.

34- Group entities

Control of the Group

The Group's ultimate parent company is Telecom Egypt.

	Country of incorporation	Ownership interest	
		31 December 2006	31 December 2005
Subsidiaries			
Middle East Radio Communication (MERC)	Egypt	51.00	51.00
T. E. Information Technology	Egypt	97.66	97.66
T. E. Data	Egypt	95.04	93.33
Centra Technologies	Egypt	58.76	55.02
* Centra Industries - Indirect ownership	Egypt	58.63	54.90
* Centra Distribution - Indirect ownership	Egypt	58.74	-
** T.E Data Jordan - Indirect ownership	Jordan	95.04	93.33
*** Xceed Middle East FZ – LLC – Indirect ownership	Dubai	97.66	-

* 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.

*** Xceed Middle East - a fully owned subsidiary by TE Information Technology.

35- Comparative Figures

Certain comparative figures were reclassified to confirm the current classification of these consolidated financial statements.