A future to share in

Annual Report 2005

المصرية للاتصالات
Telecom Egypt

A future to share in

Individuals and businesses share the same telecommunications needs – to be linked via a reliable, cost effective service. At Telecom Egypt, we strive to support residential and business customers equally in this goal.

Our market is changing and so are we. 2006 will be our first full year as a public company and while the future poses many challenges, we are well-equipped to face them, financially, operationally and technically.

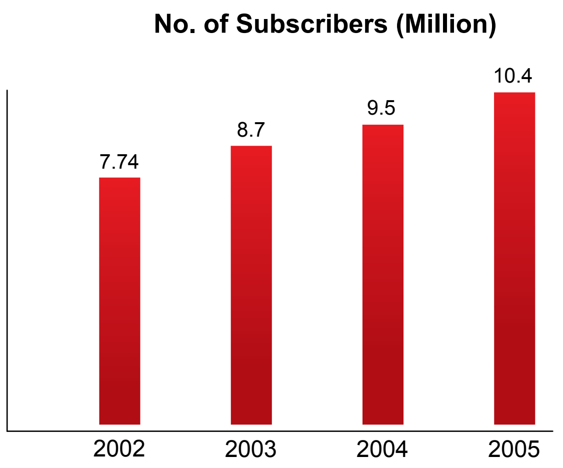
Telecom Egypt is a future to share in.

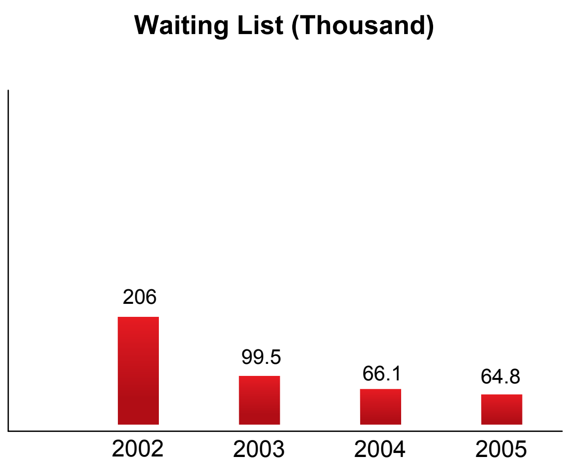
Content:

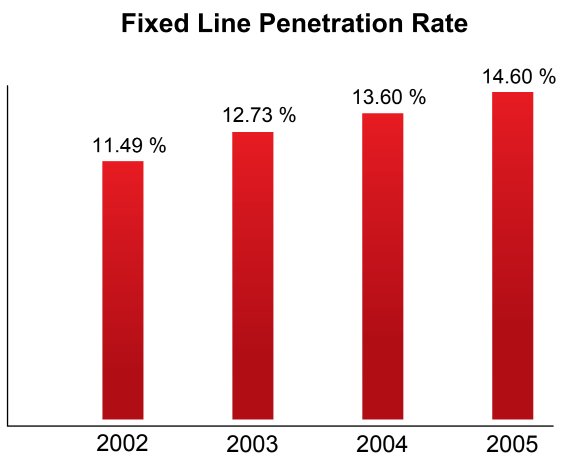
Excellence . . .

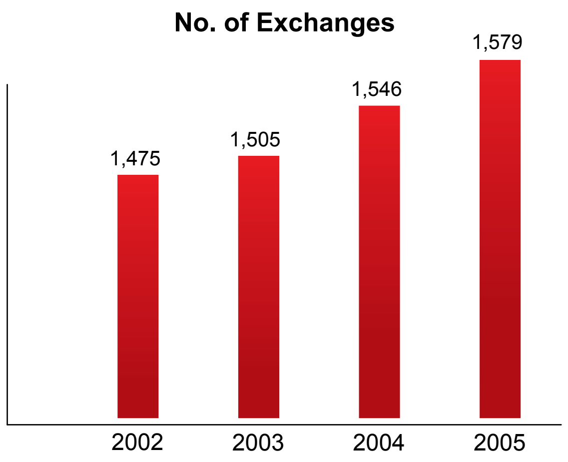
Fostering a culture of quality and efficiency that extends beyond satisfaction.

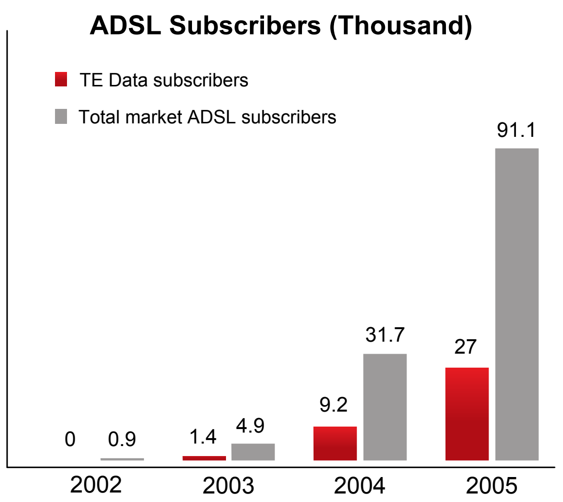
Key Performance Indicators

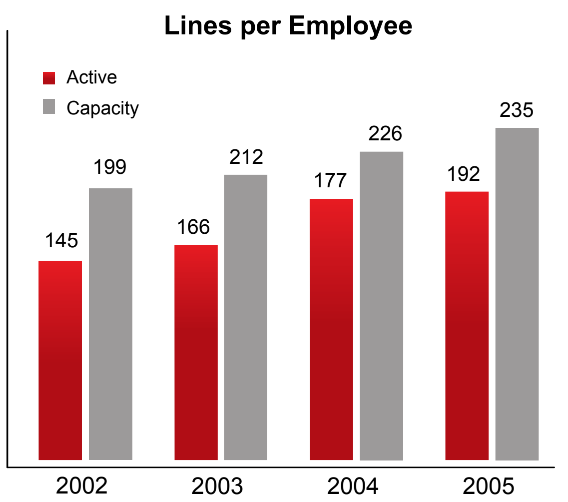












2005 in Brief

Financial Highlights

* Financial Highlights (in millions)	Dec - 05	Dec - 04	% Change
Sales Revenue	8,550	7,802	9.6%
EBITDA EBITDA Margin	4,459 52.2%	4,326 55.4%	3.1%
EBIT EBIT Margin	1,847 21.6%	1,807 24.0%	2.2%
Profit Before Taxes	2,483	1,594	55.8%
Net Profit Net Profit Margin	1,933 22.6%	1,301 16.7%	48.6%
Total Assets	31,163	30,949	0.7%
Total Shareholders' Equity	22,169	21,026	5.4%

* Financial figures are according to the International Financial Reporting Standards (IFRS)

Company Milestones

Month	Milestones
January 2005	Telecom Egypt obtained an additional ownership stake of 16.9% in Vodafone Egypt, bringing total ownership to 25.5%
February 2005	Telecom Egypt issued the largest corporate bond in Egypt to date, raising EGP 2 billion.
May 2005	Consortium Algerien Des Telecommunications s.p.a (CAT), a joint venture between Telecom Egypt and Orascom Telecom Holding was awarded a 15 year renewable license to operate fixed-line services in Algeria under the brand name of 'Lacom',.
November 2005	The Egyptian Government announced on November 14^{th} 2005 the launch of an initial public offering of its Telecom Egypt shares and GDRs to retail investors and institutional investors, both in Egypt and internationally. The IPO represented 20% of Telecom Egypt's outstanding share capital and raised over USD 890 million. At the time of the IPO, it was the largest international equity offering to come out of the entire Middle East and North Africa region.
December 2005	Telecom Egypt shares and GDRs commenced trading on the Cairo & Alexandria Stock Exchange and London Stock Exchange on December 14^{th} 2005.

Commitment...

Making a responsible pledge to build a future customers, employees and shareholders are proud to share in.

Chairman's Message

2005 was a busy and successful year for our company. Operationally, we have continued to deliver strong results in our home market, with subscriber numbers in Egypt growing by almost one million people, taking total subscribers to over 10.4 million by year end. This is the largest number of fixed line subscribers in the Arab World, Middle East and Africa.

Financially, too, the company performed well. Revenues continued their strong growth, and we maintained our position as one of the highest EBITDA margin players in the entire telecommunications industry.

> **A very proud moment for all of us at Telecom Egypt, when 20% of our company's shares were sold to retail and institutional investors across Egypt, the Middle East and internationally.**

Good progress has also been made towards our strategy to look both within, and outside of Egypt for future growth prospects. Our regional expansion strategy, of which I will discuss more of later, took its first small steps with moves into Algeria and Jordan, while our Internet business, TE Data, performed exceptionally well in a rapidly growing sector.

A very proud moment for all of us at Telecom Egypt, took place in December, when 20% of our company's shares were sold by the Egyptian government represented by the Ministry of Communications and Information Technology to retail and institutional investors across Egypt, the Middle East and internationally. The offering, which was the biggest international offering out of the Middle East and North Africa to date, expanded our shareholder base to include over 250,000 investors across Egypt, the region, Europe and the US. We are all very much looking forward to this exciting new chapter in our history.

Improving Macroeconomic Situation

All of this has taken place against the backdrop of a strong economic environment in Egypt that is highly supportive to our strategic goals, as our telecommunication lines continue to facilitate the expansion of business in the country.

> **Egypt currently enjoys economic growth rates that are among the fastest in the region, with falling inflation, a stable currency and a demographic heavily biased toward the young all contributing.**

Egypt currently enjoys economic growth rates that are among the fastest in the region, with falling inflation, a stable currency and a demographic heavily biased toward the young all contributing. In 2005, GDP growth was 4%, and all signals are that this trend will continue.

This context is important when one looks at what we have achieved in the year.
The Egyptian telecommunications sector continues to perform well as consumer demand for fixed line, mobile and data technologies increases. In 2005, we have made significant progress, increasing our fixed-line customer base from 9.5 million in 2004 to 10.4 million at the end of 2005 representing a Fixed line penetration rate of 14.6 %.

Our increased customer base made a significant contribution to our financial performance in 2005. Revenues rose for the sixth consecutive year by 9.6 % to LE 8.6 billion. When taken relative to GDP, we still have some way to go to catch up with the share-of-wallet telecommunications spend enjoys in other markets, but that presents us with an excellent opportunity for future growth.

In 2005, we continued to exercise restraint in our cost base and reached underlying profit, or EBITDA, of LE 4.5 billion, [representing a rise of 3 %]. This translates to an EBITDA margin of 52.2 %, which as I mentioned is one of the highest in the telecommunications industry worldwide.

Pursuing Growth Opportunities

While our commitment to developing the Egyptian telecommunications market is unwavering, in

the future we will continue to pursue selective opportunities to expand our footprint in the Middle East and North African region. Our 50% participation in Consortium Algerien De Telecommunications (CAT), the alternative fixed line network in Algeria, evidences our ability to transplant our operational experience overseas. Algeria represents an attractive market opportunity and our voice and data services are being launched at the time of writing. I look forward to updating you on the progress of this operation next year.

Last year I outlined the importance of the Internet data market to our future. We took the decision to spin-off our activities in this segment to a separate 93.3%-owned subsidiary, TE Data. I believe that this was a sound move and it has allowed us to truly focus energies on this booming sector, not just in Egypt, but also in Jordan.

TE Data is working hard in the development of the broadband segment in Egypt and is already one of the leading access providers in a highly competitive market. By the year end December 2005, TE Data achieved a 197% subscriber growth compared to December 2004. The demand for data services is growing strongly, and our tailored solutions, delivering choice in multiple access technologies, is proving popular. Our customers are right to expect access to the Internet on their terms. It is our job to deliver.

Our customers are right to expect access to the Internet on their terms. It is our job to deliver.

Current Internet penetration remains in single digits, and our progress to date is just the tip of the iceberg. I am, however, pleased to say that with our achievements in 2005 we are on track to achieve our objective of 50% market share of broadband subscribers in Egypt by the end of 2006.

It is clear that our extensive and modernized infrastructure continues to serve us well, but 2005 has also been a year to prepare for change. In particular, we have focused on ensuring that we are well positioned to manage the impact of international liberalization. We have worked hard to ensure it is economically attractive for the two mobile operators in Egypt to continue to use Telecom Egypt's international gateway and have exclusivity agreements in place with Vodafone Egypt and MobiNil.

We have focused on ensuring that we are well positioned to manage the impact of international liberalization.

Telecommunications brings many positive social, environmental and economic benefits for those who use them. For Telecom Egypt, corporate responsibility is about understanding the expectations of our stakeholders and taking appropriate action to meet those expectations. Over the past 12 months, TE has been a very active citizen in the Egyptian community with constant contributions to different aspects of Egyptians' lives, varying from education, health care, sports and environment. However, we felt deep responsibility towards developing technology and computer literacy in our developing society, hence was our initiative launched back in 2004 "Computer for every home", sponsored by both Telecom Egypt and the Ministry of Communications and Information Technology. Recording evident effectiveness in Egypt, we are currently studying the feasibility of delivering the initiative's second phase "Laptop for every professional", which we aspire to strongly contribute to the professional life of our citizens.

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Finally, I would like to point out that it is only with the support and commitment of all of our employees, at all levels, that we are able to continue on our path to growth. In thanking them all, I look forward to their ongoing contribution to achieving further progress in the current year.

As we progress in 2006, we are confident that Telecom Egypt, backed by 150 years of success in the Egyptian market, will succeed in retaining its leading position in a more liberalized and competitive market.

Akil Beshir
Chairman

Board of Directors

From left to right seating:

Mohamed Abdel Rehim Hassanein

Azza Mohamed Torky

Akil Hamed Beshir

Mokhtar Abdel Moneim Khattab

Ali Gamal El Din Salama

From left to right standing:

Bahaa El Din Helmy

Amr Abdel Kader Hashem

Sayed Mohamed El Prince

Moataz Kamel Morsy

Adel Rashad Danash

Farghaly Bakry Seleem

Akil Hamed Beshir
Chairman

Akil Beshir was appointed Chairman of Telecom Egypt in June 2000. Previously, he was the 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.

Azza Mohamed Torky
Vice Chairman; International Services, Backbone, New Services and Marketing

Azza Torky was appointed a board member in 2000. She became Vice Chairman for International Telecommunications and Backbone in December 1999. Then New Services and 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 Telecommunications Department from 1997 to 1999. She holds a B.Sc. in Communications Engineering from Cairo University.

Ali Gamal El Din Salama
Vice Chairman; Financial & Commercial Affairs

Ali 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. He holds an MBA in Finance from University of Washington, Seattle, USA, and a Master of Professional Accounting and Taxes (MPPAC) from the same university. He is also a Certified Public Accountant (CPA) and a Certified Management Accountant (CMA). He is a fellow of the Egyptian Association for Accountants and Auditors, and a member of the American Institute of Certified Public Accountants (AICPA).

Mohamed Abdel Rehim Hassanein
Vice Chairman; Projects' Operations, Implementation & Maintenance (Greater Cairo, Canal Area, Sinai, the Red Sea, Alexandria, Upper & Lower Egypt)

Mohamed Abdel Rehim 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 & Third Zones of East Cairo, then Sector Chief for East Cairo Zones. He holds a B.Sc. in Communications Engineering form Al-Azhar University.

Mokhtar Abdel Moneim Khattab
Economics and Privatization Expert and Ex-minister of Public Enterprise

Mokhtar Khattab was appointed board member in 2004. He is currently the Chairman of the Nubaria Sugar Company and the Chairman and 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. Previously, he was the Head of D.S.S Sector, IDSC, Egyptian Cabinet from 1991-1996. He holds a BA in Commerce from Ain Shams University, Egypt. He also holds a D.E.S and Doctorat d'Etat in Economics, France.

Bahaa El Din Helmy
Banking Expert

Bahaa 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. He holds a B.Sc. from Ain Shams University, Egypt, and a Diploma in Statistics and Computer Research from Cairo University, Egypt. He also holds a Ph.D. in Numerical Analysis from Assiut University, Egypt.

Moataz Kamel Morsy
Legal Advisor

Moataz 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 Cairo Administrative Courts, the High Administrative Court, Technical Inspection Department, and the Consultation Dept. of the following ministries: Industry, Electricity and Metallurgy resources. Also, he 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, graduated in 1962.

Adel Rashad Danash
Telecommunications & Information Technology Specialist

Adel 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. He holds a B.Sc. in Electronics from Cairo University, and a Diploma in Computer Networks and a Ph.D. in Computer Science from Paris 7 University, France.

Sayed Mohamed El Prince
Chief of Staff Signal Corps

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

Amr Abdel Kader Hashem
Senior Advisor to MCIT

Amr Hashem was appointed board in 2004. He is currently the senior advisor to the Minister of Communications & Information Technology. Previously,he was the Director of the Telecommunications Policy Department at the Ministry of Communications & Information Technology (MCIT). From 1999 - 2004, he was a manager of Telecommunications Policy Unit. From 1994-1999 he worked as a Senior Communications Engineer for the Cabinet IDSC.He is an NFP fellow and a holder of Masters of Business Administration degree 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.

Farghaly Bakry Seleem
Chairman of Telecom Egypt’s Employee Union

Farghaly 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. He holds a Diploma as a Telephone Engineering Technician from the Industrial Institute, Quina, Egypt.

Executive Management

Akil Hamed Beshir
Chairman

Azza Mohamed Torky
Vice Chairman; International Services,
Backbone, New Services & Marketing

Ali Gamal El Din Salama
Vice Chairman; Financial & Commercial Affairs

Mohamed Abdel Rehim Hassanein
Vice Chairman; Projects' Operations,
Implementation & Maintenance (Greater Cairo,
Canal Area, Sinai, the Red Sea, Alexandria,
Upper & Lower Egypt)

Dawlat Abdel Hamid El Badawy
Vice Chairman; Projects Planning

Aida Ahmed El Shinnawy
Vice Chairman; Follow-up & Technical Affairs

Abdel Hamid Mahmoud Hamdy
Vice Chairman; Human resources
& Administrative Affairs

Note: Sanaa Soliman was promoted in January 2006 as a Vice Chairman for IT & Follow-up to replace Aida Ahmed Elshinnawy who retired at the same date.

Dedication ...

Delivering the services our customers' needs, now and in the future.

Corporate Governance

Telecom Egypt is committed to best practice in the area of corporate governance, working to ensure the integrity and sustainability of its business operations at all times. Our main corporate governance and board practices during the 2005 financial year are described in this section.

Our Board regularly reviews and updates our corporate governance practices as developments occur within the marketplace, our business and to internationally recognised governance standards. We are guided by the corporate governance principles presented by the Arab Republic of Egypt Capital Markets Authority, ensuring that the highest standards of corporate governance throughout our organisation are consistently maintained.

The Board of Directors

Role and responsibility of the Board

Telecom Egypt's Board of Directors is responsible to shareholders for the overall strategy of the Company, its governance and performance. The Board manages the Company's business and affairs and decides on matters other than those that must be determined by shareholders. The Board's role includes:

- providing strategic direction to the Company by working closely with management to determine, monitor, develop and modify our strategy and performance targets
- approving the annual budget for the Company and other significant business decisions
- reviewing and approving statutory accounts and overseeing our financial position
- issuing recommendations to the General Assembly concerning our capital, including capital restructures, expenditure and dividend policy
- monitoring the integrity of internal control and reporting systems

The Company's daily business affairs are managed by six Vice Chair Persons who are appointed by the Chairman of the General Shareholder Assembly.

Board membership, size and composition

As per the Company's bylaws, the Board of Directors is composed of eleven members: three of which are to be Independent Directors elected by the General Assembly, one that is to be an employee representative elected by the Company's Labor Syndicate and seven that are to be appointed by a decree of the Prime Minister upon recommendation from the Ministry of Communication and Information Technology (MCIT).

The Amended Statutes provide that meetings of the Board of Directors are to be held at least four times a year. A quorum of the Board of Directors requires the presence of at least a majority of its members. Each member has one vote. The Board of Directors passes resolutions by at least a simple majority vote of those members present and/or represented at the meeting. In the event of a tie, the chairman casts the deciding vote.

The Board of Directors is chaired by the Chairman of the Board of Directors and Chief Executive Officer and is comprised of three additional Executive Members, six Non-Executive Members and one Employee Representative Member.

All current members of the Board of Directors of the Company have been appointed by the Prime Minister on the recommendation of MCIT. The Company intends to hold an ordinary General Assembly and all members of the Board of Directors of the Company will come up for election and the procedures set out in the Amended Statutes outlined above will apply with respect to the nomination and election of these members.

Board of Directors

(Biographies available under “To Our Shareholders” section)

Akil Hamed Beshir, Chairman

Azza Mohamed Torky, Executive Member

Ali Gamal El Din Salama, Executive Member

Mohamed Abdel Rehim Hassanein, Executive Member

Mokhtar Abdel Moneim Khattab, Non-Executive Member

Bahaa El Din Helmy, Non-Executive Member

Moataz Kamel Morsy, Non-Executive Member

Adel Rashad Danash, Non-Executive Member

Sayed Mohamed El Prince, Non-Executive Member

Amr Abdel Kader Hashem, Non-Executive Member

Farghaly Bakry Seleem, Employee Representative Member

Committees of the Board

The Board committees assist the Board in the fulfilment of its responsibilities. The role of Board committees is to advise and make recommendations to the Board. There are three standing committees:

- Audit Committee
- Remuneration Committee
- Investment Committee

A description of the role and composition of each committee is provided below. Following each meeting, the Board receives a report from the committee on the activities and performance of the relevant committee.

Audit Committee

Telecom Egypt has an Audit Committee composed of three members, at least two of whom must be Independent Directors. The Audit Committee is charged with monitoring the efficacy of internal audit procedures, internal controls and the performance of outside auditors, as well as reviewing and discussing with management all audit reports, financial statements and annual reports to shareholders. The Audit Committee additionally presents periodic reports and recommendations to the Board of Directors regarding the foregoing matters.

Remuneration Committee

Telecom Egypt, under the Amended Statues, is required to have a Remuneration Committee comprised of at least two Independent Directors. The role of the Remuneration Committee is to review and approve corporate goals and objectives relevant to compensation of the executive directors and senior management. The Remuneration Committee is required to evaluate each individual’s performance in light of these goals and to make recommendations to the Board of Directors with respect to incentive and equity-based compensation plans.

Investment Committee

The Company has an Investment Committee composed of three members, one of which is required to be an Independent Director. The Investment Committee is charged with developing and recommending to the Board policies relating to the Company's investments and also for overseeing the implementation of these policies.

The General Assembly

Role and Responsibility of the General Assembly:

The Company's annual Ordinary General Assembly convenes at least once every year within three months following the end of the fiscal year to consider the following:

1- the Auditor's report;
2- the report of the Board of Directors;
3- approval of the financial statements;
4- approval of the distribution of dividends;
5- to determine the members of the Board of Directors' remuneration and allowance;
6- to appoint the auditor and determine his fees;
7- to elect the Board of Directors as necessary;
8- extension of the appointment of the Chief Executive Officer and the Deputies of the Chief Executive Officer over the age of 60.

In addition to the above-mentioned matters, the Company's Ordinary General Assembly is responsible for the following:

A. With respect to the Company's Financial Matters the Ordinary General Assembly reviews such matters as:

1- suspending the setting aside of the legal reserve if it reaches half the amount of the Company's issued capital;
2- formation of other reserves aside from the legal reserve and the statutory reserve;
3- use of the statutory reserve for the benefit of the Company or its shareholders;
4- transacting on the reserves and provisions;
5- approval of the distribution of a share of net profits realized by the Company as a result of the sale of one of its fixed assets or compensation therefore;
6- approval of the issuance of bonds and the guarantees given to the bearers of such bonds;
7- review of the decisions and recommendations of the group of bondholders;
8- authorizing the founders and the members of the Board of Directors to enter into bilateral contracts with the Company;
9- authorizing the Board of Directors to make donations.

B. The Ordinary General Assembly also looks into other matters pertaining to the Company's Board of Directors including:

1- discharging the Board of Directors or one of its members and bringing a liability claim against them;
2- discharging members of the Board of Directors that have repeatedly failed to attend meetings of the General Assembly and electing other members to replace them;
3- applying a monetary fine against members of the Board of Directors that fail to attend the General Assembly without an acceptable excuse for their absence;
4- authorizing the Managing Director to hold the position of managing director in another company;
5- authorizing a member of the Board of Directors to carryout a technical or administrative position in another joint stock company on a permanent basis;
6- authorizing a member of the Board of Directors to trade for his own account or for the account of another individual in the Company's field of activity;
7- carrying out management actions that the Board has failed to review due to an incomplete quorum;
8- approval of any decisions issued by the Board of Directors;
9- issuing recommendations with regards to matters within the authority of the Board of Directors.

C. Other responsibilities of the Ordinary General Assembly Pertaining to the Auditor and Liquidation of the Company include:

1- looking into changing the Company's auditors throughout the course of the fiscal year;
2- looking into discharging the Company's auditors and bringing liability claims against them;
3- looking into the auditor's report in the event that he is incapable of fulfilling his duties;
4- appointing liquidators and defining their fees and discharging the liquidators;
5- extension of the time period set for liquidation upon inspection of the liquidators report;
6- looking into the temporary accounts submitted by the liquidator every six months;
7- approving the final liquidation account; and
8- specifying the place in which the Company's files shall be stored after the Company has been stricken off from the Commercial Registration Authority.

The Company's Extraordinary General Assembly Meeting is concerned with amending the Company's Statutes, particularly the following:

1- an increase or decrease of the capital of the Company;
2- liquidation of the Company prior to expiry of its term;
3- amendment of the objectives of the Company;
4- the merger of the Company with any other company or legal entity;

Social Contribution

Telecom Egypt has been at the heart of the telecommunications industry in Egypt for over 150 years, enabling both individuals and businesses to communicate effectively and cost efficiently. As a company we strive to foster cooperation and understanding with the communities in which we operate and seek to deliver a direct benefit to the Egyptian society.

Telecom Egypt's role in building a reliable communications infrastructure in Egypt is only one way in which it serves its community, Telecom Egypt is committed to making a sustained contribution to education, health care, sports and environment. This full programme of social contribution aims to provide the Egyptian community with the means it requires to overcome challenges and to face the future with confidence.

Knowledge

Telecom Egypt is the main sponsor for telecommunications and information technology industry in Egypt and as such feels a deep sense of responsibility for the advancement of technology-related skills and knowledge.

During 2005, Telecom Egypt was focused on nurturing the growing interest in telecoms and Internet services. These efforts were aimed at providing the necessary knowledge and capabilities users require to deal with the latest technologies. In parallel, Telecom Egypt continued to support the activities of "The Future Generation Foundation", a non-profit organization whose programme included the provision of training courses to develop basic technical skills, as well as supporting young people in their search for relevant employment.

Improving the rate of computer literacy has been a major challenge for Telecom Egypt. In 2004, the company launched the "computer for every home" initiative in conjunction with the Ministry of Communications and Information Technology (MCIT). This initiative successfully encouraged a large number of hardware suppliers to donate their products to the scheme, there by making a broad variety of PC models available to users.

Owning a personal computer is an expensive proposition for many Egyptian families, precluding them from owning their own computer. In response, Telecom Egypt offered an easy payment scheme where by PC installments can be charged on the household's telephone bill. Owning a PC has become a much easier and more feasible decision for the Egyptian family.

Care

There is a wide range of non-profit groups and community organizations aimed at improving the lives of Egyptian citizens of all ages. Telecom Egypt has chosen to centre its contribution on those aimed at young children who are underprivileged or may have little family support. The company has provided financial backing for several national fundraising initiatives in recent years. One recent example, held nationally, was Orphan’s Day, held on the first Friday of April 2005, designed to coordinate the efforts of several charitable organizations.

Health

A healthy society is conducive to economic growth. This philosophy has led Telecom Egypt to direct its charitable donations towards improving the responsiveness of emergency services, standards of hospitals and technology of medical equipment in Egypt. The company also regularly contributes to the Red Crescent organization, a leading non-profit healthcare organization, which provides emergency services for Egyptians, especially in national disasters.

Most recently, Telecom Egypt made a charitable donation to improve the Accident and Emergency division and provided financial backing for an Intensive Care / Burns Unit at the Kasr El-Einy hospital in Giza.

Solidarity

Telecom Egypt prides itself on its quick response to issues affecting the fabric of Egyptian society. In response to the tragic bombings in Sharm El-Sheikh, the company assigned a premium number for donations to the victims and their families. All the revenues generated by this number were dedicated to support the victims' families.

Growth ...

Transferring our expertise to other countries and harnessing the power of new technologies.

Subsidiaries & Investments

Subsidiaries

Company Name	Activity	Ownership %	Country of Operation
TE Information Technology	IT Consultancy & Call Centre Operator	97.66 %	Egypt
TE Data	Internet Service Provider	93.33 %	Egypt
Centra Technologies	PC Manufacturing and Distribution	55.02 %	Egypt
Middle East Radio Communications	Wireless Communications	51.00 %	Egypt

Investments

Company Name	Activity	Ownership %	Country of Operation
Consortium Algerien De Telecommunication	Alternative Full Fledged Fixed Line	50.00 %	Algeria
IT Incubator Fund	Operator Venture Capital Fund	40.00 %	Egypt
Nile Online (Egyptian Company for Internet & Digital Infrastructure)	Internet Service Provider	27.27 %	Egypt
Vodafone Egypt	GSM Mobile Operator	25.50 %	Egypt
Egypt Trust	E- Commerce	25.00 %	Egypt
Egynet (Egyptian Company for Networks)	Internet Service Provider	19.20 %	Egypt
Ideavelopers	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
Menatel	Public Payphone Operator	3.77 %	Egypt
Nile Telecom	Public Payphone Operator	2.00 %	Egypt
Arabsat	Satellite Telecommunications	1.59 %	Regional
Thuraya	Satellite Telecommunications	0.65 %	International

Transparency ...

Standing by our commitment to an open and clear communication with our shareholders.

Consolidated Financial Statements & Auditor's Report

For The Financial Year Ended December 31, 2005

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 consolidated financial statements of Telecom Egypt Company (An Egyptian Joint Stock Company) and its subsidiaries, represented in the consolidated balance sheet as of December 31, 2005 and the related consolidated 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 consolidated financial statements referred to above together with the notes attached thereto present fairly, in all material respects, the consolidated financial position of the company as of December 31, 2005 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.

KPMG Hazem Hassan

KPMG Hazem Hassan
Public Accountants & Consultants

Cairo, March 15, 2006

Member Firm of
KPMG International

Consolidated Balance Sheet

As of December 31, 2005

	Note No.	31/12/2005 LE (000)	31/12/2004 LE (000)
Long-Term Assets			
Fixed assets (net)	(4)	21 833 589	23 585 692
Projects in progress	(5)	1 146 797	1 314 883
Investments in affiliates	(3-6),(6-1)	1 301 785	633 471
Available for sale investments	(3-7),(6-2)	95 197	147 519
Long-term receivables	(7)	1 396 773	1 600 000
Other assets (net)	(3-9),(8)	126 769	149 652
Total Long Term Assets		25 900 910	27 431 217
Current Assets			
Inventories	(9)	494 776	416 021
Trade and notes receivable	(10)	2 559 673	2 617 099
Debtors and other debit accounts	(11)	2 276 863	1 852 092
Cash at banks and on hand	(12)	768 016	1 156 526
Total Current Assets		6 099 328	6 041 738
Current Liabilities			
Loan installments and facilities due within one year	(13)	476 487	1 009 650
Banks - credit accounts		419 061	1 468 254
Banks overdraft		158 474	51 966
Suppliers & notes payable	(14)	103 768	68 286
Creditors and other credit accounts	(15-1)	2 963 170	2 647 092
Provisions	(16)	1 255 653	1 508 475
Total Current Liabilities		5 376 613	6 753 723
Excess (deficit) of current assets over current liabilities		722 715	(711 985)
Total investments		26 623 625	26 719 232

Financed as follows:-

	Note No.	31/12/2005 LE (000)	31/12/2004 LE (000)
Equity			
Paid up capital	(17)	17 070 716	17 112 149
Reserves	(18)	3 416 774	4 647 252
Retained earnings		403 611	415 281
Translation difference adjustments		(78)	(34)
Net profit for the year		1 858 019	1 025 167
Total equity attributable to equity holders of the parent		22 749 042	23 199 815
Minority Interest		22 031	17 940
Total Equity		22 771 073	23 217 755
Long-Term Liabilities			
Loans and credit facilities	(13)	1 734 821	3 445 986
Bonds loan	(33)	2 000 000	–
Creditors and other credit balances	(15-2)	56 459	55 491
Deferred tax liabilities	(3-23) , (19)	61 272	–
Total Long Term Liabilities		3 852 552	3 501 477
Total Equity and Long-Term Liabilities		26 623 625	26 719 232

The accompanying notes from No. (1) to No. (37) 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

Date: March 15, 2006

Auditor's Report "Attached"

Consolidated Income Statement

For The Financial Year Ended December 31, 2005

	Note No.	2005 LE (000)	2004 LE (000)
Operating Revenues			
Sales of services	(20)	8 353 316	7 620 453
Sales of telephone sets & directories		168 009	166 289
Other operating revenues		26 389	71 126
		8 547 714	7 857 868
Operating Expenses			
Interconnection fees	(21)	1 290 023	1 210 255
Fuel		62 301	58 052
Spare parts		82 487	57 586
Maintenance		125 297	102 452
Satellite subscriptions		29 012	22 365
Depreciation	(4)	2 514 777	2 409 351
Amortization	(8)	28 133	27 057
Cost of telephone sets & directories sold		145 820	153 397
Other operating costs	(22)	1 148 584	874 078
		5 426 434	4 914 593
Gross Operating Profit		3 121 280	2 943 275
Adminstrative expenses			
General & administrative expenses	(23)	998 061	657 957
Selling & distribution expenses	(24)	200 220	116 502
Impairment loss on fixed assets		–	1 733
Impairment loss on other assets	(8)	17 006	13 323
Provisions	(16)	50 235	98 210
Write-down of inventory		–	1 453
Impairment loss on trade and other receivables	(16)	73 237	125 334
		1 338 759	1 014 512
Net Operating Profit		1 782 521	1 928 763

	Note No.	2005 LE (000)	2004 LE (000)
Other Income / (Expenses)			
Interest income		27 980	9 954
Income from investments		147 611	41 488
Interest expenses		(381 388)	(409 389)
Other revenues	(25)	111 162	23 047
Impairment loss on long-term investments		(3 213)	–
Gain on sale on long-term investments		37 626	(5 871)
Release of unused provision		260 490	–
Reversal of write-down of inventory		2 711	–
(Loss) gain on sale of fixed assets		(24 138)	13
Foreign exchange gain (loss)		332 235	(149 648)
		511 076	(490 406)
Net profit for the year before tax & minority interest		2 293 597	1 438 357
Less:			
Current tax expense		371 552	410 496
Deferred tax expense		61 272	–
Net profit before minority interest		1 860 773	1 027 861
Less:			
Minority interest		2 754	2 694
Net profit for the year after tax & minority interest		1 858 019	1 025 167
Earnings per share (LE/Share)	(28)	1.03	0.49

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

Consolidated Statement of Cash Flows

For The Financial Year Ended December 31, 2005

	Note No.	2005 LE (000)	2004 LE (000)
Cash flows from operating activities			
Cash receipts from trade receivables		7 068 735	6 287 487
Sales tax collected from receivables		449 225	341 464
Stamp tax and fees collected (from third party)		94 472	74 211
Deposits received from receivables		51 281	14 304
Cash paid to suppliers		(203 830)	(334 700)
Cash paid to employees		(1 018 539)	(917 224)
Cash paid on behalf of employees		(291 892)	(249 611)
Dividends paid to shareholders & employees		(723 507)	(689 637)
Net cash from operating activities		5 425 945	4 526 294
Interest paid		(404 916)	(380 437)
Payments to Tax Authority		(349 548)	(178 382)
Payments to Sales Tax Authority		(689 071)	(498 622)
Other proceeds /(payments) net		(340 546)	(122 849)
Net cash provided by operating activities		3 641 864	3 346 004
Cash flows from investing activities			
Payment for purchase of property, plant and equipment and projects in progress		(2 485 621)	(2 052 265)
Proceeds from sale of fixed assets and other assets		16 870	6 456
Payments for purchase of investments		(670 311)	(3 850)
Proceeds from sale of investments		88 294	–
Interest received		20 307	8 420
Dividends received		140 396	38 278
Net cash used in investing activities		(2 890 065)	(2 002 961)

	Note No.	2005 LE (000)	2004 LE (000)
Cash flows from financing activities			
Payments by minority for capital increase in subsidiary companies		3 256	5
Repayment of borrowings & facilities relating to acquisition of property, plant and equipment and intangible assets.		(630 323)	(1 007 683)
Repayment of other borrowings & facilities		(1 570 938)	(208 137)
Proceeds from long - term loans		29 531	37 109
Repayment of financial lease obligations		(28 905)	(20 413)
Proceeds from long - term bonds issued		2 000 000	–
Change in banks credit accounts		(1 049 193)	785 657
Payments of long-term obligations		(250)	(355)
Net cash used in financing activities		(1 246 822)	(413 817)
Translation difference adjustments		5	(22)
Net (Decrease) Increase in cash and cash equivalents during the year		(495 018)	929 204
Cash and cash equivalents at the beginning of the year		1 104 560	175 356
Cash and cash equivalents at the end of the year	(29)	609 547	1 104 538

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

Consolidated Statement Of Changes In Equity

For The Financial Year Ended December 31, 2005

	Share capital LE(000)	Legal reserve LE(000)	Other reserves LE(000)	Revaluation reserve LE(000)	Retained earnings LE(000)	Translation difference adjustments LE(000)	Net profit LE(000)	Total equity attributable to equity holders of the parent LE(000)	Minority interest LE(000)	Total equity LE(000)
Balance as of 1/1/2004	17 112 149	267 485	4 134 359	19 081	214 880	–	1 095 922	22 843 876	16 604	22 860 480
Transferred to reserves	–	54 862	218 571	–	–	–	(273 433)	–	–	–
Reducing other reserves according to the Extra-ordinary General Assembly resolution on 29/3/2005	–	–	(44 844)	–	–	–	–	(44 844)	–	(44 844)
Adjustments to revaluation surplus of sold investments	–	–	–	(2 262)	2 262	–	–	–	–	–
Dividends for the year 2003	–	–	–	–	–	–	(624 350)	(624 350)	(1 358)	(625 708)
Transferred to retained earnings	–	–	–	–	198 139	–	(198 139)	–	–	–
Translation difference adjustments	–	–	–	–	–	(34)	–	(34)	–	(34)
Net profit for the year 2004	–	–	–	–	–	–	1 025 167	1 025 167	2 694	1 027 861
Balance as of 31/12/2004	17 112 149	322 347	4 308 086	16 819	415 281	(34)	1 025 167	23 199 815	17 940	23 217 755
Adjustments to retained earnings	–	–	–	–	(11 742)	–	–	(11 742)	–	(11 742)
Minority interest's share in capital increase	–	–	–	–	–	–	–	–	2 661	2 661
Transferred to reserves	–	51 390	410 014	–	–	–	(461 404)	–	–	–
Dividends for the year 2004	–	–	–	–	(25 901)	–	(548 312)	(574 213)	(834)	(575 047)
Adjustment to revaluation surplus of sold investments	–	–	–	(10 005)	10 005	–	–	–	–	–
Reducing of other reserves against decrease in the land & other assets according to the Extra-ordinary General Assembly resolution on 21/9/2005	–	–	(1 723 339)	–	–	–	–	(1 723 339)	–	(1 723 339)
Reducing the share capital according to the Extra-ordinary General Assembly resolution on 21/9/2005	(41 433)	–	41 433	–	–	–	–	–	–	–
Transferred from minority interest due to the change in capital shareholding percentage	–	29	–	–	455	–	–	484	(484)	–
Transferred to retained earnings	–	–	–	–	15 504	(53)	(15 451)	–	–	–
Translation difference adjustments	–	–	–	–	9	9	–	18	(6)	12
Net profit for the year	–	–	–	–	–	–	1 858 019	1 858 019	2 754	1 860 773
Balance as of 31/12/2005	17 070 716	373 766	3 036 194	6 814	403 611	(78)	1 858 019	22 749 042	22 031	22 771 073

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

Auditor's Report

Notes to the Consolidated Financial Statements

For The Financial Year Ended December 31, 2005

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 Company 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.

By virtue of the approval of the company's Extra-Ordinary General Assembly held on 6/12/2005, the following activities were added to its objectives: "real estate investment for serving its purposes, and executing its projects and in order for the company to achieve its purposes, it is entitled to establish or participate in establishing new companies or existing companies operating in the same, complementary or related activities." Annotation to this effect was made in the commercial registry on 16/1/2006.

2- SCOPE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements include the parent company and subsidiaries under its control as it holds more than 50% of their capitals.
The following listing of subsidiaries is included in the consolidated financial statements:

Subsidiaries name	Percentages share %
TE Data – S.A.E.	93.33 %
TE Information Technology – S.A.E.	97.66 %
Middle East Radio Communication (MERC) – S.A.E.	51.00 %
Centra Technologies – S.A.E.	55.02 %

The consolidated financial statements did not include the financial information related to the following companies:

- Wataneya for Telecommunication	The activity did not start yet
- Consortium Algerien de Telecommunications (CAT)	Established during May 2005
- International Telecommunication Consortium Limited (ITCL)	Established at 23/3/2005 and the activity did not start yet

3- SIGNIFICANT ACCOUNTING POLICIES APPLIED

3-1 Basis of preparing the consolidated financial statements

3-1-1 The financial statements are prepared in accordance with the Egyptian Accounting Standards and in the light of the provisions of applicable Egyptian laws and regulations.

3-1-2 Consolidation basis

- Consolidated financial statements were prepared by combining similar items of assets, liabilities, equity, revenues and expenses stated in the financial statements of parent company and its subsidiaries.
- The carrying amount of the parent company's investment in each subsidiary and the parent company's portion in the equity of each subsidiary are eliminated.
- All inter-group balances and transactions, and any material unrealized gains arising are eliminated.
- Minority interests in the net equity and net profits of subsidiaries controlled by the parent company was included in a separate item in the equity caption in the consolidated balance sheet, and it was calculated at the equivalent of the carrying amounts of their portion in the net assets of subsidiaries on the consolidated balance sheet date.

3-2 Foreign currency translation

The company and some of its subsidiaries maintain its books of accounts in Egyptian Pound. Transactions denominated in foreign currencies are recorded at the declared exchange rates at the date of transactions. At the consolidated balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates declared by the banks dealing with the company and its subsidiaries. The exchange differences are recorded in the consolidated income statement for the year.

3-3 Financial statements translation for foreign operations

TE Data Jordan, wholly owned by TE Data Egypt – a subsidiary company – keeps its accounting records in Jordanian Dinar. Assets and liabilities are translated to Egyptian Pound at the foreign exchange rate in effect at the date of the balance sheet date. Revenues and expenses are translated to Egyptian Pound at rates approximating to the foreign exchange rate ruling at the date of transactions. The share of the parent company in cumulative translation adjustments is recorded in a separate item under the caption of equity in the consolidated balance sheet.

3-4 Fixed assets and depreciation

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

Description	Estimated Useful life
Buildings & constructions	10 - 50 Years
Machinery & equipment	6 - 20 Years
Means of transportation	5 - 10 Years
Tools and supplies	1 - 8 Years
Office furniture, fixtures and Information systems devices	3 –16.67 Years
Decoration & fixtures	5 Years

3-5 Projects in Progress

This item represents the amounts incurred for projects in progress till being ready for the intended use in operations, then, they are transferred to fixed assets.

3-6 Investments in affiliates

Investments in affiliates 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.

3-7 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 the 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 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.

Auditor's Report

3-8 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.

3-9 Other assets and amortization

Other assets are non monetary assets that can be reliably estimated and from which future economic benefits are expected to flow to the company and are represented in:-
- Right of way, right of using of international circuits services and cables.
- Internet services license – TE Data.

These intangible assets are stated at cost less accumulated amortization and impairment losses and are amortized over (10-20) years provided that their useful lives should be within the term of concession and usufruct rights.

The board of directors of T.E Data, a subsidiary company, in its meeting held at 21/2/2006 decided decreasing the value of the first and the second circuits due to the severe decline in the value of these circuits and related effect on the future economic benefits of these assets and the behavior of the current probable competitors, accordingly, impairment loss on the first and second circuits resulted LE 17 006 k and was charged to the income statement for the year.

3-10 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.
- Work in progress is valued at cost at the latest production process reached.
- Finished goods are valued at the manufacturing cost or net selling value.

3-11 Accounts, notes receivable, debtors & other debit accounts

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

3-12 Impairment of assets

The carrying amounts of the Company's assets, other than inventory, note No.(3-10) and deferred tax assets note No.(3-23) are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the necessary studies are prepared to estimate the asset's prospective recoverable amount.

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

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

3-13 Provisions

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

3-14 Borrowing cost

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

3-15 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.

3-16 Trade & Other Payables

Trade and other payables are stated at cost.

3-17 Revenue recognition

- Revenues from sales of services are recognized when services are rendered to the customers.
- Revenues from telephone sets & directories sales are recognized when goods are delivered to customers and invoices are issued.
- Income from investments is recognized when dividends of investees are declared by the General Assembly resolutions.

3-18 Expenses

All operating expenses recorded including general & administraive expenses are recognized in the income statement in the financial period when incurred.

3-19 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. 26).

3-20 Capital lease agreements

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

3-21 Accounting estimates

The preparation of the financial statements according to the Egyptian Accounting Standards require that the management use estimates and assumptions that affect the values of the assets and liabilities and the revenues and expenses during the financial periods and years. The actual results may be different from those estimates.

3-22 Reserves

- Legal Reserve

According to the company's Article of Associations, 5% of the net profit is set aside to form a legal reserve . The transfer to legal reserve cease once the reserve reach 50% of the company's paid in capital, however, if the reserve falls below the defined level (50% of the company's paid in capital), then the company is required to resume setting aside 5% of the net profit.

- Other reserves

The General Assembly may, upon the suggestion of the Board of Directors, form other reserves.

3-23 Income tax

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates 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 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 measured 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.

3-24 Cash flow statement

Cash flow statement is prepared according to the direct method. Cash & cash equivalents comprise cash balances, time deposits which do not exceed three monthes and bank overdrafts that are repayable on demand and form an integral part of the company's cash management and they are included as a component of cash equivalents for the purpose of the statement of cash flows.

4- FIXED ASSETS

Cost	Land LE(000)	Buildings & constructions LE(000)	Machinery & equipment LE(000)	Means of transportation LE(000)	Tools & supplies LE(000)	Office furniture & fixtures LE(000)	Decoration & fixtures LE(000)	Total LE(000)
Balance as at 1/1/2005	4 038 768	15 944 807	15 234 009	101 631	50 862	403 885	250	35 774 212
Adjustments	–	–	(2 600)	–	–	–	–	(2 600)
Additions for the year	52 289	597 219	1 666 131	1 962	9 890	332 109	203	2 659 803
Disposals for the year	(1 754 766)	(141)	(254 321)	(2 308)	–	(1)	–	(2 011 537)
Translation differences	–	–	(20)	–	–	(21)	(4)	(45)
Balance as at 31/12/2005	2 336 291	16 541 885	16 643 199	101 285	60 752	735 972	449	36 419 833

Depreciation & Impairment

Accumulated depreciation as at 1/1/2005	–	4 663 577	7 243 531	67 411	28 836	185 098	67	12 188 520
Adjustments	–	–	(2 600)	–	–	–	–	(2 600)
Depreciation for the year	–	889 873	1 636 406	13 701	4 687	86 272	58	2 630 997
Accumulated depreciation disposals	–	(34)	(228 819)	(1 816)	–	–	–	(230 669)
Translation difference adjustments	–	–	(2)	–	–	(2)	–	(4)
Balance of accumulated depreciation as at 31/12/2005	–	5 553 416	8 648 516	79 296	33 523	271 368	125	14 586 244
Carrying amounts as at 31/12/2005	2 336 291	10 988 469	7 994 683	21 989	27 229	464 604	324	21 833 589
Carrying amounts as at 31/12/2004	4 038 768	11 281 230	7 990 478	34 220	22 026	218 787	183	23 585 692

- Cost of fixed assets includes an amount of LE 977 million relating to fully depreciated assets still in use.
- Additions and disposals of the land for the year include an amount of LE 48 696 K , LE 1 754 766 K against the reduction of the General reserve by a net amount of LE 1 706 070 K Persuant to the Extra- Ordinary General Assembly resolution on September 21,2005.

Depreciation for the year are charged as follows:-

	LE(000)
Operating expenses	2 514 777
General & administrative expenses	115 103
Selling & distribution expenses	1 117
	2 630 997

Auditor's Report

5- PROJECTS IN PROGRESS

Telecom Egypt - Parent

	31/12/2005 LE (000)	31/12/2004 LE (000)
Land	6 528	3 993
Buildings and constructions	124 819	187 673
Machinery and equipment	442 967	635 572
Means of transportation	387	278
Tools and supplies	115	4 680
Office furniture and fixtures	39 441	153 422
Advance payments	495 523	305 550
Letters of credit	29 312	22 199
	1 139 092	1 313 367

T.E Data – a subsidiary company

Advance payments	7 705	1 516
	1 146 797	1 314 883

6- LONG TERM INVESTMENTS

6-1 Investments in affiliates

	Share capital Participation %	31/12/2005 LE (000)	31/12/2004 LE (000)
Vodafone Egypt *	25.50	1 287 805	619 227
Nile On Line (NOL)	27.27	12 668	14 244
Wataneya for Telecommunication	50.00	125	–
Consortium Algerien de Telecommunications (CAT)	33.00	133	–
International Telecommunication Consortium Limited. (ITCL)	50.00	54	–
Egypt Trust	25.00	1 000	–
		1 301 785	633 471

* Market value of investments in Vodafone Egypt according to the Egyptian Stock Exchange prices on December 31, 2005 amounts to LE 6 179 976 K

6-2 Investments available for sale	31/12/2005 LE (000)	31/12/2004 LE (000)
Participations in foreign Satellite companies & organizations	25 245	77 366
Investments in other companies	69 952	70 153
	95 197	147 519

INVESTMENT IN VODAFONE – EGYPT

The investment in Vodafone Egypt represents the ownership of 61 200 000 shares which represent 25.5% of Vodafone Egypt shares. The company is currently in the process to transferring the ownership of its shares in Vodafone to Wataneya for Telecommunication Company, which was established on January 27, 2005 with participation percentage of 50% by Telecom Egypt.

7- OTHER DEBIT BALANCES – LONG TERM

These balances are represented in the following:

	31/12/2005 LE (000)	31/12/2004 LE (000)
The amounts due from National-Telecommunication Regulatory Authority for the license fees paid to the said Authority for the third operator after waiver of this license by the third operator. (Note No. 27).	1 600 000	1 975 000
Less: The current portion to be collected during next year which was recorded under "debtors and other debit accounts" (Note No. 11).	520 000	375 000
	1 080 000	1 600 000
Payments made on behalf of Consortium Algerian de Telecommunication to finance the license concession and finance the operating expenses of Consortium Company in Algeria.	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.	201 987	–
Less: The current portion to be collected during next year as recorded under "debtors and other debit accounts" (Note No. 11).	106 799	–
	95 188	–
	1 396 773	1 600 000

8- OTHER ASSETS

	Note No.	Right of way (BRITAR) LE(000)	Right of way (ALITAR) LE(000)	Right of way (Flag cable) LE(000)	Usufruct for land occupied by TE LE(000)	Right of way (SMW2, SMW3) LE(000)	Right of using (ROU) LE(000)	Internet license LE(000)	Total LE(000)
Cost									
Cost as at 1/1/2005		1 720	48 815	95 910	18 838	131 566	20 196	20 197	337 242
Adjustments		–	–	–	(18 838)	–	–	–	(18 838)
Additions for the year		–	–	–	1	–	28 710	–	28 711
Disposals for the year		–	(60)	–	–	–	–	–	(60)
Translation differences		–	–	–	–	–	–	(8)	(8)
Balance as at 31/12/2005		1 720	48 755	95 910	1	131 566	48 906	20 189	347 047
Accumulated amortization & impairment losses									
Balance as at 1/1/2005		559	18 937	50 764	12 427	82 552	2 356	19 995	187 590
Adjustments		–	(8)	–	(12 427)	–	–	–	(12 435)
Amortization during the year		172	2 438	9 599	–	13 156	2 747	21	28 133
Impairment losses	(3-9)	–	–	–	–	–	17 006	–	17 006
Accumulated amortization disposals		–	(16)	–	–	–	–	–	(16)
Balance as at 31/12/2005		731	21 351	60 363	–	95 708	22 109	20 016	220 278
Carrying amounts as at 31/12/2005		989	27 404	35 547	1	35 858	26 797	173	126 769
Carrying amounts as at 31/12/2004		1 161	29 878	45 146	6 411	49 014	17 840	202	149 652

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9- INVENTORIES

	31/12/2005 LE (000)	31/12/2004 LE (000)
Spare parts	158 774	142 835
Materials supplies	356	295
Computers & Pc's components	7 838	1 927
Others – project cables and supplies	277 737	225 883
Finished goods	149	339
Work in progress	–	504
Telephone sets and directories	42 154	36 760
Consignment goods	878	1 609
	487 886	410 152
Add:		
Letters of credit	6 890	5 869
	494 776	416 021

10- TRADE RECEIVABLES & NOTES RECEIVABLE

	31/12/2005 LE (000)	31/12/2004 LE (000)
Governmental sector	294 679	308 813
Private sector	2 529 850	2 649 426
Foreign telecommunication companies and organizations	902 257	800 335
	3 726 786	3 758 574
Less:		
Impairment loss on trade receivables	1 168 062	1 141 475
	2 558 724	2 617 099
Notes receivable	949	–
	2 559 673	2 617 099

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11- DEBTORS & OTHER DEBIT ACCOUNTS

	31/12/2005 LE (000)	31/12/2004 LE (000)
Suppliers – debit balances	56 716	55 760
Deposits with others	6 957	4 858
Employees' loans	1 335	1 356
Customs Authority - deposits	3 047	2 999
Accrued revenues	8 665	9 901
Tax Authority	110 089	67 569
Employees loyalty grant (Note No. 26)	33 078	39 642
Other debit accounts*	2 211 529	1 782 240
	2 431 416	1 964 325
Less:		
Impairment loss on debtors & other debit accounts balances	154 553	112 233
	2 276 863	1 852 092

*** Other debit accounts include the following amounts: -**

- The current portion to be collected within one year from the National Telecommunication Regulatory Authority for the license fees of Wataneya for Telecommunication (Note No. 7).	520 000	375 000
- Payment of 10% for the capital participations in Wataneya for Telecommunication – under establishment – Telecom Egypt owns 98% of the share capital.	–	9 800
- Advances for the new building paid on behalf of the Wataneya for Telecommunication (Building, designs and engineering company services).	–	41 035
- The current portion to be collected during next year for the balances due from the employees for the company's shares distributed to them (Note No. 7).	106 799	–
- Amounts due from the main shareholders of the company (Ministry of Finance) for payment of public offering expenses on behalf of the seller (Ministry of Finance).	15 345	–
- Payments on the account of corporate tax.	1 002 089	1 002 089
	1 644 233	1 427 924

12- CASH ON HAND AND AT BANKS

Banks- time deposits	668 147	1 031 242
Banks -current accounts	66 858	113 484
Cash on hand	33 011	11 800
	768 016	1 156 526

Time deposits at 31/12/2005 include the following:-

- An amount of LE 9 565 K blocked in favor of some banks as a guarantee for the letters of credit granted to the company (against LE 8 586 K at 31/12/2004).

- An amount of LE 300 K deposits blocked against visa cards in favor of American Express Bank.

13- LOANS AND FACILITIES

Description	Loan Currency	Long term loan Installments due within one year LE(000)	Long term loan Installments due within more than one year LE(000)	Balance as of 31/12/2005 LE(000)	Balance as of 31/12/2004 LE(000)	Annual Interest Rate %	Repayment schedule
Local banks loans	L.E.	12 581	8 919	21 500	1 283 469	Caibor + 2.55 %	Semi-annual installments ending on 24/9/2007
Local banks loans - medium term	U.S.$	–	–	–	125 197	2.5%+ Libor	Paid in full
Total local loans		12 581	8 919	21 500	1 408 666		
Governmental Loans	L.E.	22	–	22	202	8%	Annual installements ending on 9/4/2006
Governmental Loans	U.S.$	116 206	680 751	796 957	756 274	4 -16%	Semi annual/annual installements ending on 24/1/2014
Governmental Loann	S.K.	2 055	1 286	3 341	22 632	0.15% + agency commission	Semi annual installements ending on 31/12/2007
Governmental Loans	EURO	6 330	27 177	33 507	53 878	4 - 6.37%	Semi annual installements ending on 29/12/2012
Total Governmental loans		124 613	709 214	833 827	832 986		
Foreign loans	J.Y.	24 397	78 380	102 777	153 548	3 - 3.5%	Semi annual installements ending on 20/3/2012
Foreign loans	EURO	135 517	866 093	1 001 610	1 375 646	0.75 - 8.2%	Semi annual installements ending on 30/6/2036
Foreign loans	L.D.	–	10 171	10 171	10 171	3.5%	
Total foreign loans		159 914	954 644	1 114 558	1 539 365		
Foreign suppliers' facilities - local	L.E.	427	–	427	13 317	3%	Semi annual installements ending on 5/3/2006
Foreign suppliers' facilities - foreign	EURO	122 916	21 188	144 104	421 358	3.18 - 5.50%	Semi annual/annual installements ending on 1/12/2008
Foreign suppliers' facilities - foreign	J.Y.	56 036	40 856	96 892	195 680	2.5 - 2.75%	Semi annual installements ending on 14/12/2007
Foreign suppliers' facilities - foreign	U.S.$	–	–	–	44 264	3%	Paid in full
Total foreign suppliers' facilities		179 379	62 044	241 423	674 619		
		476 487	1 734 821	2 211 308	4 455 636		

- Foreign suppliers' facilities in Euro include LE 4 953 K equivalent to Euro 720 K against letters of guarantee issued by National Bank of
 Egypt in favour of Siemens as a guarantee for this

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14- SUPPLIERS & NOTES PAYABLE

	31/12/2005 LE (000)	31/12/2004 LE (000)
Suppliers - local	93 127	67 032
Suppliers - foreign	7 504	1 254
Notes payable	3 137	–
	103 768	68 286

15- CREDITORS AND OTHER CREDIT ACCOUNTS

15-1 Creditors and other credit accounts (current)

	Note No.	31/12/2005 LE (000)	31/12/2004 LE (000)
Tax Authority		80 566	82 169
Deposits from others		605 848	553 874
Fixed assets creditors		389 652	481 082
Accrued interest		73 931	112 433
Accrued expenses		216 128	79 746
Social Insurance Authority		18 987	18 847
Clients – credit balances		215 372	255 290
Dividends payable		36 593	176 745
Credit balance for social, cultural and sportive activities		119 214	77 988
Deferred revenues*		266 254	301 962
Other credit accounts		363 275	151 164
Tax Authority – income tax		260 720	410 496
Current income tax for the year		371 334	–
		3 017 874	2 701 796
Less: Tax payments due after one year	(15-2)	54 704	54 704
		2 963 170	2 647 092

* 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 as at 31/12/2005.

15-2 Creditors and other credit accounts (long-term)

Creditors and other long-term accounts represent:-

	Note No.	31/12/2005 LE (000)	31/12/2004 LE (000)
Telecom Egypt – parent company			
Tax payment due after one year	(15-1)	54 704	54 704
T.E Information Technology – a subsidiary Company			
The additional retirement compensations due to the company's employees		1 755	787
		56 459	55 491

16- PROVISIONS:

	Balance as of 1/1/2005 LE(000)	Charged to the income statement for the year LE(000)	Used during the year LE(000)	Reclassification LE(000)	Release of unused provisions LE(000)	Reversal of write-down in inventory LE(000)	Balance as of 31/12/2005 LE(000)
Provision for contingent liabilities, claims and others							
Tax provision	1 426 940	14 120	(65 129)	–	(260 333)	–	1 115 598
Claims provision	42 123	36 115	(26)	62 000	(157)	–	140 055
Other provision	39 412	–	(12)	(39 400)	–	–	–
	1 508 475	50 235	(65 167)	22 600	(260 490)	–	1 255 653
Impairment loss on							
Trade receivables	1 141 475	30 917	(4 330)	–	–	–	1 168 062
Debtors and other debit accounts balances	112 233	42 320	–	–	–	–	154 553
	1 253 708	73 237	(4 330)	–	–	–	1 322 615
Write-down in inventory*	19 751	–	–	–	–	(2 711)	17 040

* Write-down in inventory balances is netted against their related type of inventory balances.

17- CAPITAL

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

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

- Decrease of issued capital by a net amount of L.E. 41 433 K representing the value of lands transferred to Ministry of Communication & Information Technology by L.E. 71 250 K and the value of land reverted to for T.E as a result of the amendment of the total land area near the satellite station in Maadi amounting to L.E. 29 817 K.

- Decrease of the par value per share from L.E. 100 to L.E. 10.

Accordingly, the company's issued and fully paid capital has become LE 17 070 716 K represented in 1 707 071 600 shares at a par value of LE 10 each and annotation was made to this effect in the Commercial Register on 24/11/2005.
Thus, Egyptian Government owned 80% after floating 20% of company's shares in public offering in December 2005.

18- RESERVES

	31/12/2005 LE (000)	31/12/2004 LE (000)
Legal reserve	373 766	322 347
Revaluation reserve of available for sale investments	6 814	16 819
General reserve	3 024 034	4 295 926
Capital reserve	12 160	12 160
	3 416 774	4 647 252

Legal reserve amounting to LE 3 024 034 at 31/12/2005 represents the dividends transferred to the general reserve for years 99/2000 till 2004 after the decreases decided by the Extra-ordinary General Assembly Meetings held on 29/3/2005 & 21/9/2005.

19- DEFERRED TAX

19-1 Deferred Tax Assets and Liabilities

	Assets 31/12/2005 LE (000)	Liabilities 31/12/2004 LE (000)
Fixed assets	–	170 402
Inventory	3 391	–
Trade and other receivables	25 793	–
Provisions	50 101	–
Accrual (liabilities)	29 845	–
Total deferred tax assets (liability)	109 130	170 402
Net deferred tax liability	–	61 272

19-2 Unrecognized deferred tax assets

	31/12/2005 LE (000)	31/12/2004 LE (000)
Deductible temporary differences	–	18 030

Deferred tax assets for the year 2004 have not been recognized in respect of this item for lack of reasonable assurance that future benefits shall be realized from these deferred tax assets in the subsequent periods.

20- SALES OF SERVICES

	2005 LE (000)	2004 LE (000)
Domestic call revenues		
Local calls	1 591 518	1 537 086
Long distance calls (excluding Mobile revenues)	413 806	442 548
Local telegram and telex	12 897	14 628
Total domestic call revenues	2 018 221	1 994 262
Mobile domestic revenues		
Fixed to mobile revenue	1 049 454	949 222
Mobile to fixed interconnection revenue	208 368	190 807
Total mobile revenues	1 257 822	1 140 029
Other local revenues		
Connection fees	350 834	365 458
Subscription fees	1 479 163	1 194 210
Leased lines	120 422	100 587
Others	784 750	790 479
Total other revenues	2 735 169	2 450 734
International revenues		
International calls (excluding mobile to international)	405 685	355 752
Revenue from incoming international operators	1 284 333	1 117 487
Mobile international revenues	648 371	559 013
International telegram and telex	3 715	3 176
Total international calls revenues	2 342 104	2 035 428
Total revenues from sales of services	8 353 316	7 620 453

21- INTERCONNECTION FEES

	2005 LE (000)	2004 LE (000)
Fixed to mobile interconnection fees	779 851	666 770
Fixed calls for internet & audio text companies fees	232 995	248 822
Dues against outgoing international calls	276 454	293 386
Dues against outgoing international telegram & telex	723	1 277
	1 290 023	1 210 255

22- OTHER OPERATING COSTS

	2005 LE (000)	2004 LE (000)
Salaries	751 639	640 187
Compulsory social security contributions	104 210	92 154
Employees' vacations	88 239	–
Electricity & water	11 825	10 689
Stationary & printed materials	67 462	77 576
Transportation cost	17 960	11 391
Business telephone cost	25 455	21 700
Rentals	3 407	3 661
Others	78 287	16 720
	1 148 484	874 078

23- GENERAL & ADMINISTRATIVE EXPENSES

	2005 LE (000)	2004 LE (000)
Salaries	466 508	342 797
Compulsory social security contributions	35 908	50 358
End of service compensation-Early retirement program	8 607	10 243
Employees' vacations	49 979	–
Depreciation	115 103	56 630
Training	34 496	49 254
Bad debts	245	263
Tax and customs duty	76 291	21 181
Bank charges & commissions	11 553	8 242
Advertising	35 432	33 333
Others	163 939	85 656
	998 061	657 957

24- SELLING & DISTRIBUTION EXPENSES

	2005 LE (000)	2004 LE (000)
Salaries	105 952	83 676
Compulsory social security contributions	13 748	12 323
Employees' vacations	11 662	–
Depreciation	1 117	1 394
Others	67 741	19 109
	200 220	116 502

25- OTHER (EXPENSES) / INCOME

	2005 LE (000)	2004 LE (000)
Compensation and penalties (net)	(7 268)	(8 590)
Sundry revenues	180 625	110 904
Prior years' (expenses) / income	(62 195)	(79 267)
	111 162	23 047

26- 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 and the interest will be charged to the company 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 the retired employees' compensations (the second and third phases), provided that these amounts should be refunded from employees Loyalty Fund upon their legal early retirements. The amount of LE 66 922 K was refunded as of December 31, 2005.

- On January 15, 2004 the employees' Loyalty Fund was registered in the Register of the Egyptian Private Social Insurance Funds and the grant accounts was transferred to the account of Loyalty Fund which will pay these balances to the company on the dates of the legal early retirement of the employees.

- The actual compensations charged to the income statement and paid to the early retired employees' for the year amounted to LE 8 607 K representing the amounts due on the remaining period till 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 toLE 6 950 K and the amount to be refunded starting from January 2007 and up to the year 2011 (the long term portion) is LE 26 128 K. (Note No. 11).

27- WAIVER OF THE LICENSE OF THE THIRD MOBILE OPERATOR

- The company obtained a license to establish the third mobile phone operator 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 mobile 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 licenses to provide mobile telecommunication services of the third generation (G3) or any other higher or equal mobile telecommunication services or infra-structure whether during or after the restriction period.

- On April 2005, The first installment due from the National Telecommunication Regulatory Authority (NTRA) amounting to LE 375 million was collected and the balance due from the National Telecommunication Regulatory Authority (NTRA) amounted to LE 1 600 million plus the amount of LE 480 million and the remaining amounts will be collected on four equal annual installments amounting to LE 520 million each. The last installment shall fall due on March 31, 2009.

28- EARNING PER SHARE

	2005	2004
Net profit for the year after minority interest (LE 000)	1 858 019	1 025 167
Less:		
Employees' share in profit (LE 000)	94 837	190 617
Board of directors remunerations (LE 000)	2 500	2 500
	1 760 682	832 050
Less:		
The parent company's share in employees & Board of directors' share of subsidiaries dividends	2 062	97
Basic share in profits (LE 000)	1 758 620	831 953
Average number of outstanding shares during the year	1 710 075 492	1 711 214 900
Earning per share for the year (LE / share)	1.03	0.49

Par value of share has been reduced from LE 100 to LE 10 according to the resolution of the Extra-Ordinary General Assembly Meeting dated September 21, 2005 , thus the number of shares has become 1 707 071 600 shares and the previous year's earning per share has been modified as a result of modifying number of shares.

29- STATEMENT OF CASH FLOWS

	31/12/2005 LE (000)	31/12/2004 LE (000)
Cash and cash equivalents (as reported in the balance sheet)	768 016	1 156 526
Less:		
Banks overdraft	158 474	51 966
Cash and cash equivalents at the end of the year	609 542	1 104 560

30- CAPITAL COMMITMENTS

The company's capital commitments for the unexecuted parts of contracts till December 31, 2005 amounted to LE 29.695 million (LE 21.090 million at 31/12/2004). It is expected that these commitments shall be settled next year except for payments of share capitals of investees, which shall be settled when required by the Boards of Directors of these investees.

31- CONTINGENT LIABILITIES

In addition to the amounts included in the balance sheet, as of December 31, 2005 the company had the following contingent liabilities:-

	31/12/2005 LE (000)	31/12/2004 LE (000)
- Letters of guarantee issued by banks on behalf of the company	8 270	29 662
- Letters of credit	452 998	197 222

32- TAXATION

32-1 Corporate tax

Years till 26/3/1998

- This period covers all the years up till ARENTO has been transformed into Telecom Egypt. Tax inspection was made, and all disputes were settled except for certain amounts for which related provisions were formed to meet the disputes tax liabilities.

Financial years from 27/3/1998 till 31/12/2002

- These financial years were inspected, and the dispute was transferred to the Internal Committee then to the Appeal Committee for the period from 27/3/1998 till 31/12/2000, and all disputed items were resolved except for the differences relating to the revaluation of the assets and liabilities of ARENTO at the time of transforming it into a joint stock company, however, this dispute was settled by virtue of an agreement between the company and the Income Tax Authority on 26/9/2004, and the taxes due for these financial years were resolved till 31/12/2002 according to the minutes of the committee executing the agreement between the Tax Authority and the company. The company has formed a provision for the whole tax amount as agreed upon.

Financial year from 1/1/2003 till 31/12/2003

- Tax inspection was made and the company was notified by Tax Form No. (18), and the company agreed on the taxable income and the provision was formed including all the tax differences.

Financial year from 1/1/2004 till 31/12/2004

- Tax inspection has not been made by the competent tax inspectorate, and tax returns were submitted on due dates. The company formed a provision on an estimated basis to meet the liabilities that may result from the tax inspection.

32-2 Sales Tax

Tax inspection was made till 31/12/2004, and all due taxes were settled.

32-3 Salary Tax

- Tax inspection and assessment were made till 31/12/2000 and all due tax were settled.
- Tax inspection for the period from 1/1/2001 till 31/12/2002 is currently being undertaken, and the company formed a provision on an estimated basis to meet the liabilities that may result from tax inspection.

33- BONDS LOAN

- 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 to 10.95% to be paid quarterly.

  2- The second tranche shall be the other 50% of the bonds at a variable annual interest equal to 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.

34- Related Party Transactions

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

	Nature of transaction	Transaction volume during the year		Balance as of 31/12/2005		Balance as of 31/12/2004	
		Debit LE 000	Credit LE 000	Debit LE 000	Credit LE 000	Debit LE 000	Credit LE 000
Debit balances included in accounts receivable							
Nile On Line (NOL)	International leased lines	126	17 659	6 200	–	23 733	–
Nile On Line (NOL)	Local leased lines	2 623	2 623	–	–	–	–
		2 749	20 282	6 200	–	23 733	–
Debit balances included in other debit balances - long term							
Consortium Algerien de Telecommunications (CAT)	Amounts paid on behalf of the affiliated company to finance the license and operating expenses	221 585	–	221 585	–	–	–
Debit balances included in debtors and other debit accounts							
International Communication Consortium Limited	Amounts paid on behalf of the affiliated company on the account of company's share in Consortium Algerien de Telecommunications	68	–	68	–	–	–
		221 653	–	221 653	–	–	–
Credit balances included in creditors an other credit accounts							
Nile On Line (NOL)	Internet services	1 425	–	–	2 614	–	4 039
Vodafone Egypt	Mobile services	486 901	578 154	–	314	90 939	–
		488 326	578 154	–	2 928	90 939	4 039

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35- 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.

36- MANAGEMENT OF FINANCIAL RISK

36-1 Interest risk

Interest rate risk is represented in the changes in the interest rate computed on the company's debts such as loans, bonds, bank overdrafts and credit facilities which amounted to LE 4 788 843 K as at December 31, 2005. (compared to LE 5 975 856 K as at December 31, 2004). Financing interests and expenses related to these balances amounted to LE 381 388 K during the year (compared to LE 409 389 K during the previous year), while the balance of time deposits amounted to LE 668 147 K as at December 31, 2005 (compared to LE 1 031 242 K as at December 31, 2004), and the interest income on these deposits amounted to LE 27 980 K during the year (LE 9 954 K during the previous year). In order to minimize these risks, the company's management currently seeks to obtain the best possible terms and conditions from the banks as regards the balances of credit facilities, overdrafts and loans, also, it reviews the prevailing interest rates declared by the banks on a regular basis, a matter which help mitigate the interest rate risk.

36-2 Credit risk

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

36-3 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 LE 1 745 640 K and LE 2 299 758 K respectively. The company's net exposure in foreign currencies at the balance sheet is as follows: -

Foreign currencies	(Deficit) /surplus (000)
U.S. dollars	146 348
Euro	(170 998)
Sterling Pound	461
Japanese Yen	(4 092 891)
Swedish krona	(15 525)
Jordan Dinar	(265)

As disclosed in note (3-2) “Foreign Currency Translation” the company has used the exchange rates declared by the banks that the company deals with to retranslate monetary assets and liabilities at the balance sheet date.

37- COMPARATIVE FIGURES

Comparative figures in the consolidated financial statements were reclassified to include the financial statements of TE Data Jordan Company and Centra Electronic Industries Company as at December 31, 2004 (these two companies are owned by two subsidiaries of the company).

Consolidated Financial Statements Prepared under IFRS & Auditor's Report

For The Financial Year Ended December 31, 2005

KPMG Hazem Hassan
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Auditor's Report

To The Board of Directors of Telecom Egypt

We have audited the accompanying consolidated balance sheets of Telecom Egypt as of 31 December, 2005 and the related consolidated statements of income, changes in the shareholders' equity and cash flows 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 consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Telecom Egypt as of 31 December, 2005, and the consolidated results of its operations and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Hazem Hassan

KPMG Hazem Hassan
Cairo, Egypt
9 April 2006

Member Firm of
KPMG International

Consolidated Balance Sheets

As at 31 December 2005

In thousands of Egyptian Pound

Assets

	Note	31/12/2005	31/12/2004
Property, plant and equipment	(13)	22 344 238	22 490 022
Intangible assets	(14)	126 769	143 243
Investment in associates	(15)	1 540 721	12 669
Available for sale investments	(16)	88 382	1 239 578
Long-term receivable	(17)	1 525 773	1 517 000
Deferred tax assets	(18)	109 130	117 652
Total non-current assets		25 735 013	25 520 164
Inventories	(19)	494 776	416 021
Trade and other receivables	(20)	4 164 708	3 855 989
Cash and cash equivalents	(21)	768 016	1 156 526
Total current assets		5 427 500	5 428 536
Total assets		31 162 513	30 948 700

Equity

	Note	31/12/2005	31/12/2004
Issued capital	(22)	17 070 716	17 112 149
Reserves	(22)	3 409 882	3 316 941
Retained earnings		1 666 803	578 801
Total equity attributable to equity holders of the parent		22 147 401	21 007 891
Minority interest		22 031	17 940
Total equity		22 169 432	21 025 831

	Note	31/12/2005	31/12/2004
Liabilities			
Interest-bearing loans and borrowings	(24)	1 786 167	3 491 936
Bonds payable	(25)	2 000 000	–
Deferred income		266 254	301 962
Other payables		56 459	55 491
Deferred tax liabilities	(18)	170 402	99 662
Total non-current liabilities		4 279 282	3 949 051
Bank overdraft	(21)	158 474	51 968
Interest-bearing loans and borrowings	(24)	919 473	2 494 638
Trade and other payables	(26)	2 900 489	2 676 771
Provisions	(27)	735 363	750 441
Total current liabilities		4 713 799	5 973 818
Total liabilities		8 993 081	9 922 869
Total equity and liabilities		31 162 513	30 948 700

Chairman	Deputy chairman for Financial & Commercial	Head of the financial sector
Eng./Akil Beshir	**Acc./Ali Salama**	**Acc./Ali Barakat**

Auditor's Report "Attached"

Consolidated Income Statements

For The Financial Year Ended 31 December, 2005

In thousands of Egyptian Pound

	Note	2005	2004
Revenue	(3)	8 550 009	7 802 223
Operating expenses	(4)	(5 404 254)	(4 937 625)
Gross profit		3 145 755	2 864 598
Other income	(5)	90 655	248 405
Selling and distribution expenses	(6)	(202 433)	(117 077)
Administrative expenses	(7)	(1 013 269)	(765 702)
Other expenses	(8)	(173 521)	(359 746)
Operating profit before financing costs		1 847 187	1 870 478
Financial income	(10)	680 871	291 367
Financial expenses	(10)	(390 878)	(566 602)
Net financing income (costs)	(10)	289 993	(275 235)
Share of profit (loss) of associates		346 035	(1 576)
Profit before tax		2 483 215	1 593 667
Income tax expense	(11)	(550 476)	(292 844)
Profit for the year		1 932 739	1 300 823
Attributable to:			
Equity holders of the parent		1 929 985	1 298 129
Minority interest		2 754	2 694
Profit for the year		1 932 739	1 300 823
Earnings per share (LE)	(23)	1.13	0.76

Consolidated Statement of Cash Flows

For The Financial Year Ended December 31, 2005

In thousands of Egyptian Pound

	Note	2005	2004
Cash flows from operating activities			
Cash receipts from customers		7 663 713	6 287 487
Cash paid to suppliers		(220 596)	(334 700)
Cash paid to employees		(1 654 123)	(1 060 109)
Cash paid in operations (net)		(1 203 331)	(638 369)
Interest paid		(404 916)	(380 437)
Income taxes paid		(158 321)	(19 002)
Net cash from operating activities		4 022 426	3 854 870
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		16 870	6 456
Proceeds from sale of investments		88 294	22 747
Interest received		21 273	8 420
Dividends received		140 396	38 278
Acquisition of property, plant and equipment and intangible assets		(2 485 621)	(2 052 265)
Acquisition of investments		(670 311)	(3 850)
Net cash (used in) investing activities		(2 889 099)	(1 980 214)
Cash flows from financing activities			
Repayment of borrowings & facilities relating to acquisition of property, plant and equipment and intangible assets		(630 323)	(1 007 683)
Repayment of borrowings & facilities relating to others		(1 570 938)	(208 137)
Repayment of borrowings & bank facilities		(1 049 193)	–
Proceeds from bonds		2 000 000	–
Proceeds from loans		29 531	–
Proceeds from borrowings & facilities		–	849 078
Proceeds from issuance of capital–subscribed into by minority		3 256	5
Repayment of financial lease obligations		(29 433)	(20 413)
Dividends paid		(381 000)	(480 000)
Repayment of long-term liabilities		(250)	–
Net cash (used in) financing activities		(1 628 350)	(867 150)
Net movement in cash and cash equivalents		(495 023)	1 007 506
Cash and cash equivalents at 1 January		1 104 558	97 074
Translation difference adjustments		7	(22)
Cash and cash equivalents at 31 December	(21)	609 542	1 104 558

Consolidated Statement of Changes in Equity

For The Financial Year Ended 31 December, 2005

In thousands of Egyptian Pound

	Note No.	Share capital	Statutory reserve	Other reserve	Translation reserve	Fair value reserve	Retained earnings	Total equity attributable to equity holders of the parent	Minority interest	Total equity
Balance at 1 January 2004		17 112 149	267 485	2 422 256	–	132 530	35 531	19 969 951	16 605	19 986 556
Net profit for the year		–	–	–	–	–	1 298 129	1 298 129	2 694	1 300 823
Transfer to reserves		–	54 862	218 571	–	–	(273 433)	–	–	–
Reversal of reserve		–	–	(44 844)	–	–	–	(44 844)	–	(44 844)
Exchange differences arising on translation of foreign operation		–	–	–	(34)	–	–	(34)	–	(34)
Change in fair value of available for sale investment		–	–	–	–	266 115	–	266 115	–	266 115
Adjustments		–	–	–	–	–	(1 426)	(1 426)	–	(1 426)
Dividends to shareholders		–	–	–	–	–	(480 000)	(480 000)	–	(480 000)
Minority interest		–	–	–	–	–	–	–	(1 359)	(1 359)
Balance at 31 December 2004		17 112 149	322 347	2 595 983	(34)	398 645	578 801	21 007 891	17 940	21 025 831
Net profit for the year		–	–	–	–	–	1 929 985	1 929 985	2 754	1 932 739
Transfer to reserves		–	51 390	410 014	–	–	(461 404)	–	–	–
Reversal of reserve		–	–	–	–	(398 645)	–	(398 645)	–	(398 645)
Effect of the resolution of the Extraordinary general assembly held on September 21, 2005	(22)	(41 433)	–	30 197	–	–	–	(11 236)	–	(11 236)
Exchange differences arising on translation of foreign operation		–	–	–	(44)	–	62	18	(6)	12
Transfer from minority interest		–	29	–	–	–	455	484	(484)	–
Minority interest share in capital		–	–	–	–	–	–	–	2 661	2 661
Dividends to shareholders		–	–	–	–	–	(381 000)	(381 000)	–	(381 000)
Employees & members Board bonus in subsidiaries		–	–	–	–	–	(96)	(96)	(92)	(188)
Minority interest		–	–	–	–	–	–	–	(742)	(742)
Balance at 31 December 2005		17 070 716	373 766	3 036 194	(78)	–	1 666 803	22 147 401	22 031	22 169 432

Auditor's Report

Notes to the Consolidated Financial Statements

For The Financial Year Ended 31 December, 2005

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 two years ended 31 December 2005 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 Bashir is the Company's Chairman.
The financial statements were authorized for issue by the Board of Directors of the company on March 15, 2006

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 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.

(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) Inventories

Inventories are 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 year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, 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:

In thousands of Egyptian Pound	2005	2004
Retail Services:		
Access:		
Connections	350 834	365 458
Subscriptions	1 356 758	1 157 866
	1 707 592	1 523 324
Voice:		
Local *	1 588 530	1 527 148
Long distance	413 806	442 548
Fixed to international	406 889	405 860
Fixed to mobile interconnection	1 049 454	949 222
	3 458 679	3 324 778
Internet & Data	92 070	79 520
Others	1 031 070	878 672
Total Retial	6 289 411	5 806 294
Wholesale:		
Domestic:		
Mobile to fixed interconnection	208 369	190 807
Others	113 973	128 622
	322 342	319 429
International:		
Mobile to international	648 371	559 013
Incoming international call	1 289 885	1 117 487
	1 938 256	1 676 500
Total wholesale	2 260 598	1 995 929
Total revenues	8 550 009	7 802 223

* include dial up revenue

Auditor's Report

4- Operating expenses

In thousands of Egyptian Pound

	2005	2004
Interconnection fees	1 300 320	1 210 255
Fuel	62 301	58 052
Spare parts	82 487	57 586
Maintenance	125 297	102 452
Satellite subscriptions	29 012	22 365
Depreciation	2 467 735	2 358 859
Amortization	28 133	24 967
Cost of telephone sets & directories	145 820	112 671
Salaries & wages	798 753	645 941
Compulsory social security contributions	104 210	92 154
Employees' share in dividends	55 690	114 370
Other operating costs	204 496	137 953
	5 404 254	4 937 625

5- Other income

In thousands of Egyptian Pound

	2005	2004
Release of unused provisions	157	105 232
Grant	35 708	53 561
Gains and losses on disposal of property, plant and equipment	–	13
Reversal of decline in inventory	2 711	–
Rental income	2 191	1 619
Others	49 888	87 980
	90 655	248 405

During 2003, the Group obtained a grant from the USAID to finance certain assets; the grant amounted to US$ 54 950 k. The grant had been recognized as deferred income and is being amortized over the useful lives of the related assets.

6- Selling and distribution expenses

In thousands of Egyptian Pound	2005	2004
Salaries & wages	112 314	84 251
Compulsory social security contributions	13 748	12 323
Fixed assets depreciation	1 117	1 394
Employees' share in dividends	7 513	–
Sales commissions & others	67 741	19 109
	202 433	117 077

7- Administrative expenses

In thousands of Egyptian Pound	2005	2004
Salaries & wages	495 010	346 058
Compulsory social security contributions	35 908	50 358
Early retirement compensations	8 607	10 243
Employees' share in dividends	32 623	76 247
Fixed assets depreciation	115 103	56 630
Board of directors' bonus	2 891	2 500
Taxes & customs fees	77 578	30 291
Training & development services	45 654	49 254
Advertising	35 432	33 333
Others	164 463	110 788
	1 013 269	765 702

8- Other expenses

In thousands of Egyptian Pound	2005	2004
Increase in provisions	50 235	182 474
Impairment loss on trade and other receivables	73 237	146 302
Impairment loss on long-term investments	1 637	5 871
Net loss on disposal of property, plant and equipment	24 138	–
Impairment loss on property, plant and equipment	–	1 733
Impairment loss on intangible assets	17 006	13 323
Others	7 268	10 043
	173 521	359 746

9- Personnel expenses

In thousands of Egyptian Pound	2005	2004
Salaries & wages:		
Operating expenses	798 753	645 941
Selling & distribution expenses	112 314	84 251
Administrative expenses	495 010	346 058
	1 406 077	1 076 250
Compulsory social security contributions	153 866	154 835
Early retirement compensations	8 607	10 243
Employees' share in dividends	95 826	193 117
	1 664 376	1 434 445

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 income (costs)

In thousands of Egyptian Pound

	2005	2004
Interest income	31 345	13 775
Unwind of discount & accretion of interest relating to long-term receivable	217 000	225 000
Income from investments – dividend	44 005	39 515
Net gain of disposal of investments	56 286	13 077
Net foreign exchange gain	332 235	–
Financial income	680 871	291 367
Interest expense	(390 878	(416 954)
Net foreign exchange loss	)	(149 648)
Financial expenses	–	(566 602)
Net financing income (costs)	(390 878	(275 235)

11- Income tax expense

Recognized in the income statement

In thousands of Egyptian Pound

	2005	2004
Current tax expense		
Current year	371 552	410 496
Deferred tax expense *		
Origination and reversal of temporary differences	178 924	(117 652)
Total income tax expense in income statement	550 476	292 844

* Deferred tax expense for the year 2004 are shown net of an amount of LE 129 417 k relating to the reduction of the applicable tax rate.

12- Current tax assets and liabilities

The current tax asset of LE 109 130 k, (2004: 117 652k) represents the amount of income taxes recoverable in respect of current and prior periods that exceed payments. The current tax liability of LE 170 402 k (2004: 99 662 k) represents the amount of income taxes for items taxable in future periods in respect of accelerated deprecation and fair value reserve of available for sale securities.

13- Property, plant and equipment

In thousands of Egyptian Pound

	Land & buildings	Machinery & equipment	Vehicles	Office furniture & fixtures	Tools & other equipment	Under construction	Total
Cost							
Balance at 1 January 2005	18 060 027	14 793 260	102 067	492 410	50 862	1 069 741	34 568 367
Adjustment	–	(2 600)	–	–	–	–	(2 600)
Reclassification	–	945	–	(945)	–	–	–
Acquisitions	649 503	1 659 827	16 065	350 737	9 890	3 550 840	6 236 862
Disposals	(60 072)	(254 321)	(2 308)	(1)	–	(3 712 617)	(4 029 319)
Effect of movements in foreign exchange	–	(20)	–	(25)	–	–	(45)
Balance at 31 December 2005	18 649 458	16 197 091	115 824	842 176	60 752	907 964	36 773 265
Depreciation & impairment losses							
Balance at 1 January 2005	4 639 914	7 127 022	67 589	214 984	28 836	–	12 078 345
Adjustment	–	(2 600)	–	–	–	–	(2 600)
Reclassification	–	78	–	(78)	–	–	–
Depreciation charge for the year	878 051	1 579 831	33 931	87 455	4 687	–	2 583 955
Disposals	(34)	(228 819)	(1 816)	–	–	–	(230 669)
Effect of movements in foreign exchange	–	(2)	–	(2)	–	–	(4)
Balance at 31 December 2005	5 517 931	8 475 510	99 704	302 359	33 523	–	14 429 027
Carrying amounts							
At 31 December 2004	13 420 113	7 666 238	34 478	277 426	22 026	1 069 741	22 490 022
At 31 December 2005	13 131 527	7 721 581	16 120	539 817	27 229	907 964	22 344 238

Auditor's Report

Fully depreciated assets

Property, plant and equipment cost includes LE 977 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 2005, the net carrying amount of leased equipment and vehicles was LE 69 021k (2004: LE 57 847 k).

Depreciation

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

In thousands of Egyptian Pound	2005	2004
Operating expenses	2 467 735	2 358 859
Selling & distribution expenses	1 117	1 394
General & Administrative expenses	115 103	56 630
	2 583 955	2 416 883

14- Intangible assets

In thousands of Egyptian Pound	Land usufruct	Right of way	Internet service license	Right of using ROU	Total
Cost					
Balance at 1 January 2005	1	278 011	20 197	20 196	318 405
Acquisitions	–	–	–	28 710	28 710
Disposals	–	(60)	–	–	(60)
Effect of movements in foreign exchange	–	–	(8)	–	(8)
Balance at 31 December 2005	1	277 951	20 189	48 906	347 047
Amortization					
Balance at 1 January 2005	–	152 811	19 995	2 356	175 162
Amortization for the year	–	25 365	21	2747	28 133
Impairment losses	–	–	–	17 006	17 006
Prior year adjustment	–	(8)	–	–	(8)
Disposals	–	(15)	–	–	(15)
Balance at 31 December 2005	–	178 153	20 016	22 109	220 278
Carrying amounts					
At 31 December 2004	1	125 200	202	17 840	143 243
At 31 December 2005	1	99 798	173	26 797	126 769

Land usufruct

The company has indefinite rights to use 826 plots of land; these plots of land were designated to the company, by presidential and ministerial decrees, for use in specific purposes. These rights were valued at notional amount of LE 1 per plot of land.

Amortization charge

The amortization and impairment charge is recognized in the following line items in the income statement:

In thousands of Egyptian Pound	2005	2004
Operating expenses	28 133	24 967
Other operating expenses*	17 006	13 323
	45 139	38 290

* During 2005, the Board of Directors of a subsidiary decided to write-down the carrying amount of the Rou by an amount of LE 17 006 k due to the severe decline in the value of these circuits and related effect on the future economic benefits. (2004: 13 323 k - write-down of an internet service license).

15- Investments in associates

The Group has the following investment in associate:

	Ownership		Carrying amount	
In thousands of Egyptian Pound	2005	2004	2005	2004
Vodafone Egypt. (SAE)	25.50 %	8.60 %	1 526 740	–
Nile on line. (SAE)	27.27 %	27.27 %	12 669	12 669
Wataneya for Telecommunication	50.00 %	–	125	–
Consortium Algerien de Tele – communications (CAT)	33.00 %	–	133	–
International Telecommunication Consortium Limited.(ITCL)	50.00 %	–	54	–
Egypt Trust	25.00 %	–	1 000	–
Total			1 540 721	12 669

During January 2005, Telecom Egypt has increased its shareholding stake in Vodafone Egypt by 16.9% to reach 25.5%. Effective of that date the investment was reclassified from available-for-sale investment, valued at fair value, to investment in associate accounted for in accordance with equity method of accounting.

Telecom Egypt is committed, by virtue of a joint venture agreement, to swap its direct investment in Vodafone Egypt with 50% of the share capital of Watanenya for Telecommunication, the remaining 50% of Wataneya share capital shall be owned by Vodafone International Co. (PLC), Watanenya shall own 51% of Vodafone Egypt share capital.

Summary financial information on associates – 100 percent:

In thousands of Egyptian Pound

	Assets	Liabilities	Equity	Revenues	(loss) / profit
31 - 12 - 2004:					
Nile on line	82 337	35 887	46 450	27 948	(5 779)
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
** **Wataneya for Telecommunication**	–	–	–	–	–
** **Consortium Algerien de Tele –communications (CAT)**	–	–	–	–	–
** **International Telecommunication Consortium Limited. (ITCL)**	–	–	–	–	–
** **Egypt Trust**	–	–	–	–	–
	7 715 738	4 161 216	3 554 522	4 356 685	1 202 072

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

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

16- Available for sale investments

In thousands of Egyptian Pound

	2005	2004
Equity securities available for sale – Foreign	18 430	70 553
Equity securities available for sale – Local	69 952	70 152
Investment in Vodafone	–	1 098 873
	88 382	1 239 578

17- Long-term receivable

In thousands of Egyptian Pound	2005	2004
National Telecommunication Regulatory Authority (NTRA)	1 600 000	1 975 000
Accretion of interest / (Discount)	76 000	(141 000)
Amortized cost	1 676 000	1 834 000
Current portion	(467 000)	(317 000)
	1 209 000	(1 517 000)
Payments made on behalf of Consortium Algerian de Telecommunication to finance the license concession and finance the operating expenses of consortium company in Algeria.	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.	201 987	–
Less:		
Current portion	(106 799)	–
	95 188	–
	1 525 773	1 517 000

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:

In thousands of Egyptian Pound	2006	2007	2008	2009
	520 000	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).

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 & 28).

18- Deferred tax assets and liabilities

Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

In thousands of Egyptian Pound	Assets		Liabilities	
	2005	2004	2005	2004
Property, plant and equipment & intangible assets	–	–	170 402	–
Inventories	3 391	–	–	–
Trade & other receivables	25 793	–	–	–
Available for sale investments	–	–	–	99 662
Provisions	50 101	117 652	–	–
Accrued liabilities	29 845	–	–	–
Total deferred tax assets / liabilities	109 130	117 652	170 402	99 662

19- Inventories

In thousands of Egyptian Pound	2005	2004
Spare parts, supplies and cables	452 622	378 941
Telephone sets and directories	42 154	37 080
	494 776	416 021

20- Trade and other receivables

In thousands of Egyptian Pound	2005	2004
Trade receivables due from associate	6 200	23 733
Other trade and notes receivable:		
Governmental sector	229 127	212 072
Private sector	1 791 279	1 917 666
Foreign telecommunication operators	532 118	422 665
Others	–	17 469
Notes receivables	949	105
	2 559 673	2 593 710
Other receivables and pre-payments:		
Advance payments to suppliers	56 716	55 760
Deposits with others	6 957	4 858
Long-term receivable – current portion	573 799	317 000
Payments on the account of corporate tax	481 799	481 799
Other receivables	485 764	402 862
	4 164 708	3 855 989

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- Cash and cash equivalents

In thousands of Egyptian Pound	2005	2004
Bank balances	66 859	111 803
Time deposits	668 147	1 031 242
Cash on hand	33 010	13 481
	768 016	1 156 526
Bank overdrafts	(158 474)	(51 968)
Cash and cash equivalents in the statement of cash flows	609 542	1 104 558

Time deposits at 31 December 2005 included an amount of LE 9 565 k blocked in favor of banks as guarantee for letters of credits (2004: LE 8 586 k).

22- 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 dates the following dividends were proposed by the directors. The dividends have not been provided for and there are no income taxes consequences.

In thousands of Egyptian Pound	2005	2004
LE 0.50 per qualifying ordinary share for 2005 (2004: LE 2.23 before the stock split)	853 536	381 000
	853 536	381 000

23- Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 31 December 2005 was based on the profit attributable to ordinary shareholders of LE 1 929 985 k, (2004: LE 1 298 129 k) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2005 of 1 710 075 492 (2004:1 711 214 900), calculated as follows:

Profit attributable to ordinary shareholders

In thousands of Egyptian Pound	2005	2004
Profit for the year	1 932 739	1 300 823
Profit attributable to ordinary shareholders	1 929 985	1 298 129

Weighted average number of ordinary shares

Issued ordinary shares at 1January *	1 711 215	1 711 215
Effect of decrease of shares in September 2005	(1 140)	–
Average number of ordinary shares at 31 December 2005	1 710 075	1 711 215

* The outstanding shares numbers in comparative figures have been adjusted to reflect the effect of the stock split, as per the resolution of the extraordinary meeting of the shareholders held on September 21, 2005 see note 22.

24- 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 28 (iii).

In thousands of Egyptian Pound	2005	2004
Non-current liabilities		
Secured bank loans	–	82 357
Unsecured bank loans:		
Local banks	8 919	1 046 228
Governmental loans	709 214	675 043
Foreign loans	954 644	1 340 753
Finance lease liabilities	51 346	45 950
Foreign suppliers facilities	62 044	301 605
	1 786 167	3 491 936
Current liabilities		
Short-term borrowings	419 061	1 468 252
Current portion of secured bank loans	–	42 840
Current portion of unsecured bank loans:		
Local banks	12 581	237 241
Governmental loans	124 613	157 943
Foreign loans	159 914	198 612
Current portion of finance lease liabilities	23 925	16 736
Foreign suppliers facilities	179 379	373 014
	919 473	2 494 638

Security

Foreign suppliers facilities include an amount of LE 10 952 k secured by letters of guarantee issued in favor of the suppliers.

Repaymentnt

In thousands of Egyptian Pound

	Loan Currency	Effective Interest Rate	Total	12 months or less	2 - 3 years	4 - 5 years	More than 5 years
Local banks loans	L.E.	CAIBOR+2.55 %	21 500	12 581	8 919	–	–
Total local loans			21 500	12 581	8 919	–	–
Governmental Loans	L.E.	8%	22	22	–	–	–
Governmental Loans *	U.S.$	4 - 16%	796 957	116 206	175 739	190 079	314 933
Governmental Loans	SK	Agency commition+0.15%	3 341	2 055	1 286	–	–
Governmental Loans	EURO	4 - 6.37%	33 507	6 330	12 323	9 900	4 954
Total Governmental loans			833 827	124 613	189 348	199 979	319 887
Foreign loans	J.Y	3 - 3.5%	102 777	24 397	48 794	28 289	1 297
Foreign loans	EURO	0.75 - 8.2%	1 001 610	135 517	251 506	174 391	440 196
Foreign loans	L.D	3.5%	10 171	–	–	–	10 171
Total foreign loans			1 114 558	159 914	300 300	202 680	451 664
Foreign suppliers' facilities - local	L.E.	3%	427	427	–	–	–
Foreign suppliers' facilities - foreign	EURO	3.18 - 5.5%	144 104	122 916	21 188	–	–
Foreign suppliers' facilities - foreign	J.Y	2.5 – 2.75%	96 892	56 036	40 856	–	–
Foreign suppliers' facilities - foreign	U.S.$	3%	–	–	–	–	–
Total foreign suppliers' facilities			241 423	179 379	62 044	–	–
			2 211 308	476 487	560 611	402 659	771 551

*** Includes a loan of LE 46 056 bears interest ranged from 8% - 16% due in March**

Finance lease liabilities

Finance lease liabilities are payable as follows:

In thousands of Egyptian Pound

	Minimum lease payments 31-12-2005	Interest 31-12-2005	Principal 31-12-2005	Minimum lease payments 31-12-2004	Interest 31-12-2004	Principal 31-12-2004
Less than one year	32 165	8 240	23 925	23 823	7 087	16 736
Between one and five years	60 851	9 505	51 346	54 395	8 445	45 950
	93 016	17 745	75 271	78 218	15 532	62 686

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

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25- Bonds payable

- In February 2005, the Company issued 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 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.

26- Trade and other payables

In thousands of Egyptian Pound	2005	2004
Trade payables:		
Local suppliers	93 127	67 032
Foreign suppliers	7 504	1 254
Notes payable	3 137	–
	103 768	68 286
Other payables:		
Income tax payable	632 054	410 496
Amounts due to associate	314	4 058
Deposits from others	605 848	553 874
Fixed assets creditors	389 652	481 082
Customers advances	215 058	251 232
Accrued expenses	389 864	455 534
Other credit balances	563 931	452 209
	2 900 489	2 676 771

27- Provisions

	2005			2004		
In thousands of Egyptian Pound	Taxes	Claims	Total	Taxes	Claims	Total
Balance at 1 January	646 316	104 125	750 441	519 709	271 081	790 790
Provision formed	14 120	36 115	50 235	166 732	15 742	182 474
Provision used	(65 128)	(28)	(65 156)	(40 125)	(77 466)	(117 591)
Provision reversed	–	(157)	(157)	–	(105 232)	(105 232)
Balance at 31 December 2005	595 308	140 055	735 363	646 316	104 125	750 441

As at December 31, 2005 provisions are mainly related to taxes, lawsuits in respect of claims by a contractor for alleged losses and various claims for damages for breach of contract, and expected social insurance claim in respect of contracts concluded with suppliers.

28- 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 2005 the Group's assets and liabilities denominated in foreign currencies amounted to the equivalent of LE 1 754 640 k and LE 2 299 758 k respectively. The Group's net foreign currencies exposure as of 31 December 2005 was as follow:

In thousands of Egyptian Pound	(Deficit) / Surplus	
Foreign currency	2005	2004
US Dollar	146 348	137 056
Euro	(170 998)	(229 627)
Sterling Pound	461	471
Japanese Yen	(4 092 891)	(5 903 234)
Swedish Krona	(15 525)	(25 249)
Jordan Dinar	(265)	–

(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:

	2005	2004
US Dollar	3.39%	2.40 %
Euro	2.24%	2.11 %
Sterling Pound	4.35%	4.14 %
Egyptian Pound	6.63%	7.75 %

29- 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 and Nile on Line which are accounted for using the equity method of accounting, the carrying values of the Group's other financial instruments approximate their Pfair 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 and Nile on Line 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 2005 plus an adequate constant credit spread to discount financial instruments. The discount rate for minimum lease liabilities and receivables is 14%.

30- Capital commitments

The Group's capital commitments for unexecuted portions of contracts as of 31 December 2005 amounted to LE 29.695 million (31 December 2004 LE 21.09 million).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.

31- Contingencies

In thousands of Egyptian Pound	2005	2004
Letters of guarantee issued by banks on behalf of the Group	8 270	28 801
Letters of credit	452 998	197 222

32- 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 2005, the Group rented services of international circuits of STM 1 and DS-3 from an associate company, the rental value was LE 2 749 k, (2004 : LE 40 022 k).

During the year ended 31 December 2005, net mobile services between Vodafone Egypt and the company amounted to LE 91 253 k in favor of Vodafone Egypt.

During the year ended 31 December 2005, the company paid an amount of 221 585 k on behalf of Consortium Algerian Telecommunication to finance the license fee and operating expenses of consortium company in Algeria.

During the year ended 31 December 2005, the company paid an amount of LE 68 k on behalf of International Communication Consortium LTD representing the participation of International Communication Consortium LTD in the share capital of Consortium Algerian Telecommunication Company.

33- Group entities

Control of the Group

The Group's ultimate parent company is Telecom Egypt.

	Country of incorporation	Ownership interest	
		2005	2004
Subsidiaries			
Middle East Radio Communication (MERC)	Egypt	51.00	51.00
T. E. Information Technology	Egypt	97.66	92.50
T. E. Data	Egypt	93.33	92.50
Centra Technologies	Egypt	55.02	51.21
Centra Industries - Indirect ownership	Egypt	54.90	51.20
T.E Data Jordan - Indirect ownership	Jordan	93.33	92.50

Glossary for Annual Report

ADSL:	Asymmetric Digital Subscriber Line. Technology that allows high volume data transmission (broadband) over traditional phone lines
Annual General Shareholder's Assembly:	This is required to be held each year, within six months from the end of the financial year, in order to approve annual financial statements
ARPU:	Average Revenue per User is calculated as total revenue divided by average number of subscribers during the year.
BSC:	Base Station Controller
BTS:	Base Transceiver Station
Capex:	Capital Expenditure. Investments in tangible and intangible assets.
Carrier's carrier:	A network operator who provides network services to other telecommunications companies
CASE (Cairo and Alexandra Stock Exchange):	Egypt's Stock Exchange is comprised of two exchanges, Cairo and Alexandria, both of which are governed by the same board of directors and share the same trading, clearing and settlement systems.
Cash Flow:	The difference between cash inflows and cash outflows for a specific period
CDMA:	Code Division Multiple Access. Wireless interface technology for mobile networks based on spectral spreading of the radio signal and channel division by code domain.
Customer Centricity:	Comprehensive customer orientation – ie. gearing actions to customers and their various needs when designing products and developing services, and also in sales, public relations and all market communications. The opposite would be product centricity, where a company focuses primarily on its products
Customer Segmentation:	Division of customers into homogenous groups (segments) in order to consistently gear the portfolio of products and services, but also sales and public relations etc. to their various needs, and to deal with each customer segment on a differentiated basis
EBITDA:	Earnings Before Interest, Taxes, Depreciation and Amortisation. EBITDA = Income + Depreciation and Amortisation.
EBITDA Margin:	EBITDA/Operating Revenues
EPS:	Earnings per Share
Free Cash Flow:	Free Cash Flow = Operating Cash Flow+/- Acquisitions/Sales of Financial Investments +/- Net Interest Paid – Payments redated with PRBs – Income Taxes Paid +/- Dividends Paid/Received +/- Other Cash Movements
GAAP:	Generally Accepted Accounting Principal
GDP:	Gross Domestic Product

Gearing Ratio: Gearing Ratio = Net Debt/ (Net Debt + Equity + Minority Interests)

Goodwill: The excess amount that results if an acquisition cost is higher than the book value of the acquired company

GPRS: General Packet Radio Service. Technology that allows for higher data transmission rates in GSM networks

GSM: Global System for Mobile Communications

IFRS: International Financial Reporting Services. The new international accounting standards introduced as of 1 January 2005

Internet: A worldwide IP-based computer network that has no central network management

IP: Internet Protocol. Standard that specifies the exact format of packets of data as they are transmitted through and Internet network

Internet: A worldwide IP-based computer network that has no central network management

ISDN: Integrated Services Digital Network

ISP: Internet Service Provider. Company that provides access to the Internet

LSE: London Stock Exchange

MCIT: Egyptian Ministry of Communication, Information and Technology

MOU: Minutes of Usage. Monthly average of outgoing and incoming traffic in minutes per average number of users in the period

MSC: Mobile Switching Centre

NTRA: Egyptian National Telecommunications Regulatory Authority

SAC: Subscriber Acquisition Cost.

SME: Small Medium Enterprise

Teledensity: Telecommunications penetration expressed as a percentage of population

VOIP: Voice Over Internet Protocol

Financial Calendar

Date	Event
January 2006	
February 2006	
March 2006	- Bond Coupons Distribution - Fourth Quarter Results Q4-05 and Full Year Results - Annual General Assembly Meeting (AGM)
April 2006	
May 2006	First Quarter Results Q1-06
June 2006	- Bond Coupons Distribution - Annual Report 2005
July 2006	
August 2006	Second Quarter Results Q2-06 and First Half Results
September 2006	Bond Coupons Distribution
October 2006	
November 2006	Third Quarter Results Q3-06 and Nine Months Results
December 2006	Bond Coupons Distribution

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