



Annual Report 2004



المصرية للاتصالات
Telecom Egypt

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TE's Mission

Telecom Egypt is committed to being the best source and total solution communication provider, while dedicating its resources to building a better tomorrow for its employees & community through responsive services and honest business practices.

We will never be complacent because of past achievements, rather we will continue to meet the ever-growing needs and demands of our community, by providing the advancements in the communication industry at a price that is fair to all.



TE's Message:

We Promise You...

Whereever..

you are... relaxing at home... loaded with work at the office ... spending most of your time on the move or even traveling abroad ... you are still connected through Telecom Egypt, the widest network in Egypt & the Middle East. We are keen to always keep you in touch and we promise to continue expanding our reach to be among the earliest to open new horizons. Wherever you'll be...

We will always be there... to connect You with the world.

Whenever..

you need telecommunication... a highly reliable network offers you non-stop connectivity facilities... round the clock. In the information realm where time is being redefined, we commit ourselves to always be up-to-the-second and make you access the world in real time... just free yourself of time borders.

We serve You... 24 hours a day, 7 days a week.

Whoever...

you are ... you will find what you need among a wide variety of solutions, specially tailored to meet your needs and make your life easier. Caring about your daily efficiency, we truthfully pledge to continue providing you with multi-purpose end-to-end solutions, where you can maximize your competence and get more done concurrently.

We are committed... to improve the quality of Your life.

However..

you want to be connected... experience with us how diverse technology converges within the same network to bring you unlimited interconnectivity possibilities. In an ever-changing world where technology breakthroughs transform the face of life, we promise to bring them smoothly into every aspect of your life.

We exist to make everything within Your reach.







Despite the economic slowdown in the past years, the telecommunication sector has continued to perform consistently well. Data traffic has witnessed strong growth, and demand for both fixed and mobile telephony is also growing rapidly. The telecommunications policy in many countries has evolved with ongoing sector reforms in the form of privatization and liberalization of key market segments and consequent competition.

The company has taken a proactive approach towards market liberalization and is currently making major strategic adjustments to sustain its current growth rate. We know that competition can be tough, but in our view, it is the force that advances enterprises most rapidly. We are confident that TE, backed by 150 years of success in the Egyptian market, will succeed in retaining its leading position in a more liberalized and competitive market.

In 2004, TE was financially and operationally successful . On the financial front, TE was successful in maintaining solid financial performance. The number of subscribers reached 9.5 million, an increase of 10 % from the previous year. The company was successful in increasing sales revenues by 7.9 % to reach LE 7.7 billion whilst increasing EBITDA margins to 56.6 %. Net Profit before Tax for the year reached LE 1.4 billion compared to LE 1.1 billion in December 2003, showing a 30.5 % increase.

Back in 2003, we recognized the opportunity of decreasing the company's cost of borrowing through tapping the local capital market with a bond issue. By December 2004, all the necessary documentation for Telecom Egypt's LE 2 billion debut bond issue, Egypt's largest ever corporate bond, was filed in the Capital Market Authority and we expect closure of this transaction in the first quarter of 2005. TE was awarded a national scale credit rating of "AA" with a stable outlook, reflecting the company's solid and stable financial performance. We expect this bond issue to be very successful as evidenced by the preliminary demand indications which show that the issue will be over subscribed.



On the operational side, we realized years ago that the Internet and data transmission sector of the market is as important as voice telephony. TE has continued working hard in the development of the broadband segment of the market since 2004, which we view as one of the most important areas for growth. The success of the "Free Internet" and "Computer for Every Home" initiatives, launched back in 2002 and 2003 respectively by the Ministry of Communication and Information Technology (MCIT), was followed by a similar initiative in 2004 for ADSL service aiming at increasing penetration in the local market. This initiative resulted in an increase of ADSL subscribers by 580 % since May 2004.

The company's view towards internet and data transmission was behind its strategic decision to spin-off such services to a separate subsidiary, TE Data, which is now well positioned to benefit from such a booming sector.

TE's management has emphasized that strategic focus will characterize TE in the future. The company was successful in changing its culture resulting in a customer-oriented as well as service-driven organization. The employees now understand that customer satisfaction is the most important yardstick in a company like TE and that it will be the base for our continuous development. Our industry is very dynamic. Change is inevitable, so we either let it happen or make it happen. Finally, we believe that the best way to predict the future is to invent it. Since TE is the market leader, we will always be proactive in order to maintain our leadership for years to come.



Akil Hamed Beshir
Chairman

TE's Future Aspiration

World Class
Communication
Source &
Provider

2005

- Maintaining market leadership.
- Maximizing business competitiveness through extensive regional expansion.
- Delivering value to all stakeholders.

2004

- Delivering real value to customers through customer-centric programs.
- Structuring a customer-driven organization.
- Reinforcing synergy through integration with subsidiaries.

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ANNUAL REPORT 2004

**In a highly dynamic ever-changing market,
clear vision guarantees us sustainable growth,
while delivering you maximum value
awards us market dominance.**



Board of Directors



Mr. Akil Hamed Beshir

Chairman

Mr. Beshir was appointed Chairman of Telecom Egypt in June 2000. Previously, Mr. Beshir was General Manager and Managing Director for Giza Systems Engineering from 1978 to 2000. He holds a B.Sc. in Communications Engineering from Cairo University and a Professional Diploma and MA in Management from the American University in Cairo.

Mrs. Azza Mohamed Torky

Vice Chairman; International Services, Backbone, New Services and Marketing

Mrs. Torky was appointed a board member in 2000. She became Vice Chairman for International Telecommunications and Backbone in June 2000. Then New Services & Marketing were added to her responsibilities in June 2000. She has been with the company in various managerial and technical positions since 1965, including General Manager for the Operation and Maintenance of Earth Stations from 1987 to 1997, and Head of the International Telecommunication Department from 1997 to 1999. Mrs. Torky holds a B.Sc. in Communications Engineering from Cairo University.



Mr. Ali Gamal El Din Salama

Vice Chairman; Financial & Commercial Affairs

Mr. Salama was appointed Vice Chairman for Financial & Commercial Affairs and a board member in 2000. Previously, he was a consultant with KPMG Hazem Hassan, where he had been a partner since 1993. Mr. Salama holds an MBA in Finance from the University of Washington, Seattle, USA, and a Master of Professional Accounting and Taxes (MPPAC) from the same university. He is also a Certified Management Accountant (CMA) and a Certified Public Accountant (CPA). Mr. Salama is a fellow of the Egyptian Association for Accountants and Auditors, and a member of the American Institute of Certified Public Accountants (AICPA).



Mr. Mohamed Abdel Rehim Hassanein

Vice Chairman; Projects' Operation, Implementation & Maintenance (Greater Cairo, Canal Area, Sinai, the Red Sea, Alexandria & Lower Egypt)

Mr. Hassanein was appointed board member in 2004. He was appointed Vice Chairman in 2001. He has been with the company in various managerial and technical positions since 1976, including General Manager of the First and Third Zones of East Cairo, then Sector Chief of East Cairo Zones. He holds a B.Sc. in Communications Engineering from Al Azhar University.



Dr. Mokhtar Abdel Moneim Khattab

Economics and Privatization Expert & Ex-minister of Public Enterprise

Dr. Khattab was appointed board member in 2004. He is currently the Chairman of the Nubaria Sugar Company and the Chairman & Managing Director of Horizon for Investment and Industrial Development Company. He is also a professor of Economics, Faculty of Agriculture, Cairo University. He was the Minister of Public Enterprise from 1999-2004. Dr. Khattab holds a BA in Commerce from Ain Shams University, Egypt. He also holds a D.E.S and Doctorat d'Etat in Economics, France.



Dr. Bahaa El Din Helmy

Banking Expert

Dr. Helmy was appointed board member in June 2000. Previously, he was one of the board members of the Central Bank of Egypt. He worked in Misr Bank in various managerial and technical positions from 1984, including Chairman and Member of the Board from 1994 to 2003. Dr. Helmy holds a B.Sc. from Ain Shams University, Egypt, a Diploma in Statistics and Computer Research from Cairo University, Egypt, and a Ph.D. in Numerical Analysis from Assiut University, Egypt.



Mr. Moataz Kamel Morsy

Legal Advisor

Mr. Morsy was appointed board member and Legal Advisor for Telecom Egypt in 2002. He is the Vice-President of the State Council and a member of several legal entities such as the Cairo Administrative Courts, the High Administrative Court, Technical Inspection Department, and the Consultation Dept. of the ministries of Industry, Electricity and Metallurgy Resources. Also, Mr. Morsy is a member of the Delegated Authority of the State in the High Administrative Court, and was delegated in various consultancy positions in different ministries: He studied Law in Cairo University and graduated in 1962.





Dr. Adel Rashad Danash

Telecommunications & Information Technology Specialist

Dr. Danash was appointed board member in June 2000. He is currently Chairman of Telecom Egypt Information Technology (Masreya). Previously, he was Chairman of Bayanet, and Managing Director of Standardata Egypt from 1986 to 2000. Dr. Danash holds a B.Sc. in Electronics from Cairo University, and a Diploma in Computer Networks and a PhD in Computer Science from Paris 7 University, Paris, France.

Mr. Sayed Mohamed El Prince

Chief of Staff of the Signal Corps

Mr. El Prince was appointed Chief of Staff of the Signal Corps. in 2004. He holds a B.A. in Commerce from Ain Shams University, Egypt in 1971. He has held most of the positions of authority in the Signal Corps.



Mr. Amr Mohamed Abdel Kader Hashem

Director of Telecommunications Policy Department

Mr. Hashem was appointed board member in 2004. He is currently the Director of the Telecommunications Policy Department of the Ministry of Communications & Information Technology (MCIT). Previously, he was a manager of Telecommunications Policy Unit, from 1999-2004. From 1994 -1999 he worked as a senior Communications Engineer for the Cabinet IDSC. He is an NFP fellow and holds an (MBA) from the Maastricht School of Management, Netherlands, in Strategy and Economic Policy. He also holds a Bachelor of Science degree in Communications and Electro-physics from Alexandria University, Egypt.



Mr. Farghaly Bakry Seleem

Chairman of Telecom Egypt's Employee Union

Mr. Seleem was appointed board member in 1999. From 1989 to 1999 he was the General Engineering Supervisor at Telecom Egypt's Switching Station at Quina. Mr. Seleem holds a Diploma as a Telephone Engineering Technician from the Industrial Institute, Quina, Egypt.



Executive Management

Mr. Akil Hamed Beshir

Chairman

Mrs. Azza Mohamed Torky

Vice Chairman; International Services,
Backbone, New Services & Marketing

Mr. Ali Gamal El Din Salama

Vice Chairman; Financial & Commercial
Affairs

Mr. Mohamed Abdel Rehim Hassanein

Vice Chairman; Projects' Operation,
Implementation & Maintenance (Greater
Cairo, Canal Area, Sinai, the Red Sea,
Alexandria & Lower Egypt)

Mr. Ahmed Aly El Gaaly

Vice Chairman; Projects' Operation,
Implementation & Maintenance (Upper Egypt)

Mrs. Dawlat El Badawy

Vice Chairman; Projects' Planning

Mrs. Aida El Shinnawy

Vice Chairman; Follow-up & Technical Affairs

Mr. Abdel Hamid Mahmoud Hamdy

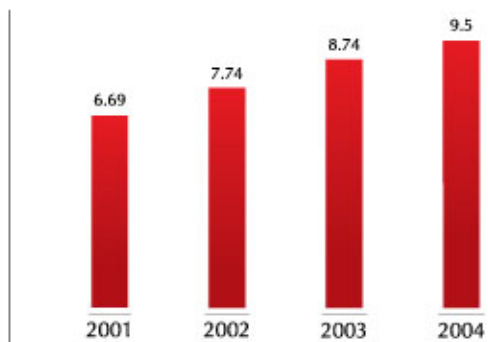
Vice Chairman; Human Resources
& Administrative Affairs



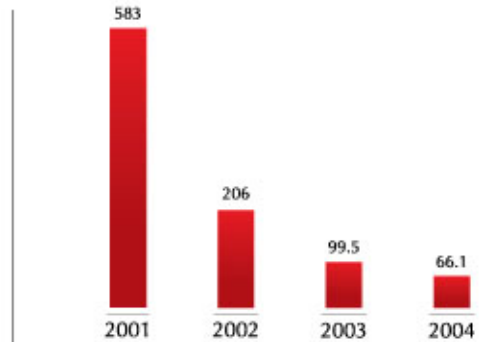
It's not about adopting cutting-edge technology, it's about creating unlimited possibilities for life, through a combination of enhanced quality of service, creative marketing, innovative pricing and efficient personnel.

Key Performance Indicators

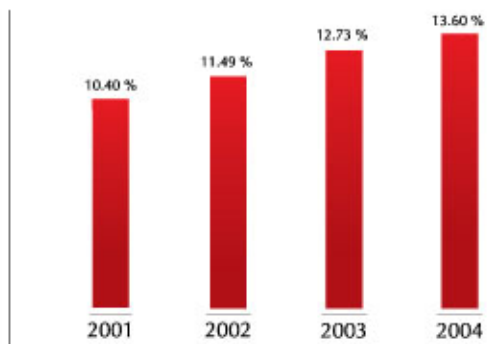
No. of Subscribers (Million)



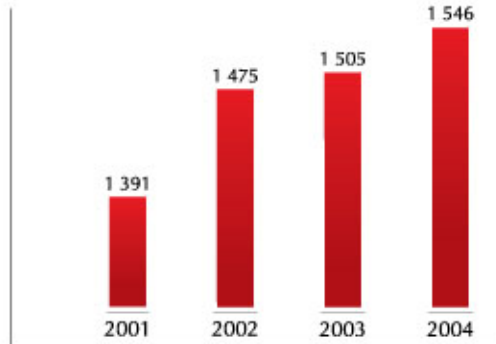
Waiting List (Thousand)



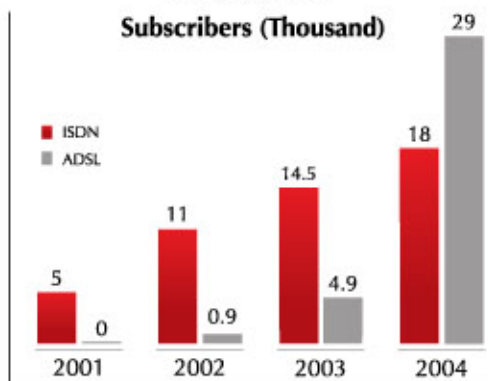
Teledensity %



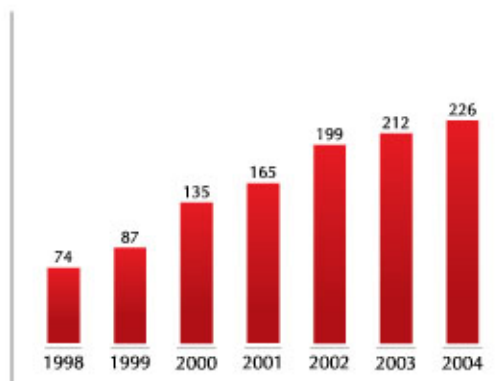
No. of Exchanges



ISDN & ADSL Subscribers (Thousand)



Lines per Employee



Five Year Financial Summary

Year on year key figures in LE Millions (except per share data)	Dec-00*	Dec-01	Dec-02	Dec-03	Dec-04
Sales Revenue	3 182	6 088	6 219	7 177	7 749
Gross Profit	2 126	4 215	4 286	5 022	5 324
EBITDA	1 772	3 418	3 298	3 713	4 389
EBIT	963	1 709	1 283	1 478	1 911
NPBT	885	1 338	791	1 087	1 419
NPAT	885	1 338	791	1 087	1 009
Total Current Assets	3 915	4 581	5 526	4 835	5 970
Fixed Assets (Net)	19 626	19 567	22 117	23 971	23 534
Other Assets	3 456	4 054	2 368	3 927	3 901
Total Assets	26 997	28 202	30 011	32 733	33 405
Total Current Liabilities	3 681	3 740	4 129	5 575	6 725
Total Long Term Liabilities	2 671	2 663	3 594	4 319	3 501
Total Liabilities	6 352	6 403	7 723	9 894	10 226
Owners' Equity	20 645	21 799	22 288	22 839	23 180
EPS (LE)**	5.17	7.82	4.62	6.35	5.89

* 6 months starting July 2000 until December 2000.

NB: Fiscal year end was changed from June to December as of 2000.

** EPS before Board of Directors Bonus and Employees Profit Share.

Nurturing Our Assets

Based on the belief in TE's values, it views its employees as its true valuable asset that is worth nurturing and developing, especially when operating in a highly dynamic market where liberalization will take place at the end of 2005. Thus, TE pursues extensive investment in its employees, embracing the principle of "satisfied employees lead the way to satisfied customers".

The adoption of this principle implied radical transformation in the organizational culture. Appointing a Vice Chairman for Human Resources & Administrative Affairs in June 2004 was the initial and fundamental stride towards implementing this transformation, followed by many successful strides undertaken in various domains, including:

Employees' Health Insurance:

In order to insure that employees are given the highest level of health care, the company signed a contract with one of the leading health care insurance companies in Egypt, whereby employees can benefit from a wide-ranging medical network including finely selected hospitals and clinics. Besides, it has equipped 80 internal medical clinics across different premises to provide primary health care in cases of emergency.

TE's dedication to the welfare of its employees was the key driver behind its plan to extend its health care program to include employees' families whereby they can get the same medical services.

Leadership and Managerial Skills Development:

Sustaining market leadership was not granted for Telecom Egypt, yet the continuous investment and development of its employees was the key to retain it. Thus, it constantly runs various skills and leadership programs designed to build its future leaders. It has special arrangements with both the Nile University and the Spanish University, whereby it sponsors different scholarship programs including the MBA (Masters of Business Administration) degree and the Executive Development Diploma for 25 employees of excellent caliber. Moreover, after the significant results of LDP (Leadership Development Program) - the full training leadership program - that released a number of well-informed and skillful future managers, Telecom Egypt decided to extend its agreement with the USAID till June 2007.

We have created a culture of interdependence, integrity & devotion to our employees.



This ensures that it continues to develop other candidates who possess potential leadership capabilities, as well as support Telecom Egypt's Leadership Development Center that trains and coaches competent Telecom Egypt employees to be professional trainers, thus, ensuring the continuity of the program that contributes by graduating 25 qualified trainees yearly to be the future leaders.

In a rapidly changing world, leadership skills, change management capability and the ability to think strategically are the key characteristics that a successful leader must possess. With this in mind, Telecom Egypt - in cooperation with a professional American company - developed training programs designed to improve these capabilities for its top executives.

An extensive course geared towards ensuring the clear understanding and acceptance of the company's Vision and Values among employees was conducted. The course was intended to create a two-way communication channel through all organization levels and to increase employees' contribution and commitment to the company's principal values that guide its relations with customers, employees and the whole community.

In order to create a motivating atmosphere for trainees, a wide development in the training sector infrastructure was applied through establishing training centers outside Cairo, besides, equipping its labs and residing sites. The continuous training programs benefited 13,018 employees through both technical and specialized training during 2004.



Appreciating Our Internal Customers

Caring equally for both internal and external customers, Telecom Egypt is planning to establish an internal full-service call center for its employees. Through this call center, employees will have a fully dedicated department to handle their services and to provide them with all possible facilities to guarantee them an easy and productive working environment.

Telecom Egypt's persistent and sincere commitment to developing its employees originates from the general strategic policies directing the company's human resources sector, which is viewed by its turn as one of the company's key strengths, upon which it heavily relies to maintain stable growth in a competitive global environment.

Our philosophy ever since and for the coming years will always be built on:

Caring For Our Community

Caring for you is not just about offering world class services and solutions, it's about sharing social responsibilities through our "Care & Share" activities.



CARE

Enriching the valuable Egyptian culture and guarding its historical roots

Nurturing the Egyptian youth to continue building the society and ensuring they are well-equipped to meet future challenges,

Realizing that ever lasting love has no boundaries, the more happiness shared, the greater the ripples,

Ensuring that Egyptian citizens enjoy good health and a secure life -as a substantial element in building a productive society,

Fulfilling primary needs at convenient prices and ensuring their availability equally for all Egyptians,

We Care To Satisfy All Your Needs...

SHARE

Telecom Egypt assigned a free number with call revenues dedicated to financing the Grand Egyptian Museum.

the company honored the Top Students of high school degree and fostered their continuous development through academic sponsorships.

Telecom Egypt contributed at home by sponsoring the Paralympic activities & also contributed abroad with donations to the Palestinian Red Crescent.

Telecom Egypt contributed with donations to the Cancer Institute, the Heart Institute, and provided ambulances for blood donations to Kasr El Ainy hospital, and others.

the company sponsored the Annual Shopping & Tourism Festival to guarantee better and wider choices across Egypt.



From Bottom To Top

A Continuous Dialogue With Customers

Throughout 150 years, a binding relationship between TE and its customers has steadily grown. Their support has made TE what it is today. This inspired TE to conduct an open dialogue with its customers through a nation-wide survey under the name of "tell us what you think", capitalising on 200 of Telecom Egypt's premises across Egypt as points to distribute the survey. It aimed at exploring the customers' thoughts and discovering their latent needs.



A deep analysis of the survey results enabled Telecom Egypt to match customer's expectations and needs with its objectives, hence, translating them into an intensive customer-centric program of deliverables. This program was launched at the beginning of 2004 and continued all through the year, including:

Jan. 04:

Sponsoring **Cairo ICT 2004**, the largest IT & Communication exhibition and forum in the region, where Telecom Egypt introduced its future vision for telecommunications to its customers, and enabled them, in return, to fill in the survey forms through many automated user-friendly terminals spread across the exhibition.



Feb. 04:

Achieving a crucial step towards the termination of waiting lists, an **extensive capacity expansion plan** was conducted throughout the year, covering most of the Egyptian cities. The expansion plan applied a rigorous numbering arrangement in all cities involved, in addition to pursuing an intensive awareness campaign of the new numbering scheme. Embracing "telecommunication facilities is the right of everybody" - the principle under which TE is operating, it will continue enhancing its networks' capacity and quality as well, to provide all Egyptians with the latest telecommunication services.



Mar. 04:

Among the survey results, many valuable suggestions were received about improving the Marhaba prepaid calling card. In response, **Marhaba Plus** - the more developed version - was introduced to the market through an extensive distribution plan, including a large number of distributors and hyper market chains, which made the card widely available upon customers' request, and with better quality, prices & validity terms.



Apr. 04:

Enabling access to Telecom Egypt's services and offers was one of the main requirements mentioned by our customers in the survey. Re-launching Telecom Egypt's website www.telecomegypt.com.eg granted customers this facility. Also, re-structuring it on the basis of various customers' profiles enabled easier and more interesting browsing, as well as securing all the needed and updated information for customers. Now they can access Telecom Egypt's world with a simple click.



May 04:

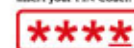
Hosting **ITU Telecom Africa 2004** was quite a great honor for Egypt. Being the key supporter of telecommunications in Egypt, Telecom Egypt sponsored the event and arranged a legendary opening ceremony for its guests at the pyramids, where they enjoyed the "Sound & Light Tableau" in a glamorous historical atmosphere. ITU Telecom Africa, as a grand international gathering, enabled a valuable experience with regional technology suppliers and operators, as well as the introduction of their Egyptian counterparts to the international telecommunication arena.



Jun. 04:

Securing customers' accounts was one of the clear demands in the survey results. Telecom Egypt was already working on establishing an integrated security system for its customers; the initial step in this system took place in 2004, through assigning a **secret PIN Code** -free of charge- to every subscriber, to ensure the highest confidentiality of all his operations with Telecom Egypt. The secret PIN codes were made available in most TE premises for all current & new customers.

Insert your PIN Code..



Jul. 04:

The success of the "Tell us what you think" survey as well as the valuable suggestions made by customers encouraged Telecom Egypt to extend the reach of the survey. The company decided not to wait for them to come to its premises, instead it sent its well-trained staff to social clubs, shopping malls and summer resorts, to gather the suggestions of the wider customer base that rarely step into TE's premises.



Aug. 04:

Aligning with its continuous efforts to reach its customers everywhere with services that satisfy their needs, TE offered a **promotional program** that was especially tailored for subscribers in the Northern Coast during summer. It included an attractive discount on new telephone subscriptions as well as fast installation service (within 48 hours), in addition to offering value-added service packages and free prepaid calling cards.



Sep. 04:

Telecom Egypt is always keen to go where technology breakthroughs occur; thus, it sponsored the Egyptian pavilion in **Telecom Asia 2004**, to network with the developers and suppliers of the new technology. TE hosted the Ministry of Communication & Information Technology, TE Data & Smart Village inside the pavilion to support the Egyptian presence in the exhibition. It benefited substantially from coming into contact with the new-emerging Asian model and also strengthened cooperation with Asian partners.



Oct. 04:

As part of Telecom Egypt's commitment to increasing computer literacy, it subsidized the widely acclaimed initiative "Computer for every home" during Ramadan through an intensive advertising campaign that aimed to increase the awareness of this ambitious project. The initiative was originally sponsored by the Ministry of Communication and Information Technology.



Nov. 04:

After thorough planning and training, Telecom Egypt managed to launch its world class Call Centre. Now, by simply dialing 111, customers can get their inquiries about services answered, and new services activated within a few minutes by professional & friendly personnel.



Dec. 04:

Telecom Egypt's 150th anniversary was a great event worth commemoration. Thus, it issued "a first day cover" in coordination with the National Post Organization, in addition to issuing postal stamps which were to be sold in post offices across Egypt to honor the anniversary of one of the greatest national companies.



Subsidiaries & Investments

Subsidiaries

Company Name	Activity	Ownership %	Country of Operation
TE Data	Internet Service Provider	92.50 %	Egypt
TE Information Technology	IT Consultancy & Call Centre Operator	92.50 %	Egypt
Centra Technologies	PC Manufacturing and Distribution	51.21 %	Egypt
Middle East Radio Communications	Wireless Communications	51.00 %	Egypt

Investments

Company Name	Activity	Ownership %	Country of Operation
IT Incubator Fund	Venture Capital Fund	40.00 %	Egypt
Nile Online (Egyptian Company for Internet & Digital Infrastructure)	Internet Service Provider	27.27 %	Egypt
Egynet (Egyptian Company for Networks)	Internet Service Provider	19.51 %	Egypt
Idevelopers	V C Fund Management Company	18.75 %	Egypt
EGTI (Egyptian German Company for Telecommunications Industries)	Telecom Equipment Manufacturer	10.00 %	Egypt
Quicktel (Egyptian Telephone Company)	Manufacture of Exchanges & Telephones	10.00 %	Egypt
Civil Information Technology Co	Software Development	10.00 %	Egypt
Arab Company for PC Manufacturing	PC Manufacturing	10.00 %	Egypt
Vodafone Egypt	GSM Mobile Operator	8.60 %	Egypt
Menatel	Public Payphone Operator	2.00 %	Egypt
Nile Telecom	Public Payphone Operator	2.00 %	Egypt
Arabsat	Satellite Telecommunications	1.59 %	Regional
Thuraya	Satellite Telecommunications	0.65 %	International



Auditor's Report



KPMG Hazem Hassan
Public Accountants & Consultants

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Auditor's Report **to the shareholders' of Telecom Egypt Company**

We have audited the accompanying balance sheet of Telecom Egypt Company (An Egyptian Joint Stock Company) as of December 31, 2004 and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Egyptian Standards on Auditing and in the light of provisions of applicable Egyptian laws and regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We have obtained the information and explanations, which we deemed necessary for our audit. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above together with the notes attached thereto present fairly, in all material respects, the financial position of the company as of December 31, 2004 and the results of its operations and its cash flows for the year then ended, in accordance with Egyptian Accounting Standards, and comply with applicable Egyptian laws and regulations.

The company keeps proper accounting records, which include all that is required by law and the statutes of the company, and the accompanying financial statements are in agreement therewith. The inventories count was performed by the company's management in accordance with methods in practice.

The financial information contained in the report of the Board of Directors prepared in conformity with the company's law No. 159 for 1981 and its executive regulations is in agreement with the company's accounting records within the limits that such information is recorded therein.

Cairo, March 30, 2005



Member Firm of
KPMG International

Hazem Hassan

(KPMG Hazem Hassan)

Balance Sheet

As of December 31, 2004

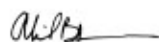
	Note No.	31/12/2004 L.E.(000)	31/12/2003 L.E.(000)
Assets			
Long Term Assets			
Fixed assets (net)	(4)	23 534 178	23 970 699
Projects in progress	(5)	1 314 014	1 300 823
Long term investments	(6)	855 756	871 483
Other debit balances - long term	(7)	1 600 000	1 600 000
Other assets	(8)	131 610	154 739
Total Long Term Assets		27 435 558	27 897 744
Current Assets			
Inventories	(9)	410 819	357 653
Trade receivables (net)	(10)	2 600 848	2 473 214
Debtors and other debit accounts (net)	(11)	1 865 171	1 856 728
Cash at banks and on hand	(12)	1 093 073	147 869
Total Current Assets		5 969 911	4 835 464
Current Liabilities			
Provisions	(13)	1 507 828	1 548 299
Loans installments and facilities due within one year	(14)	1 009 650	1 104 839
Banks overdraft		1 520 220	760 877
Suppliers	(15)	57 393	72 030
Creditors and other credit accounts	(16)	2 629 845	2 088 916
Total Shareholders' Equity		6 724 936	5 574 961
Excess of current liabilities over current assets		(755 025)	(739 497)
Total investments		26 680 533	27 158 247

Financed as follows:-

	Note No.	31/12/2004 L.E.(000)	31/12/2003 L.E.(000)
Shareholders' Equity & Liabilities			
Shareholders' Equity			
Paid up capital	(17)	17 112 149	17 112 149
Reserves		4 646 755	4 420 925
Retained earnings		412 276	218 571
Net profit for the year		1 008 663	1 087 305
Total Current Liabilities		23 179 843	22 838 950
Long Term Liabilities			
Loans and credit facilities	(14)	3 445 986	4 264 593
Creditors and other credit balances	(16)	54 704	54 704
Total Long Term Liabilities		3 500 690	4 319 297
Total Shareholders' Equity and Liabilities		26 680 533	27 158 247

* The accompanying notes form an integral part of these financial statements

Chairman



Eng./Akil Beshir

Deputy chairman for
Financial & Commercial




Acc./Ali Salama

Head of the
financial sector



Acc./Ali Barakat

Auditor's Report "Attached"



(KPMG Hazem Hassan)

Income Statement

For The Financial Year Ended December 31, 2004

	Note No.	2004 L.E.(000)	2003 L.E.(000)
Operating Revenues			
Sales of services	(18)	7 539 683	6 971 859
Sales of telephone sets & directories		132 905	160 986
Other operating revenues		76 847	43 889
		7 749 435	7 176 734
Operating Expenses			
Interconnection fees	(19)	1 219 488	1 044 937
Fuel		58 052	49 315
Spare parts		57 586	57 079
Maintenance		101 881	73 883
Satellite subscriptions		22 365	30 584
Depreciation & Amortization		2 421 903	2 235 167
Cost of telephone sets & directories sold		123 589	148 228
Other operating costs	(20)	842 125	750 767
		4 846 989	4 389 960
Gross Operating Profit		2 902 446	2 786 774
Other Operating Expenses			
General & administrative expenses	(21)	767 392	662 028
Provisions	(13)	224 154	646 860
		991 546	1 308 888
Net Operating Profit		1 910 900	1 477 886

	Note No.	2004 L.E.(000)	2003 L.E.(000)
Other Income / (Expenses)			
Interest income		8 906	6 698
Income from investments		41 488	25 777
Interest expenses		(409 389)	(389 712)
Other revenues	(22)	22 384	59 135
Foreign exchange losses		(149 272)	(106 419)
Impairment of long term investments		(5 871)	(10 542)
Gain on sale of investments		421	16 553
(Loss) / gain on sale of fixed assets		(408)	7 929
		(491 741)	(390 581)
Net profit for the year before tax		1 419 159	1 087 305
Income tax expense		410 496	—
Net profit for the year		1 008 663	1 087 305
Earnings per share (L.E./Share)	(25)	4.77	5.52

* The accompanying notes form an integral part of these financial statements.

Statement of Cash Flows

For The Financial Year Ended December 31, 2004

	2004 L.E.(000)	2003 L.E.(000)
Cash flows from operating activities		
Cash receipts from trade receivables	6 180 026	5 850 994
Sales tax collected from receivables	341 464	221 135
Stamp tax and fees collected (from third party)	74 211	45 232
Deposits received from receivables	14 304	12 914
Cash paid to suppliers	(759 508)	(643 617)
Cash paid to employees	(892 116)	(782 177)
Cash paid on behalf of employees	(248 411)	(224 090)
Dividends paid to shareholders & employees	(687 879)	(593 110)
Cash generated from operations	4 022 091	3 887 281
Interest paid	(380 437)	(364 029)
Payments to Tax Authority	(173 624)	(166 760)
Payments to Sales Tax Authority	(491 709)	(286 228)
Other proceeds /(payments) net	713 572	20 929
Net cash provided by operating activities	3 689 893	3 091 193
Cash flows from investing activities		
Payment for purchase of property, plant and equipment and projects in progress	(1 595 198)	(1 815 286)
Proceeds from sale of fixed assets	7 054	9 393
Payments for purchase of investments	(3 850)	(30 764)
Interest received	6 915	3 936
Dividends received	39 514	–
Net cash used in investing activities	(1 545 565)	(1 832 721)

	2004 L.E.(000)	2003 L.E.(000)
Cash flows from financing activities		
Payments of long-term loans	(1 215 820)	(1 540 861)
Proceeds from long - term loans	37 109	221 026
Payments of capital lease liabilities	(20 413)	(10 346)
Net cash used in financing activities	(1 199 124)	(1 330 181)
Net Increase (Decrease) in cash and cash equivalent	945 204	(71 709)
Cash and cash equivalent at the beginning of the year	147 869	219 578
Cash and cash equivalent at the end of the year	1 093 073	147 869

* The accompanying notes form an integral part of these financial statements.

Statement of Changes in Shareholders' Equity

For the Financial Year Ended December 31, 2004

	Note No.	Share Capital L.E.(000)	Legal Reserve L.E.(000)
Balance as of 1/1/2003		17 112 149	227 942
Transferred to reserves		–	39 543
Adjustment of the revaluation surplus of sold investments		–	–
Dividends for the year 2002		–	–
Transferred to retained earnings		–	–
Net profit for the year 2003		–	–
Balance as of 31/12/2003		17 112 149	267 485
Transferred to reserves		–	54 365
Reducing the other reserves according to the Extra-ordinary General Assembly Meeting on 29/3/2005	(4)	–	–
Dividends for the year 2003		–	–
Adjustment of the revaluation surplus of sold investments		–	–
Transferred to retained earnings		–	–
Net profit for the year		–	–
Balance as of 31/12/2004		17 112 149	321 850

* The accompanying notes form an integral part of these financial statements.

Other Reserves L.E.(000)	Revaluation Reserve L.E.(000)	Retained Earnings L.E.(000)	Net Profit L.E.(000)	Total L.E.(000)
3 166 052	22 254	968 307	790 871	22 287 575
968 307	–	(968 307)	(39 543)	–
–	(3 173)	3 173	–	–
–	–	–	(535 930)	(535 930)
–	–	215 398	(215 398)	–
–	–	–	1 087 305	1 087 305
4 134 359	19 081	218 571	1 087 305	22 838 950
218 571	–	–	(272 936)	–
(44 844)	–	–	–	(44 844)
–	–	–	(622 926)	(622 926)
–	(2 262)	2 262	–	–
–	–	191 443	(191 443)	–
–	–	–	1 008 663	1 008 663
4 308 086	16 819	412 276	1 008 663	23 179 843

Appropriation Account

For The Financial Year ended December 31, 2004

	2004 L.E.(000)	2003 L.E.(000)
Net profit for the year	1 008 663	1 087 305
Retained earnings brought forward from previous year	410 015	215 398
Amount transferred from reserves	2 262	3 173
Net profit available for distribution	1 420 940	1 305 876
Distributed as follows:		
Legal reserve	50 433	54 365
General reserve	410 015	218 571
Shareholders' Dividends	381 000	480 000
Employees' share in profit	190 617	140 929
Board of directors remunerations	2 500	1 996
Retained earnings carried forward to next year	386 375	410 015
	1 420 940	1 305 876

* The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

For The Financial Year Ended December 31, 2004

1.BACKGROUND

- Establishment of the company:

Arab Republic of Egypt National Telecommunication Organization (ARENTO) was established pursuant to Law No.153 of 1980. Effective from 27/3/1998 and pursuant to law No.19 of 1998, the legal form of (ARENTO) was amended after the revaluation of its assets on 26/3/1998 to become an Egyptian Joint Stock company under the name of Telecom Egypt Company (TE) subject to the provisions of the Companies Law No. 159 of 1981 and Capital Market law No. 95 of 1992.

- Purpose of the company:

The main purpose of the company includes:

- Establishing telecommunications networks.
- Providing telecommunications services.
- Operating and maintaining the networks, equipment and machinery necessary to provide the services.
- Executing projects necessary to accomplish its purposes.
- Cooperating with international companies and organizations to connect the Arab Republic of Egypt with the world.

2. BASIS FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements are prepared under the historical cost basis, in accordance with the Egyptian Accounting Standards and in the light of the provisions of applicable Egyptian laws and regulations.

3. SIGNIFICANT ACCOUNTING POLICIES APPLIED

3.1 Foreign currency translation

The company maintains its books of accounts in Egyptian pounds. Transactions denominated in foreign currencies are recorded at the declared exchange rates at the date of transactions. At the financial position date, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates declared by the banks dealing with the company at that date. The exchange differences are recorded in the income statement.

3.2 Fixed assets and depreciation

Fixed assets are carried at cost less accumulated depreciation and any accumulated impairment losses are depreciated using the straight-line method over the estimated useful lives of each type of assets as follows:-

Description	Estimated Useful Life
Buildings & constructions	10 - 50 Years
Machinery & equipment	6 - 20 Years
Means of transportation	5 - 10 Years
Tools and supplies	1 - 8 Years
Office furniture and fixtures	3 - 10 Years

Notes to the Financial Statements

For The Financial Year Ended December 31, 2004

3.3 Projects in progress

This item represents the amounts incurred for projects in progress till be ready for its intended use in operations. Then, it is transferred to fixed assets.

3.4 Long term investments

3.4.1 Investments in Subsidiaries

Investments in subsidiaries are stated at cost. In case of the existence of impairment in the carrying amounts of these investments, the related investment is reduced by this impairment loss, and charged to the income statement for the year.

3.4.2 Available-for-Sale Investments

Available-for-sale investments are recorded at cost and re-measured as follows:

- The listed investments in the stock exchange are re-measured at the end of each financial period at fair value (market value).
- Investments that are not listed in the stock exchange are re-measured at cost or computed value, calculated in light of an objective study of the company's recently approved financial statements by the companies issuing such notes. Any losses resulting from the decline in the market value or computed value of the investments compared with the cost are charged to the income statement for the year.
- The inactive investments (do not have listed price in an active market, or their fair value can not be reliably measured) are recorded at their acquisition cost. In the case of impairment in the carrying amounts of these investments, the related investment is reduced by the impairment loss and charged to the income statement for the year for each investment.

3.5 Held for trading investments

Financial investments classified as held for trading are recorded initially at cost. At the end of each financial year, 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.

3.6 Other assets amortization

This item represents the usufruct for lands occupied by the company and the usufruct for cables circuits. These other assets are amortized over an estimate from (10-20) years provided that their useful lives do not exceed the period of the usufructs.

3.7 Inventories

Inventories of goods purchased for resale are valued at the lower of cost or net realizable value. Inventories of spare parts and materials are valued at cost. Obsolete or slow moving items are written down to their replacement value. Cost is determined using the weighted average method.

3.8 Accounts, notes receivable, debtors & other debit accounts

Receivables, debtors & other debit accounts are stated at nominal value less write downs for any amounts expected to be irrecoverable, and they are classified as current assets, however, amounts that are expected to be collected after more than one year are classified as long-term assets.

Notes to the Financial Statements

For The Financial Year Ended December 31, 2004

3.9 Provisions

Provisions are recognized when the company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and the obligation can be reasonably estimated. Provisions are reviewed at the balance sheet date and amended when necessary to reflect the best current estimate.

3.10 Borrowing cost

The borrowing costs are recognized in the income statement as an expense as incurred.

3.11 Grants

Grants are recorded as deferred revenues and should be recognized as income over the periods necessary to match them with the related costs, on a systemic basis.

3.12 Revenue recognition

- Revenues from sales of services are recognized when services are rendered.
- Income from investments is recognized when dividends of investees are declared by the general assembly resolutions.

3.13 End of service indemnity

The company contributes to Social Insurance Authority for the benefit of its personnel in pursuance to the Social Insurance Authority law No. 79 of 1975 and its amendments. These contributions are recorded in the "Wages and Salaries account" in addition to the early retirement scheme applied from 1/9/2001 (Note No. 23).

3.14 Capital lease agreements

The accrued lease payments, repair and maintenance expenses of leased assets under the capital leasing agreements are recognized as an expense in the income statement for the year. At the end of the lease agreement if the company exercised its rights to purchase the leased assets, These assets are recorded as fixed assets, their costs are determined at the amount of the purchase bargain option stated in the lease agreement and depreciated over the remaining estimated useful lives.

3.15 Cash flows statement

Cash Flows statement is prepared using the direct method.

3.16 Deferred taxes

Due to the nature of the Egyptian tax law and legislations, applying the principles of the deferred taxes according to the International Accounting Standards "Taxes on Income" will not usually result in significant and material deferred tax liabilities. If this application results in deferred tax assets it will be recognized in the financial statements whenever there is a sufficient assurance that these assets will be realized in the foreseeable future.

Notes to the Financial Statements

For The Financial Year Ended December 31, 2004

4- FIXED ASSETS (NET)

	Land L.E.(000)	Buildings & constructions L.E.(000)	Machinery & equipment L.E.(000)
Cost as of 1/1/2004	4 071 651	15 101 684	14 200 164
Additions for the year	38 903	843 123	1 071 465
Disposals for the year	(71 786)	–	(83 199)
Total cost as of 31/12/2004	4 038 768	15 944 807	15 188 430
Accumulated depreciation as of 1/1/2004	–	3 854 070	5 720 487
Depreciation during the year	–	809 357	1 585 940
Previous year adjustments - depreciation	–	150	–
Accumulated depreciation of disposals	–	–	(79 477)
Accumulated depreciation as of 31/12/2004	–	4 663 577	7 226 950
Carrying value as of 31/12/2004	4 038 768	11 281 230	7 961 480
Carrying value as of 31/12/2003	4 071 651	11 247 614	8 479 677

- Cost of fixed assets included an amount of L.E.471 million that represent fully depreciated assets still in use.

- Additions and disposals of the land for the year include an amount of L.E. 71 406 K that represents the ammendment of Mansoura new call center cost, and an amount of L.E. 71 250 K that represents the disposal cost of a piece of land in the smart village that was given to the Government represented in the Ministry of Telecommunication and Information against the reduction of the General reserve with a net amount of L.E. 44 844 K pursuant to the Extra- Ordinary General Assembly Meeting resolution on March 29, 2005.

Depreciation for the year is charged as follows:-

	L.E.(000)
Operating expenses - operating depreciation	2 398 630
General & administrative expenses - administrative depreciation	56 181
	2 454 811

Notes to the Financial Statements

For The Financial Year Ended December 31, 2004

Means of transportation L.E.(000)	Tools & supplies L.E.(000)	Office furniture & fixtures L.E.(000)	Total L.E.(000)
93 851	38 741	256 827	33 762 918
7 676	11 970	121 156	2 094 293
(1 440)	–	–	(156 425)
100 087	50 711	377 983	35 700 786
53 831	26 065	137 766	9 792 219
14 297	2 720	42 497	2 454 811
208	–	133	491
(1 436)	–	–	(80 913)
66 900	28 785	180 396	12 166 608
33 187	21 926	197 587	23 534 178
40 020	12 676	119 061	23 970 699

Notes to the Financial Statements

For The Financial Year Ended December 31, 2004

5. PROJECTS IN PROGRESS

	31/12/2004 L.E.(000)	31/12/2003 L.E.(000)
Land	3 993	–
Buildings and constructions	188 320	84 953
Machinery and equipment	635 572	881 540
Means of transportation	278	7 173
Tools and supplies	4 680	11 527
Office furniture and fixtures	153 422	32 124
Advance payments	305 550	243 153
Letters of credit	22 199	40 353
	1 314 014	1 300 823

6. LONG TERM INVESTMENTS

	Participation %	31/12/2004 L.E.(000)	31/12/2003 L.E.(000)
Investments in subsidiaries & affiliates			
Middle East Radio Communication (MERC)	51	3 825	3 825
T. E. Information Technology	92.5	9 250	9 250
T. E. Data	92.5	55 500	55 500
Centra Technologies	51	6 191	6 191
Vodafone Egypt *	8.6	619 227	619 227
		693 993	693 993
Investments available for sale			
Participations in foreign satellite companies & organizations		77 366	95 278
Investments in other local companies		84 397	82 212
		161 763	177 490
		855 756	871 483

* In accordance with the company's Board resolution dated 20/12/2003, it was decided to increase the company's share in Vodafone Egypt to be 25.5%. This increase was effected in January 2005.

Notes to the Financial Statements

For The Financial Year Ended December 31, 2004

Investment in Vodafone – Egypt

First Stage:

- The company bought 20 640 000 shares representing 8.6% of Vodafone – Egypt's shares as per CIBC invoice dated 21/12/2003 at L.E. 32.5 per share including a coupon of L.E. 2.5 per share.
- All of these shares have been pledged in favor of Misr Banque in its capacity as a lender and a representative of the lending banks as a guarantee and collateral for the medium-term loan amounted to L.E. 670.8 million granted for financing the purchase of these shares. These shares have been kept in the custody of Misr for Clearance, Settlement and Central Bookkeeping in favor of the said bank.
- A portion of this loan amounted to U.S.\$ 27.5 million is to be settled in U.S.\$.. The balance that shall be settled in U.S.\$ amounted to U.S.\$ 20.5 million equivalent to L.E. 125 million while the balance that shall be settled in EGP amounted to L.E. 494 million.
- On February 9, 2005 the shares that have been pledged in favor of Misr Banque as a guarantee for the medium-term loan was redeemed after the collection of Misr banques amounts due and the full payment of the principal loan.

Second Stage:

- In accordance with the company's Board resolution dated 20/12/2003, Telecom Egypt would buy 40 560 000 shares which represent 16.9% of the shares of Vodafone Egypt at L.E. 19.875 per share to be paid in the equivalent U.S. Dollars amount as agreed.
- Pursuant to the agreement concluded between the company and some local banks on 13/1/2005, these participating local banks agreed to grant the company a joint short-term financing loan amounted to U.S.\$ 21 million to finance the acquisition of these shares of Vodafone Egypt within the limits of the financing loan granted to the company.
- On January 24, 2005 the purchase and the transfer of ownership of these shares was completed as per CIBC invoice at L.E. 17.73 per share disregarding the other services expenses.

Third Stage:

- Upon the completion of the first and the second stages, the company shall then transfer the ownership of 61 200 000 shares representing 25.5% of Vodafone Egypt shares to a newly established company named "Wataneya for Telecommunication". The new company shares shall be equally owned by Telecom Egypt and Vodafone International Co. (PLC).

Notes to the Financial Statements

For The Financial Year Ended December 31, 2004

7. OTHER DEBIT BALANCES – LONG TERM

	31/12/2004 L.E.(000)	31/12/2003 L.E.(000)
The amount due from the National Telecommunication Regulatory Authority for the license of the third mobile network after waiver of this license (Note No. 24)	1 975 000	1 975 000
Less:		
The current portion to be collected within one year which was included in debtors & other debit accounts (Note No. 11)	375 000	375 000
	1 600 000	1 600 000

8. OTHER ASSETS

	31/12/2004 L.E.(000)	31/12/2003 L.E.(000)
Usufruct for land occupied by TE	18 838	18 838
Right of way (Flag cable)	95 910	95 908
Right of way (SMW2, SMW3)	131 566	131 566
Right of way (ALITAR)	48 815	50 683
Right of way (BRITAR)	1 720	1 720
	296 849	298 715
Less:		
Accumulated amortization at year end	165 239	143 976
	131 610	154 739

Notes to the Financial Statements

For The Financial Year Ended December 31, 2004

9. INVENTORIES

	31/12/2004 L.E.(000)	31/12/2003 L.E.(000)
Spare parts	142 835	159 483
Material supplies	295	2 307
Telephone sets and directories	35 526	51 024
Others – project cables and supplies	226 294	132 154
	<u>404 950</u>	<u>344 968</u>
Add:		
Letters of credit	5 869	12 685
	<u>410 819</u>	<u>357 653</u>

10. TRADE RECEIVABLES (NET)

	31/12/2004 L.E.(000)	31/12/2003 L.E.(000)
Governmental sector	308 813	289 357
Private sector	2 631 852	2 369 862
Foreign telecommunication companies and organizations	800 335	858 078
	<u>3 741 000</u>	<u>3 517 297</u>
Less:		
Decline in clients balances	1 140 152	1 044 083
	<u>2 600 848</u>	<u>2 473 214</u>

Notes to the Financial Statements

For The Financial Year Ended December 31, 2004

11. DEBTORS & OTHER DEBIT ACCOUNTS (NET)

	31/12/2004 L.E.(000)	31/12/2003 L.E.(000)
Suppliers – debit balances	55 675	34 609
Deposits with others	3 906	2 854
Employees' loans	1 348	2 101
Customs Authority - deposits	2 999	3 172
Accrued revenues	8 470	33 810
Tax Authority – with holding tax	66 806	50 182
Employees' loyalty grant (Note No. 23)	39 527	47 974
Other debit accounts*	1 798 673	1 790 456
	1 977 404	1 965 158
Less:		
Decline in debtors & other debit accounts balances	112 233	108 430
	1 865 171	1 856 728

Other debit accounts include the following amounts:-

	31/12/2004 L.E.(000)	31/12/2003 L.E.(000)
- The current portion to be collected within one year from the National Telecommunications Regulatory Authority for the license fees of Wataneya for Mobile Telecommunication (Note No. 7).	375 000	375 000
- Payment of 10% for the capital participations in Wataneya for Mobile Telecommunications – under establishment – Telecom Egypt owns 98% of the share capital.	9 800	9 800
- Advances for the new building paid on behalf of the Wataneya for Mobile Telecommunications (building, designs and engineering company services).	41 035	59 572
- Payments on the account of corporate tax.	1 002 089	1 002 020
	1 427 924	1 446 392

Notes to the Financial Statements

For The Financial Year Ended December 31, 2004

12. CASH ON HAND AND AT BANKS

	31/12/2004 L.E.(000)	31/12/2003 L.E.(000)
Banks- time deposits	989 707	79 148
Banks - current accounts	91 626	62 853
Cash on hand	11 740	5 868
	1 093 073	147 869

Time deposits as of 31/12/2004 include an amount of L.E. 8 586 K blocked in favor of some banks as a guarantee for the letters of credit granted to the company (against L.E.14 145 K as of 31/12/2003).

13- PROVISIONS

	Balance as of 1/1/2004 L.E.(000)	Charged to income statement L.E.(000)	Used during the year L.E.(000)	Reclassification L.E.(000)	Balance as of 31/12/2004 L.E.(000)
Provision for contingent liabilities, claims and others					
Tax provision	1 300 333	82 468	(40 125)	84 264	1 426 940
Claims provision	208 554	15 311	(77 157)	(105 232)	41 476
Other provision - Usufruct for land occupied by TE	39 412	—	—	—	39 412
	1 548 299	97 779	(117 282)	(20 968)	1 507 828
Provisions for doubtful debts					
Decline in clients balances	1 044 083	121 118	(46 017)	20 968	1 140 152
Decline in debtors and other debit accounts balances	108 430	3 803	—	—	112 233
	1 152 513	124 921	(46 017)	20 968	1 252 385
Decline in inventory (obsolete & slow moving items)	18 297	1 454	—	—	19 751
	2 719 109	224 154	(163 299)	—	2 779 964

*Decline in inventory balances are netted against their related type of inventory balances.

Notes to the Financial Statements

For The Financial Year Ended December 31, 2004

14- LOANS AND FACILITIES

Description	Loan Currency	Installments due within one year L.E.(000)	Installments due within more than one year L.E.(000)	Balance as of 31/12/2004 L.E.(000)
Local banks loans	L.E.	237 241	1 046 228	1 283 469
Local banks loans	U.S.\$	42 840	82 357	125 197
Total local loans		280 081	1 128 585	1 408 666
Governmental Loans	L.E.	22	180	202
Governmental Loans	U.S.\$	127 011	629 263	756 274
Governmental Loans	SK	18 357	4 275	22 632
Governmental Loans	EURO	12 553	41 325	53 878
Total Governmental loans		157 943	675 043	832 986
Foreign loans	J.Y	29 456	124 092	153 548
Foreign loans	EURO	169 156	1 206 490	1 375 646
Foreign loans	L.D	–	10 171	10 171
Total foreign loans		198 612	1 340 753	1 539 365
Foreign suppliers' facilities - local	L.E.	9 108	4 209	13 317
Foreign suppliers' facilities - foreign	EURO	240 946	180 412	421 358
Foreign suppliers' facilities - foreign	J.Y	78 696	116 984	195 680
Foreign suppliers' facilities - foreign	U.S.\$	44 264	–	44 264
Total foreign suppliers' facilities		373 014	301 605	674 619
		1 009 650	3 445 986	4 455 636

- Balances of local banks loans & facilities include L.E. 493 993 K & U.S.\$ 20 457 K equivalent to L.E. 125 197 K secured by Vodafone Egypt shares (Note No. 6).

- Foreign suppliers' facilities in Euro include L.E. 24 177 K equivalent to Euro 2 875 K against letters of guarantee issued from National Bank of Egypt in favour of Siemens as a guarantee for this facility settlement.

Notes to the Financial Statements

For The Financial Year Ended December 31, 2004

Balance as of 31/12/2003 L.E.(000)	Interest Rate %	Repayment schedule
1 678 334	12.5 - 13.16%	Quarterly / Semi / annual installments ended on 23/12/2007
–	2.5%+ Libor	Annual installments ending on 23/12/2007
1 678 334		
3 386	7.5 - 8%	Semi annual / annual installements ending on 9/4/2006
903 698	4 - 16%	Semi annual / annual installements ending on 24/1/2014
37 613	0.15% + agency commission	Semi annual installements ending on 31/12/2007
62 146	4 - 6.37%	Semi annual installements ending on 29/12/2012
1 006 843		
178 406	3.5%	Semi annual installements ending on 20/3/2012
1 367 707	0.75 - 8.2%	Semi annual installements ending on 30/6/2036
10 171	3.5%	
1 556 284		
28 179	3%	Semi annual installements ending on 5/3/2006
693 901	zero - 5.50%	Semi annual / annual installements ending on 1/12/2008
277 793	2.5 - 3.0%	Semi annual installements ending on 14/12/2007
128 098	3%	Semi annual installements ending on 23/10/2005
1 127 971		
5 369 432		

Notes to the Financial Statements

For The Financial Year Ended December 31, 2004

15. SUPPLIERS

	31/12/2004 L.E.(000)	31/12/2003 L.E.(000)
Local - suppliers	56 139	68 903
Foreign - suppliers	1 254	3 127
	57 393	72 030

16. CREDITORS AND OTHER CREDIT ACCOUNTS

	31/12/2004 L.E.(000)	31/12/2003 L.E.(000)
Tax Authority – (withholding tax)	77 821	102 022
Deposits from others	547 777	531 902
Fixed assets creditors	479 976	288 250
Accrued interest	112 433	133 880
Accrued expenses	75 025	51 420
Social Insurance Authority	18 354	18 215
Clients – credit balances	255 979	268 429
Dividends payable	176 738	241 637
Credit balance for social, cultural and sportive activities	77 988	32 577
Other credit accounts	150 000	137 619
Deferred revenues*	301 962	337 669
Income tax for the year	410 496	–
	2 684 549	2 143 620
Less:		
Tax payments due after one year	54 704	54 704
	2 629 845	2 088 916

* Deferred revenues are represented in the value of the grant presented by the USAID to finance some of the company's projects after deducting the accumulated amortization at 31/12/2004.

Notes to the Financial Statements

For The Financial Year Ended December 31, 2004

17. CAPITAL

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

18. SALES OF SERVICES

	2004 L.E.(000)	2003 L.E.(000)
Domestic call revenues		
Local calls	1 537 086	1 403 874
Long distance calls (excluding Mobile revenue)	442 548	371 374
Local telegram and telex	14 628	10 522
Total domestic call revenues	1 994 262	1 785 770
Mobile domestic revenues		
Fixed to mobile revenue	949 222	959 444
Mobile to fixed interconnection revenue	190 807	139 862
Total mobile revenues	1 140 029	1 099 306
Other local revenues		
Connection fees	365 458	464 013
Subscription fees	1 181 042	925 545
Leased lines	42 996	46 941
Others	780 469	690 486
Total other revenues	2 369 965	2 126 985
International revenues		
International calls (excluding mobile to international)	355 752	419 910
Revenue from international operators	1 117 487	1 069 344
Mobile international revenues	559 013	468 228
International telegram and telex	3 175	2 316
Total international revenues	2 035 427	1 959 798
Total revenues from sales of services	7 539 683	6 971 859

Notes to the Financial Statements

For The Financial Year Ended December 31, 2004

19. INTERCONNECTION FEES

	2004 L.E.(000)	2003 L.E.(000)
Fixed to mobile interconnection fees	666 770	625 113
Fixed calls for internet & audio text companies fees	258 055	177 116
Dues against outgoing international calls	293 386	240 874
Dues against outgoing international telegram & telex	1 277	1 834
	1 219 488	1 044 937

20. OTHER OPERATING COSTS

	2004 L.E.(000)	2003 L.E.(000)
Salaries	717 909	668 282
Electricity & water	10 624	13 017
Stationary & printed materials	77 429	47 325
Transportation cost	14 463	11 447
Business telephone cost	21 700	10 696
	842 125	750 767

Notes to the Financial Statements

For The Financial Year Ended December 31, 2004

21. GENERAL & ADMINISTRATIVE EXPENSES

	2004 L.E.(000)	2003 L.E.(000)
Salaries	478 073	448 808
End of service compensation-Early retirement program	10 243	9 684
Depreciation	56 181	35 588
Bad debts	263	68
Tax and customs duty	19 644	11 261
Others	194 797	126 071
Bank charges & commissions	8 191	30 548
	767 392	662 028

22. OTHER (EXPENSES) / INCOME

	2004 L.E.(000)	2003 L.E.(000)
Rent income	1 619	929
Compensations and fines (net)	(8 590)	(6 402)
Sundry revenues	108 622	31 525
Prior years' (expenses) / income (net)	(79 267)	33 083
	22 384	59 135

Notes to the Financial Statements

For The Financial Year Ended December 31, 2004

23. EARLY RETIREMENT SCHEME

- The company's board of directors approved in its meeting dated May 9, 2001 an early retirement scheme for its employees. The scheme was implemented during the twelve months ended 31/8/2002 (First phase). The cost of these compensations is financed by a Bank loan granted to the company. The principal loan will be repaid from employees Loyalty Fund however, the interest will be charged as expenses when incurred.
- The company's board of directors approved in its meetings dated March 20, 2002 and December 30, 2002 to finance an amount of L.E 65000 K and L.E 35000 K respectively for the employees' Loyalty Fund to facilitate financing for the retired employees' compensations (the second and third phases), provided that these amounts would be refunded from employees' loyalty Fund upon their legal early retirements. The amount of L.E. 60 473 K was refunded as of December 31, 2004.
- On January 15, 2004 the employees' Loyalty Fund was registered in the register of the Egyptian Private Social Insurance Funds and the grant accounts were transferred to the Loyalty Fund accounts which will pay these balances to the company upon the dates of the legal exit of the employees transferred to early retirement.
- The actual compensations charged to the income statement and paid to the early retired employees' for the year amounted to L.E. 10 243 K represent the amounts due on the remaining period to the legal age of retirement and the vacations balance with a maximum limit of 9 months.
- The amounts to be refunded during a year (current portion) amounted to L.E. 6 450 K and the amounts to be refunded starting from January 2006 and up to the year 2011 (the long term portion) is L.E. 33 077 K. (Note No. 11).

Notes to the Financial Statements

For The Financial Year Ended December 31, 2004

24. WAIVER OF THE LICENSE OF THE THIRD MOBILE NETWORK

- The company obtained a license to establish the third mobile phone network against an amount of L.E. 1 975 million paid to the National Telecommunication Regulatory Authority (NTRA). However, due to the current recession in the market, the company decided to waive its right in this license and recover the license fees paid to NTRA.
- Pursuant to the memorandum of understanding dated December 20, 2003 concluded between Telecom Egypt and both Vodafone Egypt Co. and Mobinil, the parties agreed that the two mobile operators would pay to NTRA cash installments in order to obtain the frequency band 1800 MHTZ previously granted to Telecom Egypt and waived to the two mobile operators.
- The company requested (NTRA) to transfer its right in the cash installments paid by the two mobiles operators within the agreed payment conditions and time schedule to Misr Bank in its capacity as a lender and a representative of the lenders to the company to finance its acquisition of 25.5% of Vodafone Egypt Shares. The company obtained the approval from NTRA regarding this transfer of right on December 22, 2003.
- On January 27, 2005 an agreement was made between Telecom Egypt and the National Telecommunication Regulatory Authority (NTRA) whereby the company committed itself not to apply for obtaining a license to build and operate a mobile phone network in Egypt using the G.S.M system with the frequency band of 1 800 MHTZ till November 30, 2007 against the commitment of NTRA to pay L.E. 1 975 million – previously paid by Telecom Egypt to NTRA – to Misr Banque according to the terms of the transfer of right dated 22/12/2003, in addition to the payment of L.E. 480 million to the company after the completion of the payment of L.E. 1 975 million and L.E. 25 million due to NTRA.
- The restriction mentioned above does not prohibit or prejudice the right of the company to apply to NTRA for obtaining a license to provide mobile telecommunication services of the third generation (G3) or any other higher or equal mobile telecommunication service or infra-structure whether during or after the restriction period.

Notes to the Financial Statements

For The Financial Year Ended December 31, 2004

25. EARNING PER SHARE

	2004	2003
Net profit for the year (L.E.000)	1 008 663	1 087 305
Less:		
Employees' share in profit (L.E.000)	190 617	140 929
Board of directors remunerations (L.E.000)	2 500	1 996
	815 546	944 380
Number of outstanding shares	171 121 490	171 121 490
Earning per share for the year (L.E / share)	4.77	5.52

26. CAPITAL COMMITMENTS

The company's capital commitments for the unexecuted parts of contracts till December 31, 2004 amounted to L.E. 10 million (L.E. 12 million at 31/12/2003).

27. CONTINGENT LIABILITIES

In addition to the amounts included in the balance sheet, as of December 31, 2004 the company had the following contingent liabilities:-

	31/12/2004 L.E.(000)	31/12/2003 L.E.(000)
- Letters of guarantee issued by the company's banks on its behalf	27 000	51 490
- Letters of credit	197 222	280 066
- Uncalled installments in investees share capital	38 925	14 475

Notes to the Financial Statements

For The Financial Year Ended December 31, 2004

28. TAXATION

28-1 Corporate tax

- The tax period up to 26/3/1998 was inspected and assessed by the Tax Department and the company has been accounted for that tax liability according to the tax department assessment.
- The period from 27/3/1998 till 30/6/2000 was inspected & the company was notified of the tax assessment by forms Nos. 18 and 19. The company objected to these forms on due dates and the dispute was referred to the internal committee and then to the appeal committee.
- Pursuant to the agreement between the company & tax department dated 26/9/2004, the dispute over subjecting the income resulting from revaluation of the assets & liabilities of the National Telecommunication Authority which was transformed into Telecom Egypt Co. in respect of corporate profit tax was resolved and this agreement resulted in no new tax liabilities on the company for this period.
- The company formed the adequate provisions for any liabilities that may arise for this period out of this dispute which has been referred to the internal committee with respect to any other items.
- The period from 1/7/2000 till 31/12/2001 was inspected and the company was notified by form No. 18. The company objected to form No. 18 on due dates and the dispute was referred to the internal committee which decided to refer the dispute to the appeal committee. The company formed adequate provisions for any tax liabilities that may arise out of this dispute.
- The period from 1/1/2002 till 31/12/2002 was inspected by the concerned tax department and the company has not been notified of the tax assessment for this period. The period from 1/1/2003 till 31/12/2003 has not been inspected, however, the company filed the tax return on due dates.
The company formed the estimated provisions for any tax liabilities that may arise from tax inspection.

28-2 Sales Tax

- The period till 31/12/2003 was inspected and all tax dues were settled.

28-3 Salary Tax

- The period till 31/12/2000 was inspected and assessed and all tax dues were settled.
- The period from 1/1/2001 till 31/12/2002 is currently being inspected & the company formed the estimated provisions for any tax liabilities that may arise from tax inspection.

Notes to the Financial Statements

For The Financial Year Ended December 31, 2004

29. ISSUANCE OF BONDS AMOUNTING TO L.E. 2 BILLION ON FEBRUARY 2005

- On September 4, 2004 the Company's Extra-Ordinary General Assembly approved the issuance of 20 million nominal marketable bonds not convertible into shares at a par value of L.E. 100 each for a period of (5) years. These bonds shall be 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 to be paid quarterly.
 - 2- The second tranche shall be the other 50% of the bonds at a variable annual interest to be paid quarterly.
- The purpose of issuing these bonds is partial settlement of long-term loans and financing of future investments.
- In February 2005, the company declared that full subscription to the bonds and issuance were made.

30. FINANCIAL INSTRUMENTS FAIR VALUE

The financial instruments are represented in the balance of cash on hand and at banks, debtors, creditors, investments and loans. The fair value of the long-term loans cannot be determined, as there is no market for these loans since the majority of these loans are preferred loans granted by the government or International Aid Organizations and Institutions. The book value of other financial instruments represents a reasonable assessment of their fair value.

31. MANAGEMENT OF FINANCIAL RISK

31.1 Interest risk

This risk is represented in the fluctuation in interest rates, which may impact the results of operation. This risk is expected to be low since all loans have been granted to the company at preferential fixed interest rates.

Notes to the Financial Statements

For The Financial Year Ended December 31, 2004

31.2 Foreign currency risk

The foreign currency exchange risk represents the risk of fluctuation in exchange rates, which in turn affects the company's cash inflows and outflows as well as the value of its foreign currency assets and liabilities. As of the date of the balance sheet the company has foreign currency assets and liabilities equivalent to L.E 1 825 058 K and L.E 3 319 009 K respectively. The company's net exposure in foreign currencies is as follows: -

Foreign currencies	(Deficit)/surplus (000)
U.S. dollar	134 310
Euro	(230 345)
Sterling Pound	468
Japanese Yen	(5 903 234)
Swedish krona	(25 249)

As disclosed in note (3-1) "Foreign Currency Translation" the company has used the declared exchange rates from the banks that the company deals with to retranslate monetary assets and liabilities at the balance sheet date.

31.3 Credit risk

This risk is represented in the clients' and debtors' ability to pay their outstanding balances. In order to mitigate the said risk, the company suspends services for delinquent customers and fines for late payments followed by cutting off lines then, contract termination.

32- COMPARATIVE FIGURES

- Certain comparative figures were reclassified to conform to the current classification of the financial statements.

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