Solid Roots for a Bright Future

Annual Report 2008

المصرية للاتصالات
Telecom Egypt

www.telecomegypt.com.eg

Contents

Vision & Mission

Vision

To shape the future of telecommunication services in the region through world class customer centricity, and attraction and retention of highly talented people while maximizing shareholder value.

Mission

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

A Colorful Year

Chairman's Statement

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Chairman's Statement

2008 has been an unprecedented year globally - a year in which macro economic pressures and market dynamics have presented our business with significant challenges. The global economic crisis has impacted the Egyptian market, but not as severely as elsewhere in the world and we continue to enjoy strong fundamentals.

Telecom Egypt (TE) has a long history as a company and during previous periods of economic uncertainty we have shown resilience. Time and time again, we have demonstrated that our service offering, while not recession-proof, holds up through periods of market volatility.

There is little doubt that the global economy will continue to be affected for some time. However, our experience shows that consumer spending on telecoms in Egypt, while not essential, is not considered discretionary spend and does not decline as sharply as other consumer goods.

In spite of these challenges we have been able to report total consolidated revenues in 2008 which exceed EGP 10 billion for the first time and annual growth in net profit of 10 percent.

As Egypt's only fixed line network, TE continues to sit in an enviable position at the heart of the Egyptian telecommunications market. We provide connectivity to mobile operators and control all of the wholesale internet business. A well-functioning telecommunications sector is a critical component of any national economy and will continue to underpin the development of Egypt in the global market.

The challenges to our business do not only arise from global markets, but also from domestic market dynamics. As the market has liberalised, the intensity of competition has grown. Currently, we see this most in the quest for mobile subscribers. Such new developments raise regulatory questions for our market.

Market liberalisation and increasing demands for mobile and internet services have combined to alter the composition of our revenue mix. Our business today is much more diversified than ever before, but for retail and wholesale customers alike, our service stands for true value and quality. In 2008, we recorded total revenues of EGP 10.1 billion, EGP 3.9 billion of which were attributable to wholesale. Over the last five years we have seen a compound annual growth rate of 19 percent in wholesale revenues. Wholesale revenues now comprise 39 percent of TE's total revenues in 2008 – five years ago, the corresponding figure was just 23 percent.

While our retail voice revenue base has seen some negative impact from fixed-to-mobile substitution, our position as the network of choice for other operators means that any decline we have seen during the period under review has been partially offset by an increase in wholesale revenues.

Retail voice revenues have been pressured as a result of aggressive pricing practices from the mobile operators. We are seeking to address these issues through the appropriate regulatory channels.

A Colorful Year

TE's retail customer base now exceeds 11.7 million, delivering monthly average revenue per user (ARPU) of EGP 51 in 2008. During the year, we added over 474 thousand subscribers net, an increase of 12.5 percent on the net subscriber additions in 2007. A key driver to this growth was the success of the promotional activities we launched in the final quarter of the year.

Despite the increase in telecommunications activity, we continue to have excess capacity in our network giving us significant opportunity to service the growing market. Our fully digitalized network consists of more than 27,000 km of fiber optic cables with switching capacity of 14.3 million.

TE Data now holds ADSL market share of 59 percent. TE Data's management have made substantial efforts to maintain consistency in retail pricings and add value by improving and enhancing the service portfolio. We are keen to continue this trend and accordingly the focus on the costs of the company will be a real emphasis in 2009.

2008 was an important year of progress for our TE North build. Spanning more than 3,000 km TE North is one of the largest cable systems in the world in terms of density. The project will increase the service footprint of the existing TE Transit Corridor by building a private submarine cable system that links Egypt to France, enabling us to capture a portion of the non-serviced demand for IP traffic capacity from Asia and India into the West and vice versa. Crucially, TE North will also lower the cost point for international bandwidth for TE and its subsidiaries. Building on the 2007 contracts in relation to TE Transit Corridor and TE North with IMEWE, SEACOM and VSNL, in 2008 we also signed a US$50 million contract with EIG in relation to TE's Transit Corridor.

While the competitive landscape has placed pressure on the margins of the mobile operators, we have worked hard to maintain profitability. In 2008, strong top line performance was coupled with a very healthy EBITDA before provisions margin above 51 percent.

Our investment in Vodafone Egypt (VE) has again made a substantial financial contribution to TE's results, delivering EGP 1.3 billion in investment income for the twelve month period. *Please note that Vodafone Egypt reports a financial year ending on 31 March*.

The company has a total subscriber base of more than 17.6 million customers, up 32 percent on 2007, which generated a total of 22.9 billion minutes in nine months in 2008. This represents a year-on-year increase in voice minutes of 41 percent.

Such strong operational performance has enabled the VE management team to deliver solid financial performance, with service revenues increasing 15 percent year-on-year, in spite of competitive pricing pressures. VE's profitability was also resilient. The company recorded a year-on-year increase of 10.5 percent when compared with the same period of 2007.

As a result, TE's consolidated net profit for the full year period was EGP 2.8 billion, followed by TE's distribution of the highest ever dividend payment in its history of EGP 1.3 per share.

Careful management of TE's significant free cash flow to fund our debt repayment program, something that we implemented in 2007, means we are in a very secure position. We maintain significant cash reserves and have no immediate refinancing requirements.

As can be seen from the performance we have reported, we continue to behave with caution and with the interests of our shareholders at the forefront of our minds. Shareholder value is at the heart of how we are building our business. In more difficult times, it is even more important to show leadership and behave in a responsible and sustainable way. Our commitment to transparency and the highest standards of corporate governance is unwavering. These are the principles by which we live and work.

As I look out to 2009, I take confidence in our ability to fund debt maturity, to fulfil our capital expenditure commitments and, in the absence of new acquisition opportunities, maintain a healthy dividend payment from our free cash flow.

I feel confident that we have started 2009 in good shape, with projects such as TE North on track and generating significant commercial interest; an increasing portion of growth businesses in the form of TE Data and Vodafone Egypt; a more diversified revenue base than ever before and robust margins which continue to produce significant shareholder returns.

Akil Beshir
Chairman & CEO

Management Discussion & Analysis

Operational & Financial Review

Overview of 2008

Year ended 31 December 2008, compared to twelve months ended 31 December 2007, in accordance with International Financial Reporting Standards (IFRS)

2008 has been a tumultuous year globally – a year in which unprecedented macro economic pressures and volatile market dynamics have challenged national economies and the fabric of global commerce. During our long history as a company we have witnessed several periods of economic uncertainty and continued to demonstrate in 2008 that our business is resilient through periods of market volatility.

During 2008, the management of Telecom Egypt (TE) had three clear priorities. Firstly, to ensure continued prudence in our financial management for maximum flexibility, should global economic uncertainty turn out to be prolonged in nature.

Secondly, an unwavering commitment to safeguard profitability and the stable yield we offer to our investors, through a combination of solid top line performance and stringent cost controls.

Our third priority looked further ahead and was to ensure that the Egyptian telecommunications market has an orderly and sustainable future, underpinned by fair competition. A well functioning telecommunications sector is a critical component of any national economy and will continue to underpin the development of Egypt as a knowledge economy in the global market.

This led us during the year to implement a second round of tariff rebalancing and also to apply to the National Telecommunications Regulatory Authority (NTRA) for an amendment to the interconnection agreements which were written at the time of market liberalisation.

While it is clear that market dynamics in 2008 were extreme, and have yet to normalise, we nonetheless recorded a consolidated annual revenue figure which exceeded EGP 10 billion for the first time and an annual growth in net profit of 10 percent. We are immensely proud of this result and confident that TE has the right customer offering and one of the best teams to work through the challenges the coming period may present.

2008 also marked the ten year anniversary of the beginning of market liberalisation. The fixed-line voice segment has been open to competition since 1998. Moreover, the international access segment of the market was opened to competition in January 2006. While there has been much change in the landscape, we still own the only operational national network and have retained a large proportion of international gateway services.

As we explore other projects and capitalize on the strength of our investments, it is critical for us to optimize the opportunity our extensive infrastructure presents us with. Our position as the network of choice for other operators means that any pressure we have experienced on retail voice revenues during the period under review has been more than offset by a corresponding increase in wholesale revenues.

The strength of our wholesale offering is entirely based on the significant technical capacity and reach our network provides. It is this potential upon which we seek to continue to build.

Competition within the mobile market in Egypt continued to intensify during 2008. Over the course of the last five years this development has radically changed the breakdown of our revenues and means that our business today is much more diversified than ever before.

As our market evolves, it is, however, important for us continually to seek out new initiatives that allow us to leverage the combination of our unique geographic position and the capacity and quality of our infrastructure. One such opportunity is the TE North project.

Our objective with this project is to increase the service footprint of the existing TE Transit Corridor, the route of choice for all crossing submarine cable systems in this region, by building a private submarine cable system that links Egypt to Europe. This is designed to service the growing demand for IP traffic capacity from Asia into the West and at the same time lower the cost point of TE Data - our Internet arm.

The rationale is clear and we have made significant progress in delivering on this during the course of 2008. To date, we have announced sizeable commercial agreements in relation to TE North totalling USD 176 million which make the build out of this initiative extremely secure. Delivery of the TE North submarine cable is on track and expected in the fourth quarter of 2009.

Consolidated net profit for the full year period was EGP 2.7 billion and we are immensely pleased to be able to deliver a 10 per cent increase in consolidated net profit during such a challenging year. As a management team, we continue to behave with caution and with the interest of our shareholders at the forefront of our minds. Having reduced our debt position during the last two years and with significant cash reserves, we have no immediate refinancing requirements.

Based on this solid performance in 2008 the Board of Directors and shareholders have approved a dividend distribution of EGP 1.3 per share, the highest ever dividend payment in the history of TE.

With projects such as TE North on track and generating significant commercial interest, an increasing portion of growth business in the form of TE data and Vodafone Egypt, a more diversified revenue base than ever before, robust margins which continue to produce significant shareholder returns and a solid financial footing with which to weather the prevailing economic situation, we look to the future with confidence.

Operational review

At TE, our philosophy is to only grow revenues where our margins are not impacted. Profitability is central to our investment case, but in operational terms it is the quality and reliability of our connection that sets us apart. We have only been able to build and maintain such a large and loyal customer base because of this standard.

There is a common theme to both aspects. Productivity is a key driver to both profitability and service quality. Our productivity has increased with the number of fixed access lines in service per employee rising from 205 at the end of 2007 to 217 at year end 2008, when our employee count totalled 53,827.

Retail Services

We continue to enjoy a sizeable subscriber base and during 2008 we saw significant new interest in the quality and reliability of our service.

During the year we added over 474,000 subscribers net, an increase of 12.5 percent on the net subscriber additions we reached in 2007. A key driver to this growth was the promotional activities we launched in the final quarter. The resulting 4 percent growth in total subscribers means that our retail customer base now exceeds 11.7 million subscribers, delivering a monthly ARPU of EGP 51 over 2008 - a real achievement in the context of such uncertain times.

Fixed-line Voice Services

While our wholesale business has benefited from the increase in mobile traffic, our retail revenue base has seen some decline in usage as a result of mobile substitution. Egyptian mobile operators have dramatically cut call tariffs in the land grab for new subscribers. We have taken the necessary steps to address pricing inconsistencies during the course of 2008. From 1 July 2008 we implemented another round of tariff rebalancing, which has worked to mitigate some of the effects of mobile substitution visible earlier in the year.

Just as with the round of tariff changes implemented in July 2006, the aim of the second wave was to rebalance the revenues we receive from retail voice to a more competitive level. The end result is a corresponding rise in access revenues, comprising connection fees and subscription, which increased 6 percent year on year to EGP 1.9 billion and a stabilisation of retail voice revenues which reached EGP 3.0 billion.

The onus is now on us to ensure that our call packages are viewed as competitive and the unsurpassed quality of our service is fully recognised. We look forward to continuing to deliver on that customer promise.

Mobile Services

2008 saw particularly strong customer growth in the Egyptian mobile market, with prepaid services remaining the prevalent driver of market growth. Total Egyptian mobile customers expanded to almost 42 million by the end of 2008, equivalent to a penetration rate of 55 percent according to the NTRA. It is notable that the penetration rate within the Egyptian mobile market, and has more than doubled since 2006, following the award of the country's third mobile licence.

We can observe two dynamics at play in the Egyptian mobile market - the ongoing land-grab for subscribers through aggressive promotional tariffs and the launch of an increasingly wide range of advanced services.

Within this context, Vodafone Egypt (VE), our strategic and financial investment in the mobile sector, has importantly maintained its focus on profitability and revenue growth. Vodafone reports a financial year ending on 31 March, so the numbers we present in this report are from 1 April 2008 to 31 December 2008.

Under its new CEO, Richard Daly, VE continues to grow its share of revenues ahead of its competition with service revenue of EGP 8.9 billion for the nine month period to end December 2008 an increase of 15 percent year-on-year, while still growing the subscriber base to more than 17.6 million customers. We believe that the focus of the other operators will naturally shift towards revenue and profitability instead of number of subscriber additions and VE is well positioned in this respect.

Our investment in Vodafone Egypt has again made a substantial financial contribution to our 2008 results, delivering EGP 1.3 billion in investment income for the 12 month period. For VE as a whole net profit for the nine months to end of December 2008 was EGP 2.3 billion.

During this period, Vodafone Egypt recorded net additions of 3.5 million, a decline of 4.0 per cent on 2007 and its subscriber base generated a total of 22.9 million voice minutes in nine months in 2008.

Internet and Data Services

The Egyptian ISP market is fully liberalized and highly competitive, with over 200 ISPs offering a range of services, including dedicated, dial-up, pre-paid and premium services.

According to the NTRA internet usage at the end of 2008 stood at 10.5 percent per 100 inhabitants, all of whom are ultimately using TE's infrastructure to access the Worldwide Web.

Egypt's demographic profile remains highly conducive to continued demand for broadband access specifically, with more than 50 percent of Egyptians under the age of 25 and one third under the age of 15.

As a result, 2008 was another strong year for our broadband internet subsidiary, TE Data. For some time TE Data has been the market leader, but is not complacent in this position and continues to surpass its targets and fulfil its strategic objectives quarter-after-quarter.

TE Data's market share has grown considerably. In 2005, TE Data had just 30 percent of the market. As at year end 2008, just three years later, this has almost doubled to 59 percent market share, equivalent to 424,413 ADSL subscribers.

Wholesale

As Egypt's sole network provider, market liberalisation has, since its inception a decade ago, transformed the balance of our business and provided us with a revenue mix that is more diversified than ever before.

Our existing digital fixed-line network covers 95 percent of populated areas with more than 27,000 kilometres of cable, enabling us to cater for the growing demand from other operators to carry traffic over our network. Such reach is difficult to replicate economically, having been achieved over more than 150 years, and, therefore, affords us an enviable position at the heart of the Egyptian telecommunications market.

The increase in mobile traffic means that our wholesale revenue opportunity is growing strongly, driven by higher mobile penetration, usage and 40 percent growth in infrastructure leasing.

Wholesale revenues now represent one of Telecom Egypt's fastest growing revenue lines. Having grown from EGP 2.5 billion in 2005 to EGP 3.9 billion in 2008, total wholesale revenues have now overtaken the retail voice revenues we derive from our fixed line subscriber base.

Domestic

One of our priorities in 2008 was to address pricing inconsistencies in the market to ensure that we are able to compete with the mobile operators on price.

Our goal was to seek a reduction in the termination rates on the mobile operators' networks to allow TE to offer its customers a rate which is competitive to that offered by the mobile operators.

In 2008, following the detailed discussions between Telecom Egypt and the mobile operators throughout the year, the National Telecommunication Regulatory Authority (NTRA) announced an administrative decision in early September 2008 which included amongst other things, a reduction in the mobile termination rates to 11.3 piasters and 6.5 piasters per minute for fixed termination.

Ultimately, the intention on our side is that financial benefit of this decision will be delivered to Telecom Egypt's customers, allowing us to compete more equally with mobile operators to mitigate some of the effects of mobile substitution.

As at year end, the NTRA's decision was being challenged in the courts by two mobile operators and we are yet to see the final outcome of these challenges but have confidence that if the NTRA's ruling is upheld TE will be in a position to compete more evenly with mobile operators and to mitigate some of the effects of mobile substitution.

International

IInternational wholesale revenues comprised 73 percent of wholesale revenues in 2008 versus 75 percent in 2007, as domestic wholesale traffic increased proportionately during the year. This was primarily attributable to a combination of the growth in domestic mobile traffic and no real increase in international calls.

Financial Review

Year ended 31 December 2008, compared to twelve months ended 31 December 2007, in accordance with International Financial Reporting Standards (IFRS)

While 2008 was a very uncertain year, TE continued its path of careful financial planning and prudence, allowing us to end the year with record revenues of EGP 10 billion, a 3 percent increase in net profit and the highest dividend award in the company's history.

All of this has been achieved against a backdrop of volatility and distress in the domestic and international economies.

Furthermore, careful management of TE's significant free cash flow to fund our debt repayment programme, something that we have implemented since 2007, means we are in a very secure financial position.

We do not have any short term refinancing requirements and as we look out in 2009, we take confidence in our ability to fund debt maturity, to fulfil capex commitments and, in the absence of new acquisition opportunities maintain a healthy dividend payment from our free cash flow.

Revenues

Consolidated revenues increased by just more than one percent in 2008 to EGP 10.1 billion for the year ended 31 December 2008, from EGP 9.9 billion for the same period in 2007. Revenue growth was slightly below expectation for several reasons. We continue to experience some pressure on retail voice revenues as a result in the increase in mobile usage, but as the result recorded in the latter half of the year shows tariff rebalancing has gone some way to mitigate these effects. In addition, we took the prudent decision not to recognise any revenues in 2008 for the TE North project. Only when this project is complete in the final quarter of 2009 will we recognise revenues derived from this business.

The main driver for growth in the period under review was the revenues we derive from domestic and international wholesale, which accounted for 39 percent of our total revenues in 2008.

Revenues from retail services

As a result of the success of the second round of tariff rebalancing which came into effect on 1 July 2008 and the growth experienced in revenues from internet and data, total retail revenues for full year 2008 were EGP 6.2 billion, a marginal improvement on those generated in 2007.The positive effect of 2008 tariff rebalancing on access and voice revenues, in particular on local calls, mitigated the pressure we experienced during the first half of 2008 as a result of the intensification of competition from mobile operators.

In 2008, total voice revenue was the largest contributor to our revenues at EGP 3 billion for the full year 2008. This dynamic is expected to continue to shift moving forward, as the revenues we derive from our wholesale business continue to grow in importance as we cater for the capacity requirements of other operators.

Meanwhile, the success of our internet offering has also been instrumental in partially offsetting the pressure experienced on retail voice revenues during the period. Take-up of internet and data services, predominantly from TE's broadband subsidiary TE Data, pushed internet and data revenues up 26 percent year-on-year, to reach EGP 575 million in 2008, compared to EGP 456 million in 2007.

Revenues from wholesale services

The strength of our wholesale offering is anchored in the modernity of our technical capacity and reach our network provides. In 2008, we recorded total revenues of EGP 10.1 billion, EGP 3.9 billion of which was attributable to wholesale.

Over the last five years we have seen a compound annual growth rate of 19 percent in wholesale revenues. Wholesale revenues comprised 39 percent of our total revenues in 2008. Five years ago this figure stood at just 23 percent.

Total revenues from domestic wholesale services rose substantially on the previous year, ending 2008 at EGP 1.1 billion up 8 percent on those achieved in the twelve months ended 31 December 2007. This was driven mainly by revenue from leasing TE's extensive infrastructure to other telecoms providers, which recorded a 41 percent increase.

While the international access segment of the market was opened to competition in January 2006, we have retained a large proportion of international gateway services. Liberalization of the international gateway has not had a visible impact on the revenues we derive from the international wholesale segment. In 2008, international wholesale revenues accounted for 73 percent of our total wholesale revenues versus 75 percent of total wholesale revenues in 2007. As domestic third party usage increases, we can observe that this balance within wholesale is also shifting.

Operating expenses

At TE we have always maintained a strict control on our finances and have sought to reduce costs wherever possible in the interests of maintaining the healthiest margin. During the course of 2008, operating expenses were impacted by a one-off increase in employee costs relating to annual pay awards and bonuses awarded in the first half of the year.

The annual salary increase for 2008 was approximately 20 per cent – with 10 percent effective from January 2008 and another 10 percent effective from the first of May 2008. The reason for the subsequent salary increase in May was to ensure that in a more competitive market for telecommunications professionals, we continue to attract and retain talent especially in light of 30 percent increase in salaries made by the government and significant increases by other private sector companies.

In spite of these increased salary costs operating expenses decreased by 1.5 percent to EGP 6.0 billion for the twelve months ended 31 December 2008, as the decrease in interconnection costs experienced from September 2008 and lower depreciation and amortisation charges offset the impact.

Selling and distribution expenses

For the reasons stated above, an increase in salaries was the main contributor to a 26 percent increase in selling and distribution expenditure during 2008, to EGP 455 million from EGP 362 million for 2007.

General & administrative expenses

An increase in salaries, for the reasons stated above, and costs relating to TE's early retirement program were the main contributors to an increase in general and administrative expenses of 19 percent to EGP 1.4 billion for the twelve months ended 31 December 2008.

Earnings Before Interest Tax, Depreciation and Amortisation (EBITDA)

As ever, profitability is a key metric against which we judge management performance. We have worked hard to maintain healthy margins against the backdrop of a new and constantly evolving telecommunications landscaping Egypt, which has placed pressure on the margins of the mobile operators.

Our ability to maintain this profitability metric is a further evidence of our commitment to strict cost controls. To arrive at our EBITDA calculations there are three major cost items in addition to provision and impairment.

Firstly, interconnection costs which in 2008 represented 12.4 percent of total revenues declined from 13.7 per cent of revenues in 2007. Secondly, total personnel costs, including costs relating to our employees remuneration and other contributions, which represented 20.3 percent of total revenues with the one-off increases noted above are still within industry norms. Other operating expenditure is the final item and in 2008. This was higher at 5.0 percent in 2008 versus 3.3 percent in 2007.

As at December 2008, our lead margin before provisions was 51 percent, within management expectations. Our track record in terms of the stability of our lead margin is something of which we are immensely proud.

Financial income and expenses

As it continues to strengthen its position in the market, our investment in VE has again made a substantial financial contribution to our 2008 results, delivering EGP 1.3 billion in investment income for the 12 month period.

In 2008, the strengthening dollar and Egyptian Pound meant that TE registered a net foreign exchange gain of EGP 3.6 million, versus a loss of EGP 93.9 million in 2007.

As a direct result of our debt repayment program, interest expenses were down 39 percent from EGP 611.4 million in 2007 to EGP 370.7 million in 2008.

Income tax expense

Income tax expense before deferrals increased by 4 percent, to EGP 543.0 million for the twelve months ended 31 December 2008 from EGP 521.1 million for the same period in 2007.

Net profit

Telecom Egypt consolidated net profit increased 3 percent year-on-year to EGP 2.5 billion. The improvement in our net profit margin, standing at 24.3 percent at the end of December 2008, has been derived from increased investment income, primarily from VE; lower interest expense resulting from our debt repayment program; an increase in interest income as a result of our increased cash position; and the foreign currency gain recorded in 2008.

Investments in infrastructure

Our network is fully digitalized and has significant headroom capacity. We have, therefore, been able to implement a capital expenditure (capex) rationalisation program that has reduced expenditure, while maintaining quality and servicing the appetite for capacity from other operators.

In 2008, capex decreased year-on-year in line with our rationalisation program, reaching EGP 919 million.

Debt

At TE, we continue to generate significant free cash flow. Our cash position as at the end of 2008 was EGP 2.7 billion, reducing TE's net debt position to EGP 411 million. This represents a net debt to EBITDA ratio of less than 0.1.

Total debt stands at EGP 3.1 billion, approximately 2 billion of which, while payable before February 2010, can be comfortably financed from our operational cash flows.

Our aim is to keep sufficient borrowing headroom to maintain maximum funding flexibility in the context of volatile financial markets.

Dividend policy

We have consistently paid a dividend for the last three fiscal years. Our policy is to pay dividends, when permitted by law and subject to consideration of future capital expenditure and investment requirements, as well as our overall financial condition.

Shareholders elect to distribute all or part of the Distributable Profits at the Telecom Egypt Ordinary General Assembly.

Pursuant to Egyptian legal requirements, Telecom Egypt convened an Ordinary General Assembly on 31 March 2009 to review the audited financial statements for 2008 and to determine dividends, if any, to be distributed. All financial statements and resolutions were duly passed. A dividend distribution of EGP 1.3 per share was approved at our Ordinary General Assembly meeting on 31 March 2009, representing the highest ever dividend payment in the history of TE.

Scent of Success

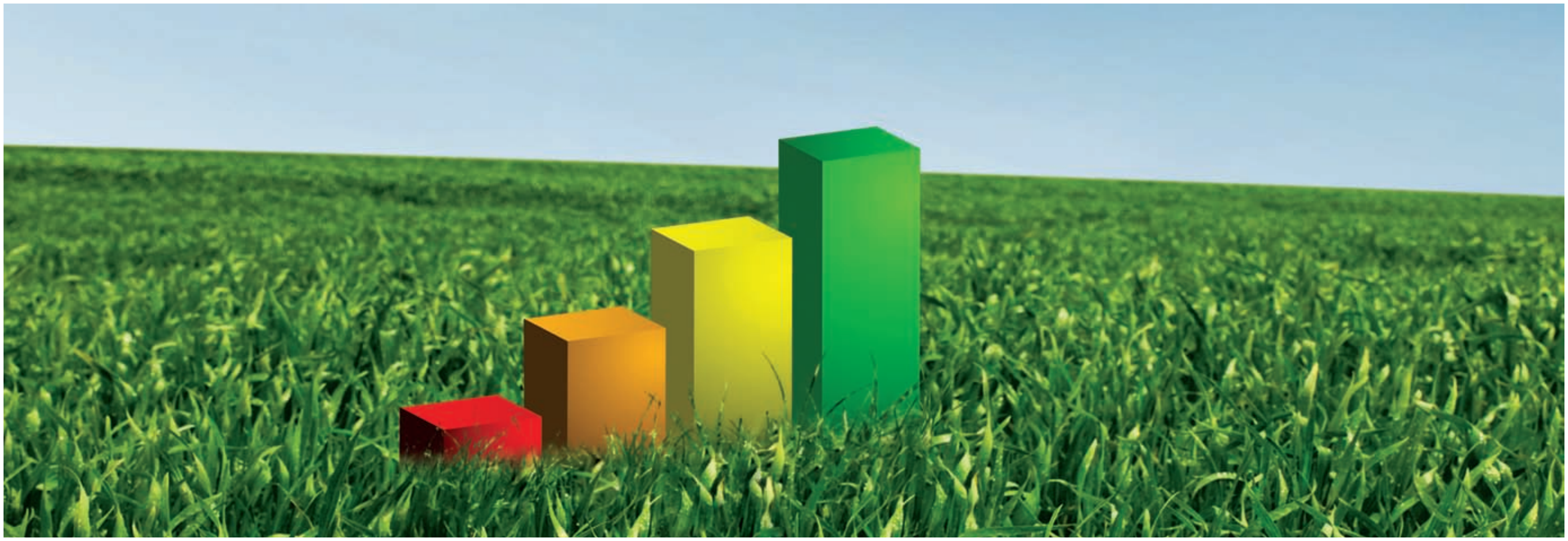
Key Performance Indicators

Financial Highlights

Share Performance

2008 Milestones

Scent of Success



Key Performance Indicators

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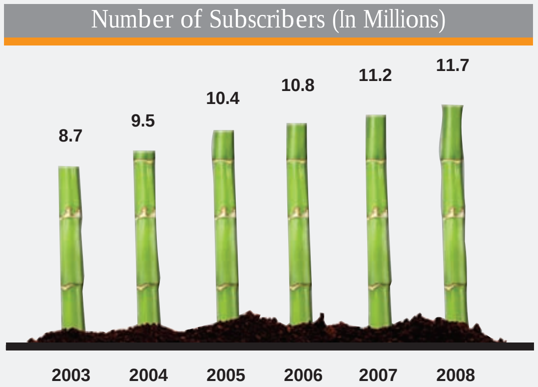

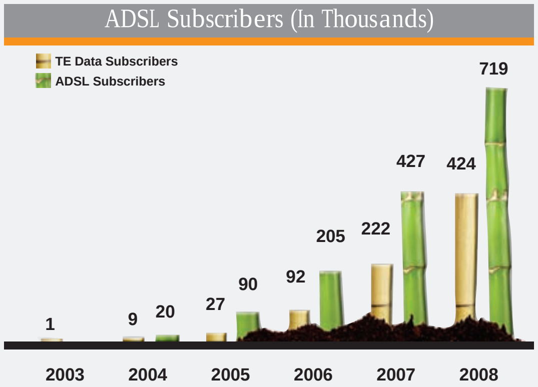

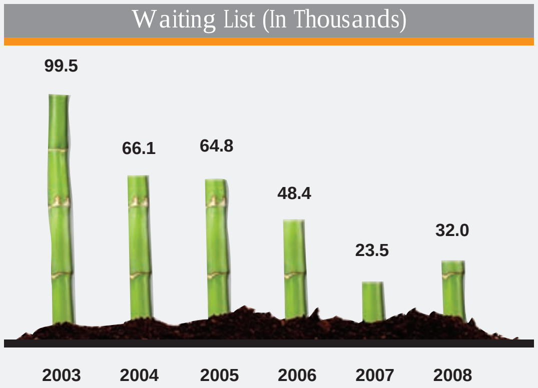

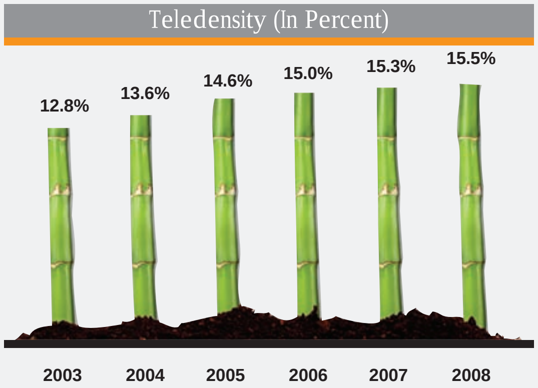

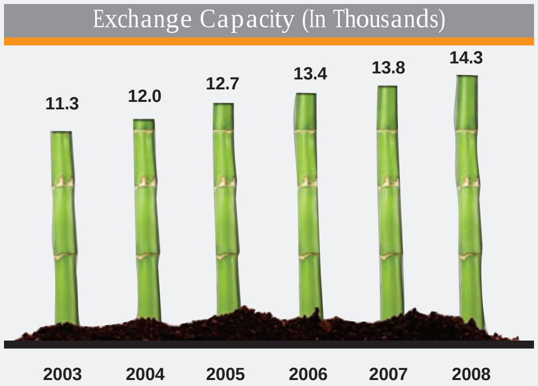

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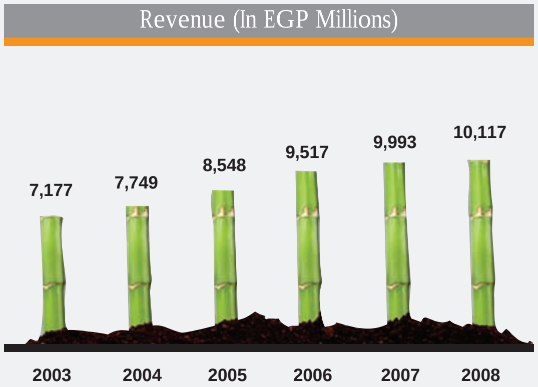
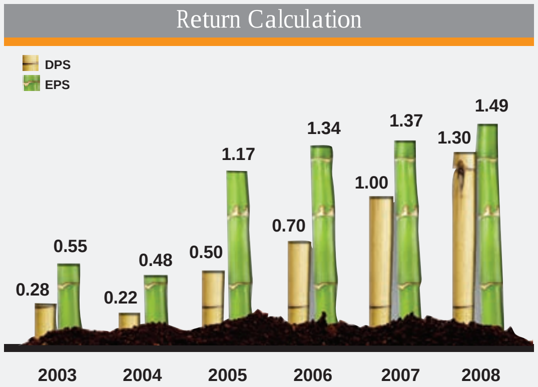
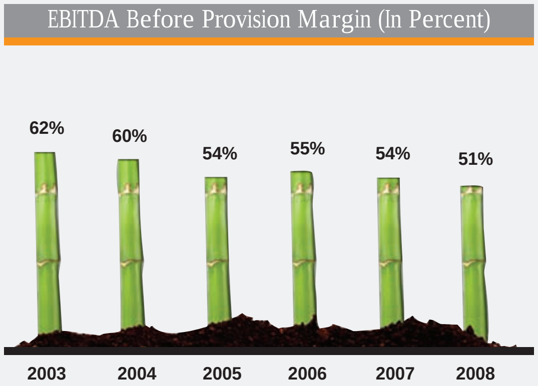
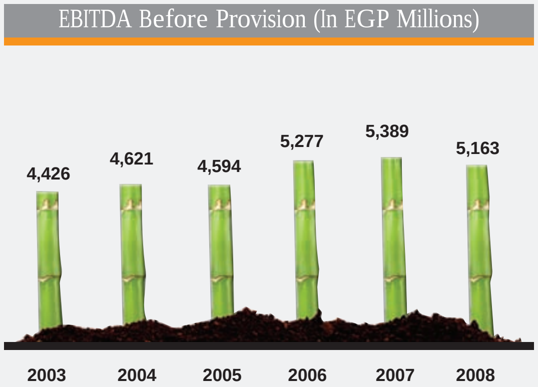








Financial Highlights

* Financial Highlights EGP in millions	Dec - 2008	Dec - 2007	% Change
Sales Revenue	**10,117**	**9,993**	**1.2%**
EBITDA (Before Provisions)	**5,109**	**5,560**	**-8.0**
EBITDA Margin (Before Provisions)	*50.5%*	*55.6%*	
EBITDA (After Provisions)	**4,600**	**5,227**	**-12.0**
EBITDA Margin (After Provisions)	*45.5%*	*52.3*	
EBIT	**1,904**	**2,357**	**-19.2**
EBIT Margin	*18.8*	*23.6%*	
Profit Before Taxes	**2,966**	**2,901**	**2.2%**
Net Profit	**2,454**	**2,381**	**3.1%**
Net Profit Margin	*24.3%*	*23.8%*	
Total Assets	**33,438**	**34,266**	**-2.4%**
Total Shareholders Equity	**25,766**	**25,025**	**3.0%**

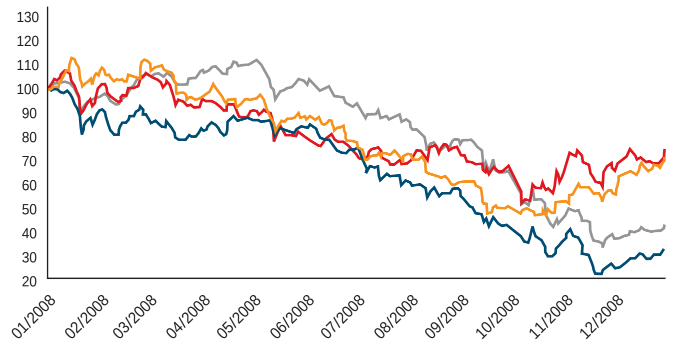
* Financial figures are in accordance with the International Financial Reporting Standards (IFRS)

Share Performance

Share Information	2008	2007
Share Structure		
Egyptian Government	80.00%	80.00%
Free Float	20.00%	20.00%
Key Figures		
Number of Outstanding Shares	1,707,071,600	1,707,071,600
Earning per Share*	1.43	1.39
Dividends per Share	1.30	1.00
Dividends Yield	8.0%	4.7%
Extra Closing Prices		
Share Price on the last trading day (EGB)	16.26	21.09
Year High (EGP)	23.51	22.23
Year Low (EGP)	11.53	12.40
Market Capitalization on the last trading day (EGPmn)	**27,757**	**36,002**
Shareholders Equity (EGP mn)*	**25,804**	**25,065**

* In accordance with the International Financial Reporting Standards (IFRS)

Share Performance Graph



CASE30 TE OT Mobinil

2008 Milestones

- Effective tariff rebalancing, including:
  - Stabilized revenue base in subscriptions and local calls.
  - Improved competitiveness on national and fixed-to-mobile tariffs.
  - Reduced activation fees for new lines to stimulate subscriber base growth.
- Continuous rollout of modern "Phone Boutique" shop concept (So far in 2008, nine additional sites opened in strategic locations).
- Targeted promotions and campaigns to stimulate subscriber base growth and usage, e.g.:
  - Local and national tariff awareness campaigns.
  - A campaign on the 50% activation fee rebate.
- Telecom Egypt bought around 370,000 additional shares of Vodafone Egypt, bringing its total stake in Vodafone Egypt from 44.79% to 44.95%.
- Successfully launched entry-level broadband offer at the rate of 45LE/month with strong market traction (estimated at 25% of gross adds).
- Created a joint Telecom Egypt-TE Data committee to improve delivery processes and ease capacity constraints, yielding some 30,000 additional broadband subscribers in 2008.
- Significantly expanded points of sale by:
  - Signing an indirect distribution deal with RadioShack, potentially adding approx. 150 POS.
  - Expanding the presence of TE Data to 21 Telecom Egypt exchanges across Egypt.
- Increased broadband market share from 52% to 58% during 2008.

Our Roots

History & Evolution   Board of Directors   Executive Management

Our Roots

History & Evolution

Strong roots in rich soil form a solid base for a healthy, lush tree. Our time-honored past and its long record of proud moments and impressive achievements have paved the way for our grand present and immensely promising future.

For over 150 years, Telecom Egypt has been the driving force behind the development of the telecommunications industry and the flagship provider of telecom services in Egypt. We have been rewarded well for our commitment, dedication and accomplishments and have thus far presented one of the country's most prosperous business performance models.

History & Evolution

1854 - 1883

Launching the first telegram line connecting Cairo and Alexandria, and installation of the first telephone line between both governorates. The company also extended telephone lines to Port Said, Ismailia and Suez, serving 50 subscribers.

1918 - 1957

The Egyptian Government acquired the Eastern Company for 755,000 L.E. and turned it into the Telephones & Telegram Authority while the number of telephone lines in Egypt reached 62,000. It was later declared the Arab Republic of Egypt National Telecommunications Organization (ARENTO).

1975 - 1985

The car phone service was launched along with the first microwave network between Cairo, Alexandria, and Al Salloum to interconnect Egyptian provinces. This period also witnessed the installation of the first satellite earth station in the Cairo suburb Maadi, with an initial capacity of 120 channels, and the installation of the first fiber optic cable to interconnect telecom exchanges in Cairo.

1989 - 1996

Installation of the first Data Network in Egypt, EGYPTNET, and the inauguration of the first mobile telecom network in Egypt applying GSM technology.

1998

Transforming ARENTO into “Telecom Egypt”, an Egyptian Joint Stock Company.

1999 - 2002

Introduction of the new Value Added Services (VAS), the Integrated Services Digital Network (ISDN) and the Intelligent Network (IN) services. During this period, Egypt has witnessed the introduction of the first e-government application, to enable customers to view and pay their telephone bills online.

2002 - 2004

The launch of free Internet in Cairo, which was extended to all Egyptian governorates. This period witnessed opening of the largest Call Center served Telecom Egypt’s customers across all governorates. Another key event was the initiation of the “Computer for Every Home” project by Telecom Egypt jointly with the Ministry of Communications and Information Technology.

2005 - 2006

The initial public offering of 20% of the company’s total stock to individual and institutional investors was started by the Egyptian Government through the Ministry of Communications and Information Technology. Also, Telecom Egypt signed a new strategic cooperation agreement with the Vodafone Egypt Company, extending and expanding an earlier deal between the two operators

2006 - 2007

Telecom Egypt’s internet subsidiary TE Data launched the first IP-TV based entertainment service in Egypt. Telecom Egypt also signed a contract with the India-Middle East-Western Europe (IMEWE) Submarine Cable System through TE Transit Corridor. The deal amounted to $36 million.

The never-ending efforts we make to remain the best in the business and the hard work we continually perform to stay competitive and satisfy our customers will continue in the years ahead. The telecommunications industry in Egypt holds vast growth opportunities, and we are determined to fully seize them and to achieve greater progress and successes through superior service, excellence and hands-on leadership

Our Roots

Board of Directors

From right to left (sitting) :

- Adel Rashad Danash
- Azza Mohamed Torky
- Akil Hamed Beshir
- Mokhtar Abdel Moneim Khattab
- Hassan El-Sayed Abdullah

From right to left (standing) :

- Neveen Hamdy El Tahri
- Tarek Mohamed Moharram
- Ahmed Fathy El Kassass
- Farghaly Bakry Seleem
- Hesham Mekkawy

Board of Directors

Akil Hamed Beshir

Chairman & CEO

Mr. Beshir was appointed Chairman of Telecom Egypt in June 2000. Previously, Mr. Beshir was General Manager and Managing Director of Giza Systems Engineering from 1975 to 2000, Programmer, Systems Analyst, and Manager at Al-Ahram Management and Computer Center (AMAC) from 1969 to 1975, and Demonstrator at Faculty of Engineering, Cairo University from 1966 to 1969. He holds a B.Sc. in Communications Engineering from Cairo University and a Professional Diploma and a Master Degree in Management (MBA) from the American University in Cairo.

Mokhtar Abdel Moneim Khattab

Board Member

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

Ahmed Fathy El Kassass

Board Member

Mr. El Kassass was appointed Chief of Staff of the Signal Corps in 2007. He holds a bachelor degree in Military Sciences from the Military Academy, Egypt in 1974. He has held most of the positions of authority in the Signal Corps.

Azza Mohamed Torky

Board Member

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

Hassan El-Sayed Abdullah

Board Member

Mr. Abdullah was appointed a board member in November 2006. He is currently the Vice Chairman and Managing Director of the Arab African International Bank (AAIB). Previously, he occupied different managerial positions in the AAIB since 1983 including General Manager and Deputy General Manager. From 1989-1998, he worked for the AAIB in New York. Mr. Hassan holds a Masters degree in Business Administration from the American University in Cairo (AUC) and a Bachelor of Arts in Business Administration from the same university.

Adel Rashad Danash

Board Member

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

Hesham Mekkawy

Board Member

Mr. Mekkawy was appointed a board member in August 2006. He is currently the Chairman of BP Egypt. He was the chairman of BP Algeria in London since 2000. After the merge between BP and Amoco in 1999 he was appointed as assistant Vice Chairman for the company. Previously, he occupied different positions in Amoco from 1990-1999. Mr. Hesham holds a Masters degree in Business Administration from Boston University, United States. He also holds a B.Sc. from the faculty of Engineering, Cairo University, Egypt.

Neveen Hamdy El Tahri

Board Member

Mrs. El Tahri was appointed a board member in August 2006. She is currently the Chairperson of ABN AMRO Delta Asset Management as well as the Chairperson of Delta Securities Egypt. She is also a board member of Egyptian Arab Land Bank, the General Authority for Investments "GAFI", and the Dutch Business Association. She became the first women to sit on the board of the Cairo & Alexandria Stock Exchanges from 1997-2003. From 1987-1992, Mrs. El Tahri occupied different positions in the Commercial International Bank "CIB" until she became the Assistant General Manager Corporate Banker managing Petroleum, Tourism and Electronic divisions. She holds a B.Sc. in Economics from the faculty of Economics and Political Sciences, Cairo University, Egypt.

Tarek Mohamed Moharram

Board Member

Mr. Moharram was appointed a board member in August 2006. He is currently an Attorney at Law and a Senior Partner in Abdel Motaal, Moharram & Heiza Law Firm since 1994. Previously, he was the manager of Moharram Law Firm from 1986-1994. From 1977-1986 Mr. Moharram occupied several positions at the Arab International Company for Hotels and Tourism until he became the General Manager of the legal department. He started his career as a junior lawyer at Shalakani Law Firm in 1976. He holds a License de Droit from Cairo University and graduated in 1974.

Farghaly Bakry Seleem

Board Member

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

Our Roots

Executive Management

Left ---------- Middle ---------- Right

Mohamed Abdel Rehim ----Akil Hamed Beshir ---- Abdel Hamid Hamdy
Sanaa Soliman
Mohamed Elnawawy
Tarek Tantawy
Sayed Elgharabawy

Dawlat Abdel Hameed
Sayed Dessouky
Khaled Marmoush
Emad Elazhary

Executive Management

Akil Hamed Beshir

Chairman & CEO

Dawlat Abdel Hameed El Badawi

Vice President; Project Planning (appointed till Oct. 2008)

Mrs. El Badawi was appointed Vice President in December 2003. She has been with the company since 1968 in various managerial and technical positions including General Manager for the switching implementation from 1991 till 2000. She was also the Head of projects implementation department from 2000 till 2003. El Badawi holds many management certifications from HanzSeidel & Fulbright foundations and a B.Sc. in Communications Engineering from Cairo University.

Mohammed Abdel Rehim Hassanein

Vice President; Operation & Maintenance

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

Abdel Hamid Mahmoud Hamdy

Vice President; Human Resources & Administrative Affairs

Mr. Hamdy was appointed Vice President in 2004. Previously, he was the Human Resources Director and Vice President of Novartis Pharma S.A.E from 1990-2000. Then he held the position of Human Resources Director of Glaxo Wellcome Egypt S.A.E from 2000-2001. In 2002 Mr. Hamdy was appointed Vice President for Human Resources and Administration at Wataneya for Mobile Communications Company until 2004. He holds a BA and High Diploma in law from Ain Shams University.

Sanaa Soliman

Vice President; Follow up & Regional Expansion

Mrs. Soliman was appointed Vice President in January 2006. Previously she was the Marketing Director whereby she handled all activities related to the marketing, communications, product development, brand building and market intelligence. She has been with the company in various managerial and technical positions since 1971, including an Engineer for operations & Maintenance of local exchanges, and after that she was fully responsible for managing the operations & maintenance, transit exchanges and gateways of Telecom Egypt. Mrs. Soliman holds a B.Sc. in Electronics and Communications Engineering from Cairo University.

Sayed Dessouky

Vice President; Projects' Implementation

Mr. Dessouky was appointed Vice President for Projects' Implementation in October 2006. He has been with the company in various managerial and technical positions since 1973, including Sector Chief for Implementation and maintenance for Upper Egypt since October 2001 and also General Manager for Project Implementation for National Calling exchanges. Mr. Dessouky holds a B.Sc. in Communications Engineering.

Khaled Marmoush

Vice President; Information Technology

Mr. Marmoush was appointed Vice President for Information Technology in October 2006. Before that he was the Information Technology Sector Chief in Telecom Egypt since October 2005. Mr. Marmoush is an information technology/business consultant with more than 20 years of experience in the areas of Executive Management, Consulting, Business Development/Analysis, and Project Management. He worked with several international consulting and systems integration firms in different countries including Canada, Egypt, U.A.E, and the US. Mr. Marmoush holds a Masters in Information Science and a B.Sc. in Computer Science.

Mohamed Elnawawy

Vice President; International, Wholesale & Regulatory Affairs

Since 1st November 2006 Mohamed was appointed as Vice President, International and Regulatory affairs of Telecom Egypt responsible for international, wholesale and regulatory affairs. He joined the Telecom Egypt Group in November 2001 as the Chairman and Managing Director of TE Data, SAE which is the TE subsidiary responsible for the TE Group's retail IP transit and managed data services. Previously, in Jan. 1992 Mohamed co-founded InTouch Communications Services, SAE a local ISP in Egypt where he resided as Chairman and Managing Director till April 2000. After that Mohamed consulted for the National Telecommunications Regulatory Authority for nearly 1½ years. Mohamed holds a B.Sc. in Computer Science and an LLM.

Tarek Tantawy, CFA

Vice President & Chief Financial Officer

Mr. Tantawy was appointed Vice President and CFO in July 2007. Previously he was the Director of Investment, Treasury & Investor Relations since 2006. He has been with the company since 2002 as the General Manager for Investment, Investor Relations and Financial Planning. Previously, he held the position of Assistant Vice President at Sigma Capital Investment Banking where he was engaged in several visible corporate finance transactions and also held the position of Senior Consultant at FinRate Consulting in the Corporate Finance Division. Tantawy holds a Masters in Business Administration from Edinburgh Business School (Heriott Watt University) in the UK and B.Sc. in Construction Engineering from the American University in Cairo. He is a Chartered Financial Analyst (CFA) and a member of CFA Institute.

Emad Elazhary

Vice President & Chief Commercial Officer

Emad Elazhary was appointed Vice President and Chief Commercial Officer in August 2008. He joined Telecom Egypt Group in 2001 as the Vice President and Managing Director of TE Data, SAE TE's Internet and data subsidiary. Elazhary expanded TE Data's business to Jordan, the Gulf, and Palestine through wholly owned subsidiaries, representative offices, and professional services agreements. In 2005, he acted as the CEO of its Algerian joint venture with Orascom Telecom. Prior to joining Telecom Egypt Group, Elazhary consulted for Telecom Egypt and the Egyptian National Telecommunications Regulatory Authority (NTRA). In 1992, he co-founded InTouch Communications Services as the first ISP in Egypt and managed with his partners to position the company as the leading ISP in Egypt before being acquired by another telecom operator. From 1990 till 1994, he worked for IBM WTC as a systems Engineer. Elazhary graduated from the American University in Cairo in 1989, where he majored in Computer Science and minored in Electronics.

Sayed Elgharabawy

Vice President ; Project Planning (appointed from Oct. 2008)

Sayed Elgharabawy was appointed Vice President for Project Planning in October 2008. Prior to joining Telecom Egypt, he was advisor to the Executive President of the National Telecommunications Regulatory Authority (NTRA). From 1997 until 2007, he was Country Manager for Motorola Egypt and Government Relations Manager for Egypt and the Middle East. Elgharabawy participated in the drafting of the new Telecom Law that was enacted in 2003 primarily concerned with spectrum chapter of the law, in addition to participating in the development of the national telecommunications plan issued by the Ministry of Communications and Information Technology (MCIT) in 2001 and its revision in 2006 as well as several offer initiatives such as the Universal Service Program, now run by the NTRA, and the Wimax Regulatory Framework as well as the new suburbs regulatory framework which are still under development. Prior to this Elgharabawy had various positions with IBM and NCR. Elgharabawy graduated from Ain Shams University with a bachelor of science in telecommunications in 1987.

Our Trunk

Corporate Governance

Corporate Governance

Telecom Egypt is committed to the 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 2008 financial year are described in this section.

Our Board regularly reviews and updates our corporate governance practices to accommodate developments occurring within the marketplace and our business and to comply with internationally recognised governance standards. We are guided by the corporate governance principles presented by the Arab Republic of Egypt Capital Market Authority, ensuring that the highest standards of corporate governance throughout our organization are consistently maintained.

The Board of Directors

Roles and Responsibilities 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 pursuant to Egyptian law and the Company's bylaws. 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; and
- monitoring the integrity of internal control and reporting systems.

Board size and composition

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

The Company's bylaws 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.

Board of Directors

(Biographies available under "Board of Directors" section)

- Akil Hamed Beshir, Chairman & Chief Executive Officer ("CEO")
- Mokhtar Abdel Moneim Khattab, Board Member
- Ahmed Fathy El Kassass, Board Member
- Azza Mohamed Torky, Board Member
- Hassan El Sayed Abdullah, Board Member
- Adel Rashad Danash, Board Member
- Hesham Mekkawy, Board Member
- Neveen Hamdy El Tahri, Board Member
- Farghaly Bakry Seleem, Board Member
- Tarek Mohamed Moharram, Board Member

Board Committees

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

- Audit Committee
- Remuneration Committee
- Investment Committee
- Technical 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 four members, two of whom are Independent Directors. The Audit Committee is charged with monitoring the efficacy of internal audit procedures, internal controls and the performance of the 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 has a Remuneration Committee comprised of five members, two of whom are 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

Telecom Egypt has an Investment Committee composed of six members, three of whom are Independent Directors. 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.

Technical Committee

Telecom Egypt has a Technical Committee composed of three members, none of whom are Independent Directors. The Technical Committee is charged with the study and review of technical matters involved in the performance of the operations of the Company. The Technical Committee additionally presents reports and recommendations to the Board of Directors concerning such technical matters.

The General Assembly

Roles and Responsibilities 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- review of the Auditor's report;
2- review of the report of the Board of Directors;
3- approval of the financial statements;
4- approval of the distribution of dividends;
5- determination of the members of the Board of Directors' remuneration and allowance;
6- appointment of the auditor and determine his fees;
7- election of 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 statutory reserve for the benefit of the Company or its shareholders;
4- transacting on the reserves and provisions;
5- approval of the distribution of the 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; and
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 other 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; and
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 bylaws, particularly the following:

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

Serving with Tenderness

Customers

Customers are the ultimate source of our motivation and stimulation, they are our inspiration and our driving force; we are committed to provide them with the highest levels of service quality along with a consummate customer service experience. Because customer satisfaction is our main concern, we maintain our network capacity and are constantly upgrading it because we have the highest regard for the needs of our customers. As well, and to retain our customers' loyalty, we keep providing them with tailored and custom-made services and we continually offer them promotions and bundles while ensuring the greatest value for their money.

In addition, the services and promotions are well planned and are based on effective segmentation practices to enable better customer analysis, understanding, and service customization. The entire gamut of customer profiles are being continuously examined and researched to identify real, potential, and future needs and demands.

It is worth mentioning that Telecom Egypt never takes a business step or action until it has ensured the highest value possible to the various customer segments, which will be reflected on service performance, customer service, organizational structure and the entire corporate culture and practices. Every change the company embarks upon is always being driven and guided by our customer segmentation planning in order to ensure the maximum customer centricity, which has forever been our main concern.

Excellent services and promotions will not be successfully communicated to customers without clear, responsible, and result-oriented campaigns together with the highest levels of customer service and support. In conjunction with new service rollouts, we conduct effective communication campaigns to provide our customers with all the necessary and relevant information needed to successfully promote and market such services.

We have evolved into a customer-centric organization structured to develop the most appropriate and satisfactory customer service and support through the upgrading of outlets and phone boutiques as well as enhancing and expanding our channels and points of sale nationwide.

Shareholders

At Telecom Egypt, we always work to ensure constant value creation for shareholders. As a responsible company, Telecom Egypt puts the long-term business progress before the short-term profit brining sustainable value for our business and also for our shareholders.

Through our bold and business-savvy actions, coupled with blue-chip performance and never-ending progress, we have managed to maintain the reliability of customers and partners: a key ingredient to business success which any shareholder should covet.

Providing the best services and solutions to our customers is an important factor in maintaining our healthy financial status. We exert continuous efforts to research, develop and roll out state-of-the-art services with maximum value for money in order to maintain our long-term relationship with customers. We have also managed to enter new and growing markets, increase brand recognition, boost consumer trust, and make excellent product and brand differentiation.

Increasing market share, improving efficiency, delivering excellent service, and strengthening our culture are the most important aspects of our financial success. Telecom Egypt also exerts great effort towards improving traceability, quality assurance, productivity, and cost management in order to constantly ensure our sustainable returns on investment. Moreover, Telecom Egypt is keen to measure its progress towards its diverse targets and goals and we always identify and prioritise our business impact of most concern to our stakeholders.

Complying with the Egyptian laws and regulations is the key element in our business policies and practices, which has secured accolades to our credibility as a responsible, full-fledged, ethical, and scrupulous enterprise. Telecom Egypt is also committed to provide its shareholders with complete and accurate financial reports, showing the real progress of our business. These reports are prepared and presented with a high level of transparency according to consistent standards.

Employees

Our employees are our main capital. They are an integral key pillar to the sustainability and success of the organization. Our current HR strategy encourages employees to develop their skills and capabilities and to spread our modern and inspiring corporate culture at all levels. This culture depends on important values: leadership, modernity, Egyptian, honest, professionalism, friendliness, and accessibility.

Because the future is very challenging, our management team in Telecom Egypt and TE Data have developed and mobilized a comprehensive Competitive Readiness program dubbed "Ready!". This program is based on two key elements: the first is to take all the necessary measures to foster and encourage the flexibility and innovation that are required in these corporations. And the second is to optimize the use of the unique human element in both companies to ensure efficient and high-quality services. Accordingly, each employee across our company is well aware and appreciative of his/her essential role and relative contribution to its success.

This program has the highest level of commitment from the entire team of Telecom Egypt and TE Data.

Within Ready!, we have launched a number of initiatives that are driven by several dedicated teams. However, we also rely on the support and inputs of all staff members in order to make this transformation successful. Each employee plays an important role in this process. Therefore, our foremost goal is to communicate the objectives of "Ready" program that we can all drive it forward together. This program creates a good opportunity for the employees of Telecom Egypt and TE Data to work together and take the business to new levels of success.

One of our main concerns is the creation of attractive employment and career development opportunities for all of our employees. On the recruitment side, we have adopted staffing processes that apply the BEST FIT system in reallocating manpower according to business needs and market demands. Training and development were given new approaches aiming to enhance employee's productivity and efficiency and to chart the course for his/her professional growth and advancement. We are always committed to respond to our employees' needs, providing a most productive work environment and rewarding the highest calibers in our company while attracting new ones.

Community

Telecom Egypt's belief in its social responsibility towards the community it serves therefore inspires it to create new ideas for the purpose of helping the society and contributing to its development and advancement. That is why it is a trailblazer and leader in the creation and implementation of such idea.

Telecom Egypt always lend a hand to every segment of the society in the various social fields according to its set plans, including the spheres of health, education, sport, community service and in the telecom and information technology.

In Health

Telecom Egypt believes that when the people live in good health, they can work and be productive. So far, they sow the seeds of ideas that their society will reap its harvest, bumper crops, and will be always in progress.

Telecom Egypt invests most of its resources in the healthcare field. It has fully funded open-heart surgeries conducted in Egypt and abroad for an average of 7,500 children, in collaboration with Kasr Al Ainy Hospital. In addition, it has contributed to the construction of the Children's Cancer Hospital 57357, which provides free treatment to young cancer patients. Telecom Egypt also donated funds for purchasing the equipment for the Organ Transplant Unit of Ain Shams University Hospital to help the needy liver and kidney patients. As well, Telecom Egypt makes contributions for the provision of necessary equipment and gear for emergency rooms.

To continue its investments in other governorates: it funded the construction of Ashmoun Hospital for blindness in Al Monoufeya governorate and made donation for the kidney dialysis center's establishment for patients in need in AL Qalyoubia governorate.

Other contributions in the health field, the contribution to supply equipment for the patient's rooms of the general surgery unit at Ain Shams University Hospital, particularly the ones serving infants and children. Also, it contributed to the hospitals' medical units' improvement which offers the medical service to the children for free. In addition, Telecom Egypt donated for equipping a new unit for burns treatment at Cairo University Hospital, which was dedicated to the free treatment of disadvantaged patients.

Besides, the company made additional donations for projects that offer highly subsidized treatment for young cerebral palsy patients. Other substantial contributions include funding several programs aimed at providing health care for needy handicapped people and other disadvantaged students who are visually impaired.

In Education

Telecom Egypt believes that education is a precondition for socioeconomic development and for making our dreams come true. That is why Telecom Egypt funded many projects serving this goal to consolidate the roots underpinning our society.

Telecom Egypt contributed funds for literacy classes all over the country. Moreover, and as a key initiative, Telecom Egypt and TE Data jointly launched the "Anwar" CSR program to spread literacy in Upper Egypt in collaboration with effective, well-experienced non-governmental organizations in specific governorates like Qena and Sohag.

In Sports

Because Telecom Egypt believes that sports have a positive effect on society, it sponsored the first world volleyball championship for handicapped men and women in Ismalia. And no doubt that handicapped people need this kind of help to boost their self-confidence, to feel normalcy, and to be productive.

In Society

Telecom Egypt believes that the spirit of social responsibility can never be limited to offering high-quality telecommunication services to its clients. It believes that its role is much larger than that and should extend to embrace other domains where a real difference is made.

Therefore, Telecom Egypt has been making donations and contributions for several community service projects including creation of a house for the elderly, launch of a nursery for handicapped children, and donations for facilitating the marriage of handicapped persons. In addition, Telecom Egypt contributed to a several huge projects such as the activities to market the goods produced by the handicapped people, and the ones that facilitate providing loans and saving plans for needy families.

It is worth mentioning that Telecom Egypt is regularly sponsoring the annual social exhibition for the productive families (DYARANA) that aims to boost the incomes of disadvantaged families. Moreover, it is sponsoring annual entertaining and recreational events for orphans.

In Telecommunications and Information Technology

Telecom Egypt provides the Egyptian market with a range of integrated and advanced solutions combining voice and data services. It is keen to keep up with the latest and most advanced technologies and is continually introducing them to the Egyptian market.

Telecom Egypt sponsors a series of conferences and seminars to stay ahead in the field and provides a continuous development to the Egyptian market; it is sponsored the 6th International Conference for Information and Communications Technology (ICICT 2008) that provides opportunities for sharing experiences and learn about the latest solutions of the industry worldwide.

In addition, it sponsored the 6th International Conference for Informatics and Systems (INFOS 2008), where researchers discussed the latest in the field. It provides a great environment for sharing and debating innovations and new achievements. Moreover, Telecom Egypt sponsored a conference on technology management policy in the era of globalization, in which several Korean universities participated and had covered issues related to the telecommunications and information technology field. Besides, Telecom Egypt sponsored the 6th Mansoura Conference for Computers and Information Technology (INDEX 2008).

Moreover, Telecom Egypt sponsored a conference dedicated to ensuring safe usage of the Internet by children and teenagers in the framework of a larger national initiative for spreading the culture of peace through the usage of telecommunications and information technology sponsored by Egypt's first lady and supported by the Egyptian Ministry of Communications and Information Technology. It also sponsored the 2nd Conference for Information and Post Techniques (POSTECH 2008) that was organized to highlight the latest advanced postal technologies and services worldwide. Finally, Telecom Egypt sponsored the first International Conference for IT New Generation, which was held by the Electronics Research Institute in collaboration with IBM as a forum for interaction between academic and industrial actors.

The Ripened Fruits

Robust Network

As one of the largest telecommunication networks in Egypt and the Middle East, Telecom Egypt is constantly identifying opportunities for service and productivity improvements that truly take advantage of our scale and scope. It therefore provides today a wide range of excellent solutions that are essential in today's telecom market.

Telecom Egypt is fully aware that effective communication in today's fast-paced and highly dynamic market is a crucial component of corporate and organizational success. Telecom Egypt has always been keen to introduce and harness state-of-the-art technology and provide reliable voice and data solutions that meet every need and offer the best possible value.

We have vigorous and ever-expanding quality networks that can provide the finest services and solutions available in the country and worldwide. It was because of these assets and edges that Telecom Egypt has received over the years many accolades from top experts and opinion leaders in the industry and beyond.

Wholesale Solutions

Bandwidth

Telecom Egypt's bandwidth services provide a dedicated, end-to-end digital link between a location in Egypt and other international destinations. TE Bandwidth Services deliver integrated communications for voice, data, images and multimedia contents, as well as a variety of industry-specific business applications - secure business links, videoconferencing, remote monitoring - that can be managed or delivered unmanaged.

Global reach via terrestrial fiber links and submarine cables, and instant, efficient connectivity are key elements of the thriving Telecom Egypt bandwidth services. Besides, the wholesale bandwidth solutions ensure cost-effective connectivity adapted to the growing business needs of customers.

Internet Transit

Telecom Egypt's wholesale internet transit service provides international and local ISPs with internet connectivity, through Telecom Egypt's internet nodes and IP backbone. The wholesale internet transit service leverages international circuits through Alexandria and Suez Landing Stations in addition to varied cable systems (SMW3, SMW4, and Flag) to offer full eastward and westward redundancy. Planned future connectivity includes TE North, IMEWE, EIG, and SEACOM.

The wholesale internet transit service provides various benefits, such as the highly reliable internet connections within Egypt and with the international connectivity. In addition, the wholesale SLA (Service Level Agreement) ensures the highest service availability on both national and international networks with 24/7 dedicated customer service support.

Hosting

Telecom Egypt offers flexible and scalable space option for all collocation needs with redundant facilities that are energy-efficient and that ensure 99.999 % network availability. Telecom Egypt's flexible options for racks, shelves, power, and bandwidth create a cost-effective infrastructure model that can suite enterprises of all sizes and scales.

The wholesale managed hosting solution offers a state-of-the-art data center that has climate control, security, redundant and structured cabling infrastructure with top-of-the-line resources, advanced network configurations, sophisticated security practices, and robust features. From single-server to clustered-server configurations, Telecom Egypt's technology platforms are capable of providing growing businesses with the necessary components to free them from IT concerns.

With the hosting solutions, customers are allowed to choose from a variety of connectivity speeds and can benefit from simple migration and upgrades as their business needs grow. Customers can benefit from domain management, email management, and site management services, along with a wide range of additional features such as shopping carts, guestbooks, content management systems, publishing software, and FAQ/support systems. They can also block IP addresses from accessing their websites and prevent bandwidth leeching, in addition to many more security features. A dedicated security team, along with digital surveillance ensure a secured and trusted environment, providing the ideal place to house critical business equipment.

MPLS IP-VPN

The wholesale MPLS IP-VPN provides fully managed end-to-end reliable and cost-efficient connectivity to share voice, data and video traffic between multiple sites of enterprises. It offers high-performance connection to internet, intranet, and extranet systems. It also supports a variety of applications and hosting servers. MPLS provides coverage spanning more than 100 countries through leveraging partnerships with global carriers.

MPLS allows customers to access the Internet using Telecom Egypt's network with no need for a separate physical connection. Dialing the VPN service can be offered to clients who wish to connect to company's network from dial-up connections at home or in any other location.

Besides, they can connect branches located outside the country to branches located on the local network. Customers have the ability to conduct video conferencing over its IP VPN network, where high quality is guaranteed. Enterprises can leverage TE's economy of scale to reduce their network management overhead.

Telecom Egypt's MPLS network coverage extends throughout Egypt and has a footprint in Europe, North America, the Far East, Asia and the MENA region through interconnection partnerships with international operators.

WiMAX in World-Famous Luxor

TE Data was selected to design, implement and operate broadband wireless outdoor metropolitan area networks as part of a pilot project designed to improve and expand internet connectivity within Egypt and to promote Egypt's "High Tech." image within the tourism sector.

TE Data was issued a WiMAX pilot license which is extended until September 2009 the "While in Egypt Stay Connected" project and was sponsored by the Ministry of Communications and Information Technology (MCIT) and the National Telecom Regulatory Authority (NTRA) and was managed by the United States Agency for International Development (USAID) through the Emerging Markets Group (EMG) as the prime contractor for this project. TE Data launched the Luxor network in June 2007 with 16 Wi-Fi access points through WiMAX CPEs' backhauls offering free access covering almost seven kilometers of the Nile Corniche, connecting users at 256K in hotels, Nile cruise ships and public areas such as outdoor cafes, the Train Station and historical areas such as the Luxor and Karnak temples.

The project was a new addition to the list of pioneering introductions of new technologies in Egypt and marked a faster and more cost-efficient deployment of wireless connectivity. TE Data also took pride in contributing to the promotion of tourism in Egypt by providing holidaymakers with high-speed access to the worldwide web. The project further enhanced TE Data's market positioning, not only as the market leader in Broadband services but also as a pioneer in using the latest WiMAX/Wi-Fi technology. It even won the award for Best Wireless Network Implementation in the fourth Network Middle-East (NME) Innovation Awards, held in Dubai in May 2008.

Marketing Strategy

The telecommunications market in Egypt is expected to continue growing at a rapid pace, mainly driven by a high rate of population and household growth and by sustained economic growth. Enterprises are also a key engine of the country's economic development and have great potential for further growth stimulated by the ongoing liberalization of key industries and sectors. Fundamentally, the market is an emerging, highly promising one, and Telecom Egypt's marketing strategy is revolving around many opportunities such a market creates.

At the core of our marketing strategy is our commitment to ensuring the highest levels of customer satisfaction and our goal to attract new customers, through both voice and data offerings, while retaining our loyal customer base. In particular, our goal of accelerating the penetration of broadband across Egypt continues to be one of our key drivers. To maximize our success, we maintain focus on the following key objectives:

- **Bringing Value to Our Customers:** Constantly strive to deliver good value for money to all our customers, without compromising the quality of our services.

- **Delivering Innovative Products and Services:** Bring attractive new voice and data products and services to our customers by capitalizing on technological advances to enhance our overall proposition, ensuring a more fulfilling and rewarding customer experience.

- **Giving Our Customers What They Need:** Understand well and serve the needs of our specific customer segments, whether individuals, homes or businesses across the country, by customizing our offerings and our approach to fulfill every need.

During 2008, Telecom Egypt launched a number of key initiatives and promotions to implement this strategy. Following are some examples of efforts we made in support of our voice and data marketing objectives last year.

Voice

- Our tariffs were rebalanced in July 2008 in order to stabilize the revenue base from subscriptions and local calls, and to improve competitiveness on the national and fixed-to-mobile levels. In parallel, activation fees for new line installations were reduced to stimulate new subscriber growth.

- In a drive to increase awareness of the value for money brought to our customers through our national calling services, a campaign was launched to communicate the low price of 8pt/min, as well as to promote the guaranteed high level of quality.

- Telecom Egypt launched a number of initiatives to increase its landline subscriber base. For example, and for the first time in its history, Telecom Egypt offered its customers towards the end of 2008 a new line with all installation fees waived. In another instance, Telecom Egypt introduced an exclusive offer where the new customers receive free VAS subscriptions and long-distance activations.

- During the Hajj season, Telecom Egypt provided every Mecca-bound traveler who bought a Marhaba Card a second one of an equivalent value for free. Marhaba prepaid card brought superior value to its customers during the pilgrimage season, since it was the only such card available in Egypt that could be used in the Kingdom of Saudi Arabia.

- During the holy month of Ramadan, Telecom Egypt offered a 25% discount on international calls to encourage customers to use their landlines to connect with their friends and family overseas, with a superior level of quality.

- Telecom Egypt started upgrading many of its commercial offices into “Phone Boutiques,” bringing a more convenient and satisfying experience to customers visiting our stores.

- Our customers have been provided with easier and improved alternatives to report their service problems and interruptions and to track the status of their situations through the introduction of faults reporting services in our commercial offices and upgrading existing processes in our system faults clearance center.

- The personal identification number (PIN) awareness campaign was launched as a free service, to increase remote subscription to new services (i.e. without having to visit any of our outlets). Furthermore, the PIN service significantly increased security for customer data and transactions.

- In a drive to further promote the Short Number Services to businesses in order to improve their own customer experience and operations, the offering was discounted by 25% for new customers and 50% for customers seeking to upgrade their existing services. Simultaneously, concerted press and marketing efforts were made to ensure that benefits of the product for businesses were properly communicated and clearly understood.

Broadband / Data

- TE Data introduced the ADSL2+ technology in the Egyptian market, allowing subscribers to enjoy broadband speeds from 4Mbps and up to 24Mbps. At such speeds, a unique stunning cyber experience is created for all those maximum-overdrive fans and serious business users of the worldwide web.

- A number of promotions to further boost broadband subscriber base were launched, including:

  - Torpedo promotion, offering 1Mb limited connections with a wireless router for a competitive rate of LE 125/month with a hassle-free subscription.
  - 2008 Cairo ICT Promotion, offering five discounted bundles consisting of ADSL subscriptions and modems with speeds ranging from 256kbps to 2Mbps
  - Summer Promotion Prizes, which was based on a simple, straightforward LUCKY DRAW concept. There was a lucky winner every single hour for 100 days. The promotion was available for everyone who could get online and fill out a registration form. Prizes included laptops, desktops, flat screens, ADSL modems, ADSL wireless routers, free ADSL subscriptions, and free ADSL speed upgrades.
  - North Coast Promotion, a joint Telecom Egypt / TE Data promotion providing customers with a fixed line, LE 10 “Marhaba” prepaid card for local calls, USB modem, splitter and a 512kbps limited ADSL connection for LE 499 for one year.

- TE Data successfully launched an entry-level broadband offer at 45LE/month, gaining strong market traction and contributing to an increase in our market share from 52% to 58% over the course of the year.

- Telecom Egypt and TE Data unveiled a joint program to improve the broadband delivery processes and resolve capacity constraints experienced in 2008, yielding about 30,000 additional subscribers in that year and is expected to provide broadband to many more in 2009.

- In an effort to make it more convenient for customers to connect to broadband services and enjoy efficient, more accessible customer services, TE Data clinched a partnership deal with RadioShack adding up to 150 points of sale. It also embarked on plans to expand the presence of TE Data in 21 Telecom Egypt commercial offices and outlets around Egypt. Finally, the company began rolling out 20 new TE Data stores across Cairo and Alexandria, to be completed during 2009.

- In order to give customers more control over their spending, TE Data launched an online usage-tracking tool for subscribers to monitor their broadband usage, which is currently being rolled out to all areas across Egypt.

- To make the internet a better place in terms of content control, TE Data introduced the Family Internet service to provide superior internet experience that eliminates all of the indecent subject matters that might harm and affect children. TE Data launched this service to meet parental needs for better protection of their children from hazards the internet could pose. The service helps parents protect their families from harmful contents on the worldwide web and provide ethically and religiously correct internet experience to all family members.

In addition to all of the above achievements across voice and broadband offerings, Telecom Egypt has launched a number of programs to enhance the range and value of its products and services during 2009, which promises to be another fruitful year for Telecom Egypt, TE Data and their customers.

Awards

GTM/EGX Best Financial Transparency Award

Telecom Egypt had the honor of winning the 2008 Global Trade Matters/Egyptian Exchange (GTM/EGX) Award for Best Financial Transparency.

The Strategic Advisory Board, comprised of local and international experts representing various sectors, have met on several occasions in a collective effort to select the best companies traded on the CASE 30 Index.

Launched by Global Trade Matters (GTM) in collaboration with the Egyptian Stock Exchange (EGX) in 2005, the Annual GTM/EGX Awards are the first national business awards to recognize the crucial role of the private and public sector companies traded on the EGX CASE30 Index. The spirit of these prestigious awards lies in the pursuit of innovative and productive core business practices to sustainable development and in the emphasis on corporate social responsibility towards the communities of cities, towns and villages where such companies operate.

Best Wireless Network Implementation

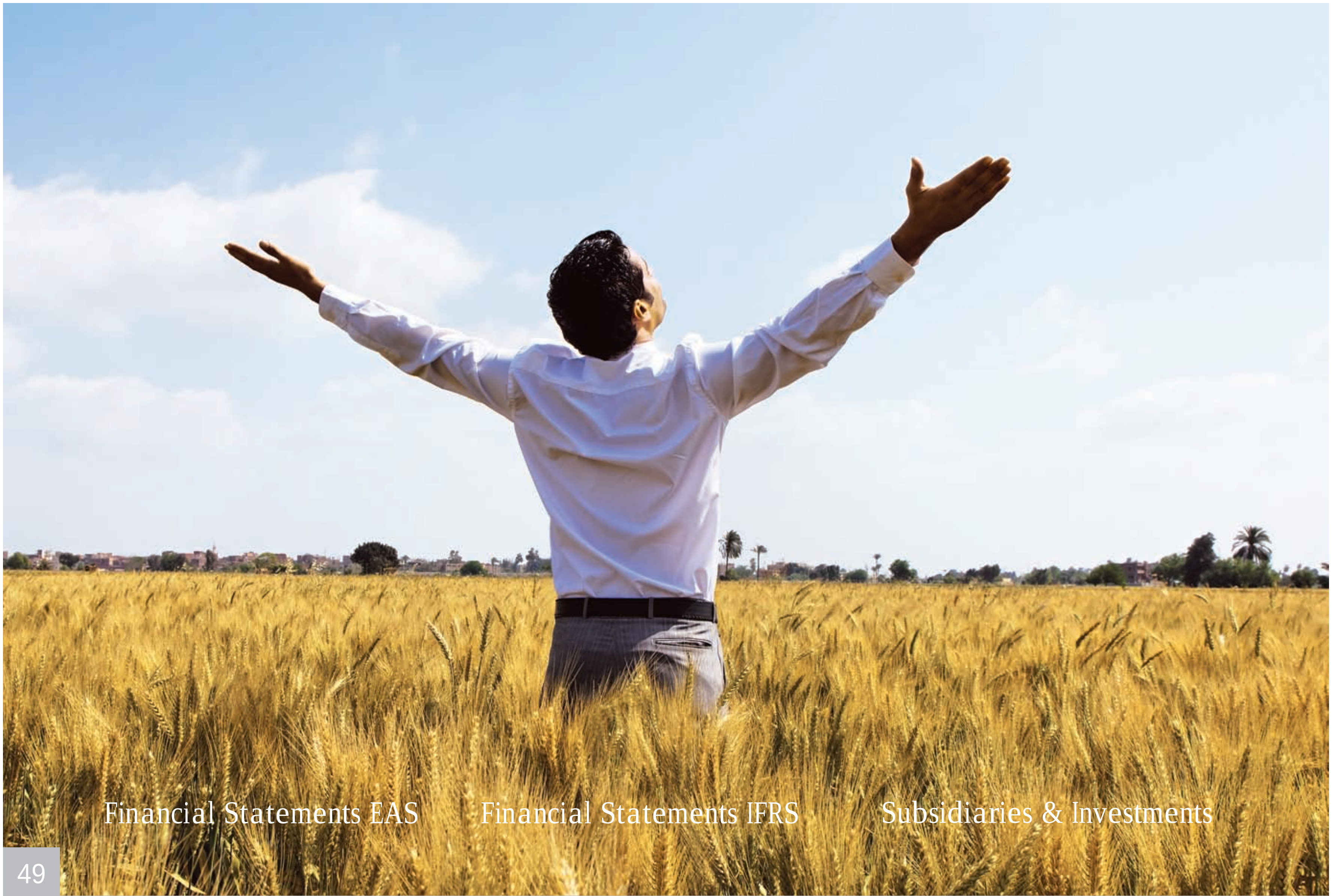
TE Data, a Telecom Egypt subsidiary, won the Best Wireless Network Implementation Award for the wireless network it has installed and launched in Luxor, Egypt. The award was celebrated in the fourth annual NME Innovation Awards in Dubai, UAE, in 2008. TE Data had been selected to design, implement, and operate broadband wireless outdoor metropolitan area networks as part of a pilot project aiming at improving and expanding internet connectivity within Egypt and promoting Egypt's high-tech image among visiting tourists. The "While in Egypt Stay Connected" project was sponsored by the Ministry of Communications and Information Technology (MCIT) and the National Telecom Regulatory Authority (NTRA), and was managed by the United States Agency for International Development (USAID) through the Emerging Markets Group (EMG) as the prime contractor for this project.

Fertile Soil

2009 Events

Date	Event
January 2009	
February 2009	
March 2009	▪ Bond Coupons Distribution (Sunday 1st) ▪ Full Year Results 2008 (Monday 16th) ▪ Annual General Assembly Meeting (AGM) (Tuesday 31st)
April 2009	▪ Dividends Distribution
May 2009	▪ First Quarter Results 2009 (Thursday 14th)
June 2009	▪ Bond Coupons Distribution ▪ Annual Report 2008
July 2009	
August 2009	▪ Half Year Results 2009 (Thursday 13th)
September 2009	▪ Bond Coupons Distribution
October 2009	
November 2009	▪ Nine Months Results 2009 (Monday 16th)
December 2009	▪ Bond Coupons Distribution

Crop Yields



Financial Statements EAS   Financial Statements IFRS   Subsidiaries & Investments

Crop Yields

EAS

Financial Statements

For the Financial Year Ended Dec. 31, 2008

KPMG

Hazem Hassan
Public Accountants & Consultants

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AUDITOR'S REPORT
TO THE SHAREHOLDERS OF TELECOM EGYPT COMPANY

Report on the Financial Statements

We have audited the consolidated accompanying financial statements of Telecom Egypt Company S.A.E, which comprise the consolidated balance sheet as at 31 December 2008 , and the consolidated income statement, consolidated statement of cash flows and consolidated statement of changes in equity for the financial year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

These financial statements are the responsibility of Company's management. Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Egyptian Accounting Standards and in the light of the prevailing Egyptian laws, management responsibility includes, designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; management responsibility also includes selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Telecom Egypt Company as of December 31 2008, and of its financial performance and its cash flows for the year then ended in accordance with the Egyptian Accounting Standards and the Egyptian laws and regulations relating to the preparation of these consolidated financial statements.

A. Fouad

KPMG Hazem Hassan
Public Accountants & Consultants

Cairo, March 15, 2009

Consolidated Balance Sheet EAS

For The Financial Year Ended December 31, 2008

	Note No.	31/12/2008 LE (000)	31/12/2007 LE (000)
Long-Term Assets			
Fixed assets (net)	(4)	17 530 735	19 372 408
Projects in progress	(5)	1 109 575	843 565
Investments in affiliates	(3-6),(6-1)	6 922 814	6 921 428
Available for sale investments	(3-7),(6-2)	101 069	105 970
Other debit balances - long term	(7)	8 823	426 303
Other assets	(3-9),(8)	154 991	223 722
Total Long Term Assets		**25 828 007**	**27 893 396**
Current Assets			
Inventory	(9)	473 015	508 416
Trade and notes receivable	(10)	2 965 340	3 100 723
Debtors & other debit accounts	(11)	1 868 625	1 691 762
Investments held for trading	(12)	22 901	94 592
Cash at banks and on hand	(13)	2 711 761	1 302 241
Total Current Assets		**8 041 642**	**6 697 734**
Current Liabilities			
Loan installments and facilities due within one year	(14)	1 112 781	1 027 034
Bonds loan installments due within one year	(21)	400 000	800 000
Banks - credit accounts		6 602	6 683
Banks overdraft		323	769
Suppliers & notes payable	(15)	215 836	130 348
Dividends payable		1 130	829
Creditors and other credit accounts	(16-1)	3 388 649	3 195 913
Provisions	(17)	308 621	324 382
Total Current Liabilities		**5 433 942**	**5 485 958**
Working capital		**2 607 700**	**1 211 776**
Total investments		**28 435 707**	**29 105 172**

Financed as follows:

	Note No.	31/12/2008 LE (000)	31/12/2007 LE (000)
Equity and long-term liabilities			
Equity			
Paid up capital	(19)	17 070 716	17 070 716
Reserves	(20)	5 127 748	5 019 013
Retained earnings		1 643 410	1 120 490
Translation difference adjustments		(353)	(591)
Net profit for the year		2 789 506	2 534 286
Total equity attributable to equity holders of the holding company		**26 631 027**	**25 743 914**
Minority Interest		**38 058**	**39 846**
Total Equity		**26 669 085**	**25 783 760**
Long-Term Liabilities			
Loans and credit facilities	(14)	1 226 179	2 350 988
Bonds loan	(21)	400 000	800 000
Creditors and other credit accounts	(16-2)	62 718	62 045
Deferred tax liabilities	(3-22) , (22)	77 725	108 379
Total Long-Term Liabilities		**1 766 622**	**3 321 412**
Total Equity and Long-Term Liabilities		**28 435 707**	**29 105 172**

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

Chairman & Chief Executive Officer	**Vice President & Chief Financial Officer**	**Financial Controller**
Akil Beshir	Tarek Tantawy	Hosam El-Saadawy

Auditor's Report "attached"

Consolidated Income Statement EAS

For The Financial Year Ended December 31, 2008

	Note No.	31/12/2008 LE (000)	31/12/2007 LE (000)
Operating Revenues	(23)	**10 116 896**	**9 993 147**
Operating Expenses			
Interconnection fees		1 253 690	1 368 457
Fuel		93 700	81 889
Spare parts		127 242	127 258
Maintenance		236 069	217 577
Satellite subscriptions		16 655	19 764
Depreciation and Amortization		2 550 225	2 736 692
Other operating costs	(24)	1 637 948	1 490 803
		5 915 529	6 042 440
Gross Operating Profit		4 201 367	3 950 707
Administrative Expenses			
General & administrative expenses	(25)	1 345 731	1 137 015
Selling & distribution expenses	(26)	436 348	347 594
Provisions	(17)	3 048	469
Impairment loss on assets	(18)	478 879	312 628
		2 264 006	1 797 706
Net Operating Profit		1 937 361	2 153 001

	Note No.	31/12/2008 LE (000)	31/12/2007 LE (000)
Other Income / (Expenses)			
Interest income		157 798	81 302
Income from investments	(27)	1 312 079	1 070 672
Interest expenses		(360 695)	(599 774)
Other revenues	(28)	250 972	290 232
(Impairment) reversal of impairment of investment in affiliates & available for sale investments	(29)	(17 901)	31 910
Gain / (loss) on evaluation of held for trading investments		4 148	(350)
Gain on sale of held for trading investments		1 973	7 853
Gain on sale of available for sale investments		437	
Capital gain / (loss)		10 059	(2 354)
Release of unused provisions	(17)	7 624	115 689
Reversal of impairment loss on trade receivables		45	35
Foreign exchange gain / (loss)		3 631	(93 871)
		1 370 170	901 344
Net profit for the year before income tax		3 307 531	3 054 345
(Less) / Add:			
Current income tax expense for the year		(542 967)	(521 131)
Deferred tax		30 654	7 800
Net profit for the year		2 795 218	2 541 014
Attributable to :			
Equity holders of the holding company		2 789 506	2 534 286
Minority interest		5 712	6 728
Net profit for the year		2 795 218	2 541 014
Earnings per share (LE/Share)	(31)	1.49	1.37

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

Consolidated Statement of Cash Flows EAS

For The Financial Year Ended December 31, 2008

Cash flows from operating activities

	Note No.	31/12/2008 LE (000)	31/12/2007 LE (000)
Cash receipts from trade receivables		8 161 481	7 856 530
Sales tax collected from receivables		539 966	668 947
Stamp tax and fees collected (from third party)		60 970	55 261
Deposits received from customers		17 852	75 916
Cash paid to suppliers		(726 904)	(766 493)
Cash paid to employees		(1 696 311)	(1 315 217)
Cash paid on behalf of employees		(335 580)	(300 102)
Dividends paid to shareholders & employees		(1 860 432)	(1 291 286)
Net cash from operating activities		**4 161 042**	**4 983 556**
Interest paid		(341 554)	(637 834)
Payments to Income Tax Authority		(660 424)	(560 994)
Payments to Sales Tax Authority		(659 374)	(533 918)
Other proceeds / (payments) - net		141 974	193 873
Net cash provided by operating activities		**2 641 664**	**3 444 683**

Cash flows from investing activities

	Note No.	31/12/2008 LE (000)	31/12/2007 LE (000)
Payments for purchase of property, plant and equipment and projects in progress and other assets		(918 851)	(944 821)
Proceeds from sale of fixed assets and other assets		18 445	891
Payments for purchase of investments		(125 851)	(110 955)
Proceeds from sale of investments		221 238	77 150
Interest income		120 411	72 570
Dividends received		1 320 641	755 982
Net cash provided by / (used in) investing activities		**636 033**	**(149 183)**

Cash flows from financing activities

	Note No.	31/12/2008 LE (000)	31/12/2007 LE (000)
Repayment of borrowings & facilities relating to acquisition of property, plant and equipment, project in progress and other assets		(210 700)	(270 840)
Repayment of other borrowings & facilities		(814 532)	(1 765 936)
Proceeds from long term loans		211	
Repayment of banks credit accounts		(82)	(8 713)
Repayment of financial lease obligations		(43 466)	(40 327)
Payments for long term obligations		(840)	(820)
Repayment of bonds loan		(800 000)	(400 000)
Net cash used in financing activities		**(1 869 409)**	**(2 486 636)**
Net increase in cash and cash equivalents during the year		**1 408 288**	**808 864**
Translation difference adjustments		(383)	31
Cash and cash equivalents at the beginning of the year	(13)	1 292 783	483 888
Cash and cash equivalents at the end of the year	**(13)**	**2 700 688**	**1 292 783**

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

Consolidated Statementof Changes in Equity EAS

For The Financial Year Ended December 31, 2008

	Paid up capital	Legal reserve LE(000)	Other reserves LE(000)	Fair value reserve LE(000)	Retained earnings LE(000)	Translation difference adjustments LE(000)	Net profit LE(000)	Total equity attributable to equity holders of the holding co. LE(000)	Minority interest LE(000)	Total equity LE(000)
Balance as of 1/1/2007	17 070 716	466 875	3 790 823	6 814	801 222	(185)	2 426 877	24 563 142	34 839	24 597 981
Transferred to reserves		104 501	650 000				(754 501)			
Dividends for the year 2006					(33 560)		(1 299 553)	(1 333 113)	(1 712)	(1 334 825)
Adjustments to retained earnings					(20 275)			(20 275)		(20 275)
Transferred to retained earnings					372 823		(372 823)			
Translation difference adjustments					280	(406)		(126)	(9)	(135)
Net profit for the year 2007							2 534 286	2 534 286	6 728	2 541 014
Balance as of 1/1/2008	**17 070 716**	**571 376**	**4 440 823**	**6 814**	**1 120 490**	**(591)**	**2 534 286**	**25 743 914**	**39 846**	**25 783 760**
Reclassification to the openning balance		416			(416)					
Transferred to reserves		108 402					(108 402)			
Dividends for the year 2007							(1 902 621)	(1 902 621)	(2 414)	(1 905 035)
Decrease in other reserves by the adjustments made in land caption			(93)					(93)		(93)
Adjustments to retained earnings					189			189	(5 093)	(4 904)
Transferred to retained earnings					523 263		(523 263)			
Translation difference adjustments		10			(116)	238		132	7	139
Net profit for the year							2 789 506	2 789 506	5 712	2 795 218
Balance as of 31/12/2008	**17 070 716**	**680 204**	**4 440 730**	**6 814**	**1 643 410**	**(353)**	**2 789 506**	**26 631 027**	**38 058**	**26 669 085**

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

1.BACKGROUND

1-1 Establishment of the company

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

1-2 Purpose of the company

The main purpose of the company includes:

- Establishing and operating 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:

Subsidiary name	share Percentage %
TE Data – S.A.E.	95.04 %
The Egyptian Telecommunication Company for Information Systems (Xceed) – S.A.E	97.66 %
Middle East Radio Communication (MERC) – S.A.E.	50.90 % (Direct & Indirect)
Centra Technologies – S.A.E.	58.76 %
Telecome Egypt France	100 %

3.SIGNIFICANT ACCOUNTING POLICIES APPLIED

3-1 Basis of preparing the consolidated financial statements

3-1-1 The consolidated financial statements are prepared in accordance with the historical cost basis, except for some investments valued with its fair value, and in the light of the provisions of applicable Egyptian laws and regulations, the same accounting policies and principles applied to the periodical financial statements were implemented.

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 the 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 recognized in the consolidated income statement.

3-3 Financial statements translation for foreign operations

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 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(Years)
Buildings & constructions	10 - 50 Years
Machinery &equipment	5 - 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
Fixtures on the Trunk Radio Network	8 Years

3-5 Projects in Progress

The amounts incurred for construction or purchases of fixed assets are recorded at cost as projects in progress till being ready for the intended use in operations. Then, they are transferred to fixed assets with its cost.

3-6 Investments in affiliates

The investments in affiliates in the consolidated financial statements shall be accounted for by applying the equity method. Under this method, the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The income statement of the investor includes the investor's share of the profit or loss of the investee.

If the investment is acquired and held with a view to its subsequent disposal in the near future. In this case, investments in affiliates shall be accounted for by applying the cost method. Under this method, the investment fair value is adjusted by any impairment in this value, and the income statement of the investor includes income from investments up to the dividends received from the investee's after the acquisition date.

3-7 Available-for-Sale Investments

3-7-1 Available-for-sale investments that have a quoted market price in an active market are measured at fair value and remeasurement is recognized directly in equity, if there is objective evidence that an impairment loss has been incurred, impairment loss is recognized in income statement.

3-7-2 Available-for-sale investments that do not have a quoted market price in an active market and which fair value cannot be reliably measured shall be measured at cost. In case of the existence of impairment, the carrying amounts of these investments is reduced by this impairment loss and recognized in income statement .

Income from investment measured at cost is recognized only to the extent that the investor receives distributions from accumulated profits of the investee arising after the date of acquisition, according to the investee companies' general assembly decisions of profit distributions.

3-8 Held for trading investments

Financial investments classified as held for trading are recorded initially at cost. At the end of each financial period, these investments are re-measured at their fair value (Market Value). Gain or loss arising from a change in the fair value shall be recognized in the income statement for the period in which it arises.

3-9 Other assets and related 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 on a straight line basis over (10-20) years provided that their useful lives should be within the term of concession and usufruct rights.

3-10 Inventory

- Inventory is valued at the lower of cost or net realizable value at the date of balance sheet. 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 balances

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.(3-22) are reviewed at each consolidated 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 consolidated balance sheet date and amended when necessary to reflect the best current estimate.

3-14 Borrowing cost

Borrowing costs are recognized in the income statement as an expense is incurred.

3-15 Grants

Grants are recorded in the balance sheet as deferred revenues and recognized in the income statement as income over the years necessary to match them with the related costs, on a consistent basis.

3-16 Trading Creditors & Other Payables

Trading creditors and other payables are stated at the nominal value, also liabilities (payables) are stated at the value which will be paid in the future and this is against received goods and services.

3-17 Revenue recognition

- Revenues from sales of communication services are recognized when services are rendered to the customers.

- Revenues from goods sales are recognized when goods are delivered to customers and invoices are issued.

3-18 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. 30).

3-19 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.

3-20 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.

There was no change in the accounting estimates of the amounts recorded in the previous financial year.

3-21 Reserveses

- 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.

- Fair Value Reserve

When re-measured investments are sold, the related Fair Value reserve is transferred to retained earnings.

3-22 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 period, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized 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 based on the method expected to remeasure the values of assets and liabilities using tax rates 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.

3-23 Transactions with related parties

Transactions with related parties that are undertaken by the company in the course of its ordinary transactions are recorded according to the conditions laid down by the company's management on the same basis of dealing with third party.

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 preparation purpose of the statement of cash flows.

3-25 Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, the Group objectives, policies and processes for measuring and managing risk, and the Group management of capital. Further quantitative disclosures are included throughout these unconsolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group risk management framework.

The Group risk management policies are established to identify and analysis the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

3-25-1 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, this risk is mainly caused by trade and other receivables and debtors.

Trade & other receivables and debtors

The Group exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group customer base, including the default risk has less of an influence on credit risk.

Approximately 100% of Group revenue is attributable to sales transaction with many customers hence there is no concentration of credit risk from the demographic stand point, and the management of the Group established credit policy which suspends services for delinquent customers and impose fines on late payments followed by cutting off lines then contract termination.

3-25-2 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group reputation.

The Group ensures that the sufficient cash on demand to meet expected operational expenses for a suitable period, including the service of financial obligations, this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

3-25-3 Market risk

Market risk is the risk that changes in market prices, such as foreign currency exchange rates, interest rates and equity prices will affect the company's income or the value of its holdings of financial instruments.
The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

3-25-4 Currency risk

The company is exposed to currency risk on transactions that are denominated in a currency other than the respective functional currencies of the company, primarily the U.S. Dollars (USD) and EURO.

In respect of other monetary assets and liabilities denominated in foreign currencies, the company ensures that its net exposure is kept to an acceptable level through purchase or sale of the foreign currencies with current prices when that is necessary to face un-balanced short term.

3-25-5 Other market prices risk

Equity price risk arises from available-for-sale investments held for strategic rather than trading purposes. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Executive Management. The primary goal of the Group investment strategy is to maximise investment returns.

3-25-6 Capital management

The Board of Directors' policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity , the Board also monitors the level of dividends paid to shareholders. There were no changes in the Group approach to capital management during the Year,The Group is not subject to externally imposed capital requirements.

4- FIXED ASSETS (NET)

	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)	Fixtures on trunk radio network LE(000)	Total LE(000)
Cost									
Balance at 1/1/2008	2 450 671	17 306 594	18 526 493	98 487	55 452	1 135 695	20 651	273	39 594 316
Reclassification	-	-	1 220	-	-	(1 220)	-	-	-
Adjustment to the opening balance	-	(2 453)	(20 399)	-	-	(688)	-	-	(23 540)
Additions for the year	3 073	200 722	523 356	3 869	1 155	167 515	3 637	42	903 369
Disposals for the year	(93)	-	(180 399)	(1 635)	(295)	(2 058)	(199)	-	(184 679)
Translation differences	-	-	64	-	-	(10)	1	-	55
Balance at 31/12/2008	**2 453 651**	**17 504 863**	**18 850 335**	**100 721**	**56 312**	**1 299 234**	**24 090**	**315**	**40 289 521**
Depreciation									
Accumulated depreciation at 1/1/2008	-	7 479 515	12 010 920	92 171	34 996	596 883	7 377	46	20 221 908
Reclassification	-	-	101	-	-	(101)	-	-	-
Depreciation for the year	-	950 087	1 560 693	3 284	5 027	183 966	4 346	50	2 707 453
Accumulated depreciation of disposal	-	-	(166 663)	(1 559)	(263)	(2 013)	(112)	-	(170 610)
Translation differences	-	-	24	-	-	10	1	-	35
Accumulated depreciation at 31/12/2008	**-**	**8 429 602**	**13 405 075**	**93 896**	**39 760**	**778 745**	**11 612**	**96**	**22 758 786**
Carrying amount at 31/12/2008	**2 453 651**	**9 075 261**	**5 445 260**	**6 825**	**16 552**	**520 489**	**12 478**	**219**	**17 530 735**
Carrying amount at 31/12/2007	**2 450 671**	**9 827 079**	**6 515 573**	**6 316**	**20 456**	**538 812**	**13 274**	**227**	**19 372 408**

Cost of fixed assets include an amount of L.E 5 949 million relating to fully depreciated assets still in use.

Depreciations for the year are charged as follows:

	LE(000)
Operating expenses	2 518 549
General & administrative expenses	183 965
Selling & distribution expenses	4 939
	2 707 453

5. PROJECTS IN PROGRESS

	31/12/2008 LE (000)	31/12/2007 LE (000)
Telecom Egypt – Parent		
Land	11 433	6 593
Buildings and constructions	543 112	258 963
Machinery and equipment	257 849	321 605
Means of transportation	649	290
Tools and supplies	283	47
Office furniture and fixtures	43 943	17 641
Advance payments	186 817	203 536
Letters of credit	13 833	19 074
	1 057 919	**827 749**
T.E Data – a subsidiary company		
Buildings and constructions	31 752	10 391
Advance payments	19 400	3 130
T.E Information Technology - a Subsidiary Company		
Advance payments	504	2 295
	51 656	**15 816**
	1 109 575	**843 565**

6. LONG TERM INVESTMENTS

6-1 Investments in affiliates

	31/12/2008 Participation %	31/12/2008 LE (000)	31/12/2007 Participation %	31/12/2007 LE (000)
Vodafone Egypt	44.95	6 921 191	44.79	6 888 385
Nile On Line (NOL)	-	-	27.27	30 418
Wataneya for Telecommunication	50.00	125	50.00	125
Consortium Algerien de Tele – communications (CAT) *	33.00	-	33.00	-
International Telecommunication Consortium Limited. (ITCL)	50.00	-	50.00	-
Egypt Trust	35.71	1 498	35.71	2 500
		6 922 814		**6 921 428**

* Investments in Consortium Algerien de Telecommunications (CAT) & International Telecommunication Consortium Limited (ITCL) amounts are not included since these companies have sustained a loss that exceeds the investments amounts.

Investment in Vodafone – Egypt

The investments in Vodafone Egypt as of 31/12/2008 represents the ownership of 107 869 799 shares representing 44.95 % of Vodafone Egypt shares, Market value of investments in Vodafone Egypt shares according to the last execution price on December 31, 2008 - off floor trading - amounted to LE 10 257 339 K as the Vodafone Egypt shares were voluntarily delisted from the Egyptian Stock Exchange during September 2007.

Investments in Nile On Line (NOL)

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

6-2 Available for sale investments

	31/12/2008 LE (000)	31/12/2007 LE (000)
- Participations in foreign Satellite companies & organizations	26 683	26 683
- Investments in other local companies	74 386	79 287
	101 069	**105 970**

Investments in other local companies - EgyNet Company

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

7. OTHER DEBIT BALANCES – LONG TERM

These balances are represented in the following:

	Note No.	31/12/2008 LE (000)	31/12/2007 LE (000)
The amounts due from National-Telecommunication RegulatoryAuthority for the license fees paid to the said Authority for the third operator after waiver of this license.		140 000	560 000
Less: The current portion to be collected during one year recorded under "debtors and other debit accounts".	(11-1)	140 000	520 000
		-	**40 000**
- The balance represents accrued interest till the balance sheet date, that shall be settled by (NTRA) for the license's charges paid to (NTRA) for the third mobile phone network amounted L.E. 480 million which should be paid as a part of the last installment amounting to L.E. 520 million.		450 000	330 000
Less: The current portion from accrued interest that is expected to be collected within one year and classified as debtors and other debit accounts.	(11-1)	450 000	-
		-	**330 000**
Payments made on behalf of Consortium Algerian de Telecommunication to finance the license concession and finance the operating expenses of consortium company in Algeria.	(7-1)	446 767	414 759
Due from Loyalty Fund Grant	(30)	13 803	19 404
Less: The current portion to be collected during one year from Loyalty Fund Grant.	(11)	4 980	5 601
		8 823	**13 803**
Payments under capital increase for Egypt Trust and Technology Development Fund companies till recording in the commercial registration of this increase.		-	42 500
		455 590	**841 062**
Less: Impairment loss on other debit balances-long term	(7-1)	446 767	414 759
		8 823	**426 303**

7-1 Finance to Consortium Algerian Telecommunication (CAT) - Algeria

Telecom Egypt financed Consortium Algerian Telecommunication (CAT) by an amount of LE 446 767 K where Telecom Egypt participation is 50% (Direct & Indirect), this company suffers a material decrease in recoverable amount of the tangible & intangible company's assets, this company also faces financial difficulties. In the light of these circumstances there is high probability that Telecom Egypt will not be able to recover the finance given to CAT. The income statement was charged for the year by L.E. 32 008 K and for the years before 2008 by L.E. 414 759 K which represents Telecom Egypt share in the loss of investment for the years before 2008.

8. OTHER ASSETS

	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 (SMW) LE(000)	Right of using (ROU) LE(000)	Internet license LE(000)	Total LE(000)
Cost								
Cost as at 1/1/2008	1 720	41 203	95 910	1	191 360	136 682	20 181	487 057
Additions for the year	-		-	-	-	8 735	-	8 735
Disposals for the year	-	(7 850)	-	-	(1 095)	-	-	(8 945)
Adjustments during the year	-		-	-	(14 402)	-	-	(14 402)
Translation differences	-		-	-	-	12	1	13
Balance as at 31/12/2008	-	33 353	95 910	1	175 863	145 429	20 182	472 458
Accumulated amortization & impairment losses								
Balance as at 1/1/2008	1 075	22 168	79 462	-	95 847	44 729	20 054	263 335
Amortization during the year	172	1 962	6 989	-	15 111	7 422	20	31 676
Accumulated amortization for disposals	-	(4 518)	-	-	(4 080)	-	-	(8 598)
Decrease in the value of other assets	-	-	-	-	-	31 054	-	31 054
accumulated amortization and impairment at 31/12/2008	1 247	19 612	86 451	-	106 878	83 205	20 074	317 467
Carrying amount at 31/12/2008	473	13 741	9 459	1	68 985	62 224	108	154 991
Carrying amount at 31/12/2007	645	19 035	16 448	1	95 513	91 953	127	223 722

9. INVENTORY

	31/12/2008 LE (000)	31/12/2007 LE (000)
Spare parts	256 304	239 627
Materials supplies	1 086	1 352
Computers & Pc's components	1 982	1 545
Others – project cables and supplies	142 133	186 921
Finished goods	6 842	13 040
Merchandise for sale	16 219	14 504
Consignment goods	297	531
	424 863	457 520
Add:		
Letters of credit	48 152	50 896
	473 015	508 416

Inventory value was reduced by LE 26 752 K for obsolete and slow moving items.

10. TRADE & NOTES RECEIVABLE

	Note No.	31/12/2008 LE (000)	31/12/2007 LE (000)
Governmental sector		372 545	434 642
Private sector		2 919 045	2 487 691
Foreign telecommunication companies and organizations		988 151	1 088 701
		4 279 741	4 011 034
Less: Impairment loss on trade receivables	(18)	1 314 769	911 463
		2 964 972	3 099 571
Add: Notes receivable		368	1 152
		2 965 340	3 100 723

11. DEBTORS AND OTHER DEBIT ACCOUNTS

	Note No.	31/12/2008 LE (000)	31/12/2007 LE (000
Suppliers – debit balances		63 521	78 912
Deposits with others		15 650	10 029
Employees' loans		794	1 059
Customs Authority - deposits		3 034	3 043
Accrued revenues		15 109	7 108
Tax Authority- withholding tax		48 176	73 431
Sales Tax Authority		494 950	561 233
Employees loyalty grant	(30)	4 980	5 601
Other debit accounts	(11-1)	1 390 866	1 265 363
		2 037 080	2 005 779
Less: Impairment loss on debtors and other debit accounts	(18)	168 455	314 017
		1 868 625	1 691 762

11-1 Other debit accounts

Other debit accounts include the following items :

	Note No.	31/12/2008 LE (000)	31/12/2007 LE (000)
The current portion to be collected during next year from the National Telecommunication Regulatory Authority for the license fees of Wataneya for Telecommunication.	(7)	140 000	520 000
The balance represents accrued interest till the balance sheet date, that shall be settled by (NTRA) for the license's charges paid to (NTRA) for the third mobile phone network amounting to L.E. 480 million which should be paid as a part of the last installment amounted to L.E. 520 million.	(7)	450 000	-
Amount due from the employees for the company's shares purchased by the company and distributed to them and paid by the company.		21	880
Payments on the account of corporate tax.		285 996	285 996
		876 017	806 876

12. INVESTMENTS HELD FOR TRADING

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

	31/12/2008 LE (000)	31/12/2007 LE (000)
TE Data a Subsidiary Company		
Value of 77 889 unit of Commercial International Bank Investment Fund – Osoul Fund with price LE 136.86 for each unit at balance sheet date.	10 660	51 784
Value of 91 771 unit of the National Societe General Bank Investment Fund with price LE 119.864 for each unit at balance sheet date.	11 000	41 664
TE Information Technology – a Subsidiary Company		
Value of 9 067 unit of Commercial International Bank Investment Fund – Osoul Fund with price LE 136.86 for each unit at balance sheet date.	1 241	1 144
	22 901	94 592

13. CASH AT BANKS AND ON HAND

	31/12/2008 LE (000)	31/12/2007 LE (000)
Banks- time deposits	2 233 896	1 077 783
Banks -current accounts	470 097	215 495
Cash on hand	7 768	8 963
	2 711 761	1 302 241
Less:		
Banks overdraft	323	769
Blocked time deposite	4 469	4 795
Cheques under collection	6 281	3 894
Cash & cash equivalents in the cash flows statement	2 700 688	1 292 783

14- LOANS AND FACILITIES

Description	Loan Currency	Long term loan installments due within one year LE(000)	Long term loan installments due after one year LE(000)	Balance as of 31/12/2008 LE(000)	Balance as of 31/12/2007 LE(000)	Annual Interest Rate %	Repayment schedule
Syndicate loan from Local banks (Vodafone loan)*	L.E.	905 000	197 500	1 102 500	1 917 000	Average rate of deposits & loans (Corridor) + 1%	Unequal semi-annual installments ending on 31/3/2010
Total local loans		**905 000**	**197 500**	**1 102 500**	**1 917 000**		
Governmental Loans	U.S.$	93 707	443 038	536 745	626 564	4 %	Annual installments ending on 24/1/2018
Governmental Loans	EURO	6 398	10 406	16 804	24 403	4 - 6.37%	Semi annual installments ending on 29/12/2012
Total Governmental loans		**100 105**	**453 444**	**553 549**	**650 967**		
Foreign loans	J.Y	26 857	9 962	36 819	54 046	3 -3.5%	Semi annual installements ending on 20/3/2012
Foreign loans	EURO	77 481	565 136	642 617	752 598	0.75 - 6%	Semi annual installements ending on 30/6/2036
Total foreign loans		**104 338**	**575 098**	**679 436**	**806 644**		
Foreign suppliers' facilities	EURO	3 296		3 296	3 411	5.50%	
Local loan-subsidiary company	LE	42	137	179		7%	Monthly installments ending on 1/3/2013
		1 112 781	**1 226 179**	**2 338 960**	**3 378 022**		

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

- Foreign suppliers' facilities in Euro amounting to L.E 3 296 K equivalent to Euro 424 K against letters of guarantee issued by National Bank of Egypt in favour of Siemens as a guarantee for this facility settlement, there are no other guarantees .

- The available unused balance of foreign loans and facilities at 31/12/2008 equivalent to an amount of L.E 18 799 K.

15- SUPPLIERS & NOTES PAYABLE

	31/12/2008 LE (000)	31/12/2007 LE (000)
Suppliers - local	204 989	124 994
Notes payable	10 847	5 354
	215 836	**130 348**

16- CREDITORS AND OTHER CREDIT ACCOUNTS

16-1 Creditors and other credit accounts (current)

	Note No.	31/12/2008 LE (000)	31/12/2007 LE (000
Tax Authority		179 547	161 049
Deposits from others		754 254	722 778
Fixed assets creditors		271 904	330 635
Accrued interest		92 227	73 189
Accrued expenses		245 998	192 860
Social Insurance Authority		20 383	18 804
Customers – credit balances		297 095	201 728
Credit balance for social, cultural and sportive activities		110 701	206 982
Deferred revenues*		224 021	268 650
Other credit accounts		703 985	552 687
Tax Authority – income tax		271	124
Current income tax for the year		542 967	521 131
		3 443 353	3 250 617
Less:			
Tax liabilities due after one year	(16-2)	54 704	54 704
		3 388 649	3 195 913

* The deferred revenues amounting to 224 021 K at December 31, 2008 represents the grants presented by the USAID to finance some of the company's projects, as well as the grants presented by the projects management of Marine Cables for the construction of a building in Alexandria and the right of way for marine cables after deducting the accumulated amortization at December 31, 2008.

16-2 Creditors and other credit accounts (long-term)

Creditors and other long-term accounts represent:-

Telecom Egypt – parent company	Note No.	31/12/2008 LE (000)	31/12/2007 LE (000)
Tax liabilities due after one year	(16-1)	54 704	54 704
T.E Information Technology – a subsidiary Company			
The additional retirement compensations due to the company's employees		5 609	4 436
Due to suppliers as a result of purchasing communications machinery and supplies.		2 405	2 905
		62 718	62 045

17- PROVISIONS

Provision for continigent liabilities, claims and others

	Balance as of 1/1/2008 LE(000)	Charged to the income statement LE(000)	Used during the year LE(000)	Release of unused provisions LE(000)	Balance as of 31/12/2008 LE(000)
Tax provision	304 957	849	(11 185)	(7 624)	286 997
Claims provision	19 425	1 999			21 424
Guarantee provision	-	200	-	-	200
	324 382	3 048	(11 185)	(7 624)	308 621

Claims provision related to lawsuits in respect of claims for alleged losses and various claims for damages and expected social insurance claims in respect of contracts concluded with suppliers.

18- IMPAIRMENT LOSS OF ASSETS

	Note No.	Balance as of 1/1/2008 LE(000)	Charged to income statement LE(000)	Used during the year LE(000)	Translation difference adjustments LE(000)	Reversal of impairment loss LE(000)	Balance as of 31/12/2008 LE(000)
Impairment loss on trade receivables	(10)	911 463	403 350	-	1	(45)	1 314 769
Impairment loss on debtors and other debit balancs	(11)	314 017	8 796	(154 400)	42	-	168 455
Impairment loss on other assets	(8)	46 933	31 054	-	-	-	77 987
Impairment loss on long-term debit balances	-	246 969	32 008	-	-	-	278 977
Write-down of inventories	-	23 081	3 671	-	-	-	26 752
	-	1 542 463	478 879	(154 400)	43	(45)	1 866 940

19. CAPITAL

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

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

- Decrease of issued 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 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 LE 29 817 K.

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

20. RESERVES

	31/12/2008 LE (000)	31/12/2007 LE (000)
Legal reserve	680 204	571 376
Revaluation reserve of available for sale investments	6 814	6 814
General reserve	4 422 620	4 422 713
Capital reserve	18 110	18 110
	5 127 748	**5 019 013**

General reserve amounting to L.E 4 422 620 K at 31/12/2008 representing the dividends transferred to the general reserve for years 99/2000 till 2006 after deducting LE 1 618 803 K which represents the adjustments on the land during years 2005, 2006 and 2008.

21. BONDS LOAN

- In February 2005, the Company issued 20 million nominal marketable bonds not convertible into shares with total value of L.E 2 billion at a par value of L.E.100 each for year of (5) years. These bonds were offered for public subscription and issued in two portions as follows:

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

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

These bonds were used for partial settlement of long-term loans and bank overdraft accounts in local currency.

The bonds will be repaid / amortized on five equal installments starting on December 1st, 2007 and provided that the last installment will be repaid / amortized in February 2010. Bonds loan balance as of December 31, 2008 amounted to L.E 800 million (Fourth & Fifth installments) including L.E 400 million that shall become due within a year, and it was classified in the current liabilities in the balance sheet.

22. DEFERRED TAX

Deferred Tax Assets and Liabilities

	Assets 31/12/2008 L.E.(000)	Liabilities 31/12/2008 L.E.(000)	Assets 31/12/2007 L.E.(000)	Liabilities 31/12/2007 L.E.(000)
Fixed assets	-	(196 887)	-	(231 513)
Other assets	-	(2 675)	-	(1 952)
Inventory	4 999	-	4 616	-
Trade and other receivables	36 055	-	39 932	-
Provisions	46 233	-	49 434	-
Accrued liabilities	34 550	-	31 104	-
Total deferred tax assets (liability)	**121 837**	**(199 562)**	**125 086**	**(233 465)**
Net deferred tax liability	**-**	**(77 725)**	**-**	**(108 379)**

23. OPERATING REVENUES

	2008 LE (000)	2007 LE (000)
Retail Services:		
Access revenue	1 999 398	1 888 055
Voice revenue	3 014 869	3 166 988
Internet service & data transmission	575 337	456 472
Others	591 202	629 811
Total Retail Services	**6 180 806**	**6 141 326**
Wholesale Services :		
Domestic	1 058 265	924 589
International	2 877 825	2 927 232
Total Wholesale Services	**3 936 090**	**3 851 821**
Total Operating Revenues	**10 116 896**	**9 993 147**

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

24. OTHER OPERATING COSTS

	2008 LE (000)	2007 LE (000)
Salaries & wages	1 031 839	842 117
Compulsory social security contributions	102 091	98 024
Employees' vacations	18 365	16 027
Electricity & water	13 096	13 740
Stationary & printed materials	38 069	60 165
Transportation cost	23 852	17 204
Business telephone cost	58 674	53 314
Rent	742	6 886
Frequencies & license charge (NTRA)	195 011	174 504
Others	156 209	208 822
	1 637 948	**1 490 803**

25. GENERAL & ADMINISTRATIVE EXPENSES

	2008 LE (000)	2007 LE (000)
Salaries & wages	641 038	576 061
Compulsory social security contributions	37 756	34 772
End of service compensation-Early retirement program	23 119	4 461
Employees' vacations	11 712	11 372
Depreciation of fixed assets	183 965	176 550
Training	1 065	989
Bad debts	19 338	1 264
Tax and customs duty	111 741	77 741
Bank charges & commissions	4 896	7 470
Advertisement	75 960	42 715
Others	235 141	203 620
	1 345 731	**1 137 015**

26. SELLING & DISTRIBUTION EXPENSES

	2008 LE (000)	2007 LE (000)
Salaries & wages	169 794	128 053
Compulsory social security contributions	16 367	13 643
Employees' vacations	2 635	2 385
Depreciation of fixed assets	4 939	2 325
Tax and customs duty	9 010	5 906
Rent	2 458	1 000
Advertisement	21 254	24 328
Others	209 891	169 954
	436 348	**347 594**

27. INCOME (LOSS) FROM INVESTMENTS

	2008 LE (000)	2007 LE (000)
Revenues (Losses) from investment in affiliates		
Vodafone Egypt	1 308 600	1 126 366
Nile on line (NOL)	(195)	256
Consortium Algerien De Tele-Communications (CAT)	-	(59 434)
Egypt Trust	(1 793)	-
	1 306 612	1 067 188
Revenue from available for sale investments		
The Egyptian Telephone Company (Quicktel)	-	2 211
Information Technology Company	339	129
Menatel	-	1 144
Egyptian German Telecommunication Industry (EGTI)	2 126	-
Arab sat	3 002	-
	1 312 079	1 070 672

28. OTHER REVENUES

	2008 LE (000)	2007 LE (000)
Sundry revenues*	260 043	307 668
Donations	(9 071)	(17 436)
	250 972	290 232

* Sundry revenues include the following:

	LE (000)
- Accrued interest for the amounts paid to NTRA.	120 000
- Deferred revenues amortization	44 629

29. IMPAIRMENT ON AVAILABLE FOR SALE INVESTMENTS

	2008 LE (000)	2007 LE (000)
Investments in affiliates		
Nile On Line (NOL)	-	17 332
International Telecommunication Consortium Limited. (ITCL)	-	(54)
	-	17 278
Available for sale investments		
- Arab company for computers industry	(717)	(947)
- Egyptian Company for Networks –EgyNet	-	15 900
- The Egyptian Telephone Company (Quicktel)	(11 524)	-
- Egyptian Company for Ideavelopers	(55)	(321)
- Menatel Company	(5 605)	-
	(17 901)	14 632
	(17 901)	31 910

30. 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 company's board of directors approved in its meetings dated March 20, 2002 and December 30, 2002 to finance an amount of L.E 65 000 K and L.E 35 000 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 L.E. 86 197 K was refunded as of December 31, 2008.

- On January 15, 2004 the employees' Loyalty Fund was registered in the Register of the Egyptian Private Social Insurance Funds in Egypt 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 L.E. 23 119 K. (Note No. 25)

- The amounts to be refunded during a year (current portion) amounted toL.E 4 980 K and the amounts to be refunded starting from January 2010 and up to the year 2011 (the long term portion) is L.E. 13 803 K. (Note No. 7).

31. EARNINGS PER SHARE FOR THE YEAR

	2008 LE (000)	2007 LE (000)
Net profit for the year (LE 000)	2 789 506	2 534 286
Less:		
Employees share in profit (LE 000)	246 577	189 675
Board of directors remuneration (LE 000)	4 000	3 000
	2 538 929	2 341 611
Less:		
The parent company's share in employees & Board of directors' share of subsidiaries dividends (LE 000)	340	2 874
	2 538 589	2 338 737
Number of outstanding shares	1 707 071 600	1 707 071 600
Earnings per share for the year (L.E / share)	1.49	1.37

32. CAPITAL COMMITMENTS

The company's capital commitments for the unexecuted parts of contracts until December 31, 2008 amounted to L.E 102 million (includes L.E 10.45 million the uncalled installments of investees' of share capital) against L.E 111 million at 31/12/2007 (includes L.E 10.45 million the uncalled installments of investees' of share capital). These commitments are expected to be settled in the following period except the uncalled installments of investees' share capital, which shall be settled when required by the Board of Directors for those investees companies.

33. CONTINGENT LIABILITIES

In addition to the amounts included in the balance sheet, as of December 31, 2008 the company had the following contingent liabilities:

	31/12/2008 LE (000)	31/12/2007 LE (000)
- Letters of guarantee issued by banks on behalf of the company	63 789	65 762
- Letters of credit	191 722	249 041

34. TAX POSITION

34-1 Corporate tax

Years till 26/3/1998

- This year covers all the years up till National Telecommunication Authority (NTA) 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 disputed tax liabilities.

Financial years from 27/3/1998 till 31/12/2004

Tax inspection was made till the year ended 31/12/2004 and the company was notified by Tax Forms No. (18) & (19) corporate profit tax and it agreed on the taxable income and the differences were paid.

Financial years 2005, 2006&2007

- Tax inspection for the year 2005 was made, and the company was notified that there are no tax differences.

- Tax returns were submitted for years 2006 & 2007 on due dates according to tax law No. 91 for year 2005.

34-2 Sales Tax

- Tax inspection was made till 31/12/2007 and all due taxes were settled.

34-3 Salaries Tax

- Tax inspection and assessment were made till 31/12/2002 and all due tax were settled.

- Tax inspection for the year from 1/1/2003 till 31/12/2004 is currently being undertaken.

34-4 Stamp tax

- Tax inspection for the year from 27/3/1998 to 31/12/2000 was made and the company objected on the disputed items on the due dates and the related provisions were formed to meet the disputed tax liabilities.

- Tax inspection for the years from 1/1/2001 till 31/7/2006 was made and all tax due were settled.

35- RELATED PARTY TRANSACTIONS WITH AFFILIATES

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

	Amount of transations recorded in the income statement L.E. 000	Nature of transaction during the year	Transaction volume during the year Debit L.E. 000	Transaction volume during the year Credit L.E. 000	Balance as of 31/12/2008 Debit L.E. 000	Balance as of 31/12/2008 Credit L.E. 000	Balance as of 31/12/2007 Debit L.E. 000	Balance as of 31/12/2007 Credit L.E. 000
Debit balance included in account receivables								
Nile On Line (N.O.L)	-	International leased lines	-	-	-	-	66	-
Nile On Line (N.O.L)	-	Local leased lines	-	-	-	-	742	-
Vodafone Egypt	523 011	Outgoing calls and voice services to the affiliate company						
			1 126 118	1 001 470	178 848	-	54 200	-
	1 077 987	Incoming and internatiol call transmission & lease of company premises and towers to the affiliate company						
Vodafone Egypt	11 176	Sale of products & services of vodafone	3 540	6 675	-	3 135	-	-
			1 129 658	1 008 145	178 848	3 135	55 008	-
Debit balance included in other debit balances - long term								
Consortium Algerien de Telecommunications (CAT)		Paid on behalf of subsidiary to finance operating expenses	47 420	15 413	446 766	-	414 759	-
Debit balance included in debtors and other debit accounts								
International Telecommunication Consortium Limited (ITCL)			2	2	66	-	66	-

36. FINANCIAL INSTRUMENTS

36 -1 credit risk : Exposure to credit risk

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

	Note No.	31/12/2008 LE (000)	31/12/2007 LE (000
Trade & notes receivable	(10)	2 965 340	3 100 723
Other debit balances-long term	(7)	8 823	426 303
Debtors and other debit accounts – short terms	(11)	1 868 625	1 691 762
Investments in affiliates	(6-1)	6 922 814	6 921 428
Available for sale investments	(6-2)	101 069	105 970
Cash at banks	(13)	2 703 993	1 293 278
		14 570 664	13 539 464

36–2 Liquidity risk :

The following are the expected maturities of financial liabilities at the balance sheet date.

	Carrying Amount LE (000)	One year or less LE (000)	From 1-2 years LE (000)	From 3-5 years LE (000)	More than five years LE (000)
December 31, 2008					
Suppliers & notes payable	204 989	204 989	-	-	-
Creditors and other credit accounts	3 452 497	3 389 779	-	1 870	60 848
Loans installments and facilities	2 345 562	1 119 383	375 309	391 744	459 126
Bonds loan	800 000	400 000	400 000	-	-
	6 803 048	5 114 151	775 309	393 614	519 974
December 31, 2007					
Suppliers & notes payable	130 348	130 348	-	-	-
Creditors and other credit accounts	3 258 787	3 196 742	2 905	1 479	57 661
Loans installments and facilities	3 384 705	1 033 717	654 568	1 120 981	575 439
Bonds loan	1 600 000	800 000	800 000	-	-
	8 373 840	5 160 807	1 457 473	1 122 460	633 100

36-3 Currency risk

Description	LE (000)	U.S. Dollars (000)	LE (000)	Sterling Pound (000)	LE (000)	Euro (000)	LE (000)	Japanese Yen (000)	Other Currencies LE (000)	Total LE(000)
31/12/08										
Receivables	935 908	169 779	-	-	5 983	769	-	-	3 435	945 326
Due interest - deposits	1 812	329	-	-	6 213	799	-	-	-	8 025
Other debit accounts	281	50 970	-	-	-	-	-	-	1 260	1 541
Cash on hand & at banks	879 088	159 471	2 389	300	463 643	59 608	-	-	21 523	1 366 643
Total assets	1 817 089	380 549	2 389	300	475 839	61 176	-	-	26 218	2 321 535
Suppliers and notes payable	37 170	6 743	-	-	224	29	-	-	578	37 972
Creditors & other credit accounts	49 933	9 058	69	8	69 225	8 900	-	-	16 223	135 450
Banks overdraft	-	-	323	40		-		-		323
Foreign loans & facilities	536 746	97 369	-	-	662 716	85 202	36 820	600 817	-	1 236 282
Total liabilities	623 849	113 170	392	48	732 165	94 131	36 820	600 817	16 801	1 410 027
Risk surplus (deficit)	1 193 240	267 379	1 997	252	(256 326)	(32 955)	(36 820)	(600 817)	9 417	911 508
Closing exchange rate as of 31/12/2008	-	5.5125	-	7.9802	-	7.7782	-	0.0613	-	-
Average exchange rate during year 2008	-	5.4565	-	10.0561	-	8.1049	-	0.0531	-	-
31/12/07										
Receivables	1 051 407	190 818	-	-	13 120	1 630	-	-	1 558	1 066 085
Due interest - deposits	138	25	11	1	483	60	-	-	-	632
Other Debit accounts	116	21	-	-	-	-	-	-	864	980
Cash on hand & at banks	333 564	60 538	3 342	305	321 171	39 903	-	-	11 940	670 017
Total assets	1 385 225	251 402	3 353	306	334 774	41 593	-	-	14 362	1 737 714
Suppliers and notes payable	2 606	473	-	-	72	9	-	-	-	2 678
Creditors & other credit accounts	92 166	16 727	77	7	58 893	7 317	60	1 218	16 330	167 526
Banks overdraft	832	151	449	41	-	-	-	-	-	1 281
Foreign loans & facilities	626 564	113 714	-	-	780 412	96 960	54 046	1 096 260	-	1 461 022
Total liabilities	722 168	131 065	526	48	839 377	104 286	54 106	1 097 478	16 330	1 632 507
Risk surplus (deficit)	663 057	120 337	2 827	258	(504 603)	(62 693)	(54 106)	(1 097 478)	(1 968)	105 207
Closing exchange rate as of 31/12/2007	-	5.51	-	10.9575	-	8.0488	-	0.0493	-	-
Average exchange rate during year 2007	-	5.65	-	11.3	-	7.8	-	0.0486	-	-

36–4 Sensitivity analysis

A 10% strengthening of the foreign currencies against the EGP as of December 31, 2008 would have increased profit by an amount of LE 91 151 K (L.E 10 520 K as of December 31, 2007). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for 2007.

And a 10% weakening of the foreign currencies against the EGP at 31/12/2008 would have had the equal but opposite effect on the foreign currencies to the amounts shown above.

36-5 Interest rate risk

At the reporting date, the interest rate profile of the company's description financial instruments is:

	31/12/2008 LE (000)	31/12/2007 LE (000)
Fixed rate financial instruments		
Financial assets - deposits	2 233 896	1 077 783
Financial liabilities (loans – facilities-bonds)	1 636 460	2 273 157
	3 870 356	3 350 940
Variable rate financial instruments		
Financial liabilities (Vodafone loan)	1 102 500	1 917 000
Financial liabilities (bonds)	400 000	800 000
	1 502 500	2 717 000

36-6 Fair values for financial instruments

The financial instruments are represented in the balance of cash on hand and at banks, debtors, creditors, investments and loans & facilities. 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.

37- INTERCONNECT AGREEMENT WITH MOBILE COMPANIES

Telecom Egypt company filed a complaint with the Dispute Resolution Board of the National Telecommunication Regulatory Authority (NTRA) with the purpose of changing interconnect rates with the mobile operators. The NTRA issued a ruling on the dispute on September 3, 2008 by changing the interconnect prices between the fixed and mobile networks. However, Mobinil objected to the administrative decision issued by the NTRA and filed a lawsuit on November 1, 2008 against the NTRA before the Administrative Court at the State Council asking for cessation and nullifying the NTRA decision in addition to the cancellation of all the consequent effects of the said decision. On the other hand, Vodafone – Egypt also filed a lawsuit against NTRA and Telecom Egypt before the Administrative Court to claim the cessation of the administrative decision and the nullity of the said decision.

The amount in dispute between Telecom Egypt and the mobile operators in relation to the said dispute during the period from September 3, 2008 till the end of December 2008 amounted to L.E 128 230 515 in favor of Telecom Egypt. Meanwhile, Telecom Egypt recorded revenues and expenses of the interconnect services between the company and the mobile companies according to the administrative decision issued by NTRA. Telecom Egypt is currently considering the proper legal actions including its defense procedures against Vodafone – Egypt in the light of the agreement in effect and the provisions of the Telecommunications Law.

Crop Yields

IFRS

Financial Statements

For the Financial Year Ended Dec. 31, 2008

KPMG

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INDEPENDENT AUDITOR'S REPORT

To The Board of Directors of Telecom Egypt Company

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

KPMG Hazem Hassan

KPMG Hazem Hassan

April 8, 2009

Cairo, Egypt

Consolidated Balance Sheet IFRS

For The Financial Year Ended December 31, 2008

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

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

Chairman & Chief Executive Officer	Vice President & Chief Financial Officer	Financial Controller
Akil Beshir	Tarek Tantawy	Hosam El-Saadawy

Auditor report " attached"

Consolidated Income Statements IFRS

For The Financial Year Ended December 31, 2008

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

Consolidated Statement of Cash Flows IFRS

For The Financial Year Ended December 31, 2008

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

Consolidated Statement of Changes in Equity IFRS

For The Financial Year Ended December 31, 2008

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

1. BACKGROUND AND ACTIVITIES

Telecom Egypt (the "Company") is an Egyptian Joint Stock Company registered in the Arab Republic of Egypt and is engaged in the provision of public communications and associated products and services. The consolidated financial statements of the Company for the twelve months ended 31 December 2008 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

The registered office of the Company is 26 Ramses Street, Cairo, Egypt. Mr. Akil Beshir is the Company's Chairman.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (" IFRSs") and its interpretations adopted by the International Accounting Standards Board ("IASB") with due acknowledgement of the interpretation of the International Financial Reporting Interpretation Committee ("IFRIC").

In compliance with the Egyptian Companies Law, the Group prepares another set of consolidated financial statements in accordance with Egyptian Accounting Standards ("EAS"). The primary differences between IFRS and EAS include, but not limited to the following:

- Recognition of certain finance leases arrangements;
- Recognition of employees' share in dividends; and
- Capitalization of certain foreign exchange losses as part of asset cost.

(b) Basis of preparation

The financial statements are presented in Egyptian Pound referred to as "Egyptian Pound" or "LE" rounded to the nearest thousand. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value; financial instruments that are classified as available-for-sale and fixed assets that were valued in 1998.

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognized gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

(iii) Transactions eliminated on consolidation

Intragroup balances and any unrealized gains and losses or income and expenses arising from Intragroup transactions, are eliminated in preparing the consolidated financial statements.

Unrealized gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(d) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Egyptian Pound at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) Financial statements of foreign operations

The assets and liabilities of foreign operations are translated to Egyptian Pound at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Egyptian Pound at rates approximating to the foreign exchange rates ruling at the dates of the transactions.

(iii) Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations are taken to translation reserve. They are released into the income statement upon disposal.

(e) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost as deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy k).

Certain items of property, plant and equipment that had been revalued to fair value in 1998 are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases and are stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (see accounting policy k).

(iii) Subsequent costs

The Group recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognized in the income statement as an expense as incurred.

(iv) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

▪ Buildings	10 - 50 years
▪ Machinery and equipment	5 - 20 years
▪ Vehicles	5 - 10 years
▪ Tools and other equipment	1 - 8 years
▪ Office furniture and fixtures	3 - 16.67 years

(f) Intangible assets

(i) Measurement

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

(ii) Subsequent expenditure

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

(iii) Amortization

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

(g) Investments

(i) Investments in equity securities – available for sale

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

The fair value of financial instruments classified as available-for-sale is their quoted bid price at the balance sheet date.
Financial instruments classified as available-for-sale investments are recognized / derecognized by the Group on the date it commits to purchase / sell the investments.

(ii) Held for trading investments

Financial investments classified as held for trading are recorded initially at cost. At the end of each financial period, these investments are re-measured at their fair value (Market value). Gain or loss arising from a change in the fair value should be included in the net profit or loss for the period in which it arises.

(h) Receivables

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

(i) Inventory

Inventory is stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

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

(j) Cash and cash equivalent

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

(k) Impairment

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

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

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

(i) Calculation of recoverable amount

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

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

(ii) Reversals of impairment

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

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

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

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

(l) Interest-bearing borrowings

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

(m) Employee benefits

(i) Pension

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

(n) Provisions

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

(o) Trade and other payables

Trade and other payables are stated at cost.

(p) Revenue

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

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

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

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

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

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

(q) Grants

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

(r) Expenses

(i) Operating lease payments

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

(ii) Finance lease payments

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

(ii) Net financing costs

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

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

(s) Income tax

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

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

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

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

(T) Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, the Group objectives, policies and processes for measuring and managing risk, and the Group management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group risk management framework.

The Group risk management policies are established to identify and analysis the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(i) Credit risk

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

Trade & other receivables and debtors

The Group exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group customer base, including the default risk has less of an influence on credit risk.
Approximately 100% of Group revenue is attributable to sales transaction with many customers, and the management of the Group stated credit policy which suspends services for delinquent customers and impose fines on late payments followed by cutting off lines then contract termination.

(ii) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group reputation.

The Group ensures that the sufficient cash on demand to meet expected operational expenses for a suitable period, including the service of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the company's income or the value of its holdings of financial instruments.
The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(iiii) Currency risk

The Group is exposed to currency risk on transactions that are denominated in a currency other than the respective functional currencies of the Group, primarily the U.S. Dollars (USD).
In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level through purchase or sale of the foreign currencies with current prices when that is necessary to face non long term balance.

(v) Other market prices risk

Equity price risk arises from available-for-sale investments held for strategic rather than trading purposes. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Executive Management. The primary goal of the Group investment strategy is to maximise investment returns.

(vi) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity , and control the stock holders level. There were no changes in the Group approach to capital management during the period, The Group is not subject to externally imposed capital requirements.

3. OPERATING REVENUE

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

In thousands of Egyptian Pound	2008	2007
Retail Services:		
Access revenue	1 999 398	1 888 055
Voice revenue	3 014 869	3 166 988
Internet service & data transmission	575 337	456 472
Others	591 202	629 811
Total Retail Services	**6 180 806**	**6 141 326**
Wholesale Services		
Domestic	1 058 265	924 589
International	2 877 825	2 927 232
Total Wholesale Services	**3 936 090**	**3 851 821**
Total Operating Revenues	**10 116 896**	**9 993 147**

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

4. OPERATING EXPENSES

In thousands of Egyptian Pound	2008	2007
Interconnection fees	1 253 690	1 368 457
Fuel	93 700	81 889
Spare parts	127 242	127 258
Maintenance	236 069	217 577
Satellite subscriptions	16 655	19 764
Depreciation	2 475 353	2 657 853
Amortization	31 676	33 897
Salaries & wages	1 031 839	842 117
Employees' vacations	18 365	16 027
Compulsory social security contributions	102 091	98 024
Frequencies & license charge (NTRA)	195 011	174 504
Employees' share in dividends	139 826	107 898
Other operating costs	290 642	360 131
	6 012 159	**6 105 396**

5. OTHER INCOME

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

* Deferred revenues amortization for the year ended 31/12/2008 represents amortization of the grants presented by the USAID to finance some of the company's projects, as well as the grants presented by the projects management of Marine Cables for the construction of a building in Alexandria and the right of way for marine cables.

6. SELLING AND DISTRIBUTION EXPENSES

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

7. ADMINISTRATIVE EXPENSES

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

8. OTHER EXPENSES

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

9. PERSONNEL EXPENSES

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

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

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

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

10. NET FINANCING EXPENSES

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

11. INCOME TAX EXPENSE

Recognized in the income statement

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

12. CURRENT TAX ASSETS AND LIABILITIES

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

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

Fully depreciated assets

Property, plant and equipment cost includes LE 5 949 million relating to fully depreciated assets.

Leased equipment and vehicles

The Group leases equipment and vehicles under a number of finance lease agreements. At the end of each of the leases, the Group has the option to purchase the equipment and vehicles at a beneficial price. At 31 December 2008, the net carrying amount of leased equipment and vehicles was LE 56 539 k (2007: LE 80 388 k).

Depreciation

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

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

14. INTANGIBLE ASSETS

In thousands of Egyptian Pound	Land usufruct	Right of way	Internet service license	Right of using ROU	Total
Cost					
Balance at 1 January 2008	1	330 193	20 181	136 682	487 057
Adjustments	-	(1 095)	-	-	(1 095)
Acquisitions	-	-	-	8 735	8 735
Disposals	-	(22 252)	-	-	(22 252)
Effects of movements in foreign exchange	-	-	1	12	13
Balance at 31 December 2008	1	306 846	20 182	145 429	472 458
Amortization					
Balance at 1 January 2008	-	198 552	20 054	44 729	263 335
Amortization for the year	-	24 234	20	7 422	31 676
Accumulated amortization for disposals	-	(8 598)	-	-	(8 598)
Impairment loss for other assets	-	-	-	31 054	31 054
Balance at 31 December 2008	-	214 188	20 074	83 205	317 467
Carrying amounts					
At 31 December 2007	1	131 641	127	91 953	223 722
At 31 December 2008	1	92 658	108	62 224	154 991

Land usufruct

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

Amortization charge

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

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

15. INVESTMENTS IN ASSOCIATES

the group has the following investment in associates:

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

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

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

Investment in Vodafone – Egypt

- The investments in Vodafone Egypt as of 31/12/2008 represents the ownership of 107 869 799 shares representing 44.95% of Vodafone Egypt shares.

Investments in Nile On Line (NOL)

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

Summary financial information on associates – 100 percent:

In thousands of Egyptian Pound	Assets	Liabilities	Equity	Revenues	Profit/(Loss)
31-12-2007:					
* Vodafone Egypt	12 212 000	7 000 000	5 212 000	7 736 000	1 936 000
Nile on line	68 775	14 986	53 789	41 853	178
Consortium Algerien de Tele -communications (CAT)	614 173	955 210	(341 037)	30 100	(118 868)
** Wataneya for Telecommunication	-	-	-	-	-
** International Telecommunication Consortium Limited. (ITCL)	-	-	-	-	-
Egypt Trust	11 927	6 212	5 715	-	(4 785)
	12 906 875	7 976 408	4 930 467	7 807 953	1 812 525
31-12-2008:					
* Vodafone Egypt	13 266 000	8 308 000	4 958 000	8 885 000	2 083 000
Consortium Algerien de Tele -communications (CAT)	46 251	1 040 121	(993 870)	12 700	(512 886)
** Wataneya for Telecommunication	-	-	-	-	-
** International Telecommunication Consortium Limited. (ITCL)	-	-	-	-	-
Egypt Trust	9 917	6 652	3 265	126	(5 021)
	13 322 168	9 354 773	3 967 395	8 897 826	1 565 093

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

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

16. AVAILABLE FOR SALE INVESTMENTS

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

Investments in EgyNet Company (Available for sale investments)

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

17. LONG-TERM RECEIVABLE

In thousands of Egyptian Pound	31 /12/ 2008	31 /12/ 2007
* The amounts due from National -Telecommunication Regulatory Authority for the license fees paid to the said Authority for the third operator after waiver of this license.	140 000	560 000
Accretion of interest	466 000	388 000
Amortized cost	606 000	948 000
Current portion	(606 000)	(490 000)
	-	458 000
** Payments made on behalf of consortium Algerian de Telecommunication to finance the license concession and finance the operating expenses of consortium company in Algeria.	446 767	414 759
Impairment loss on long-term receivable.	(446 767)	(414 759)
	-	-
Payments under capital increase for Egypt Trust and Technology Development Fund companies till recording in the commercial registration of this increase.	-	42 500
	-	500 500

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

** Telecom Egypt financed Consortium Algerian Telecommunication (CAT) by an amount of LE 446 767 K where Telecom Egypt participation is 50% (Direct & Indirect), this company suffers a material decrease in recoverable amount of the tangible & intangible company's assets, this company also faces financial difficulties. In the light of these circumstances there is high probability that Telecom Egypt will not be able to recover the finance given to CAT. The income statement was charged for the year by L.E. 32 008 K and for the years before 2008 by L.E. 414 759 K which represents Telecom Egypt share in the loss of investment for the years before 2008.

18. DEFERRED TAX ASSETS AND LIABILITIES

recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

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

19. INVENTORY

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

20. TRADE AND OTHER RECEIVABLES

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

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

21. INVESTMENTS HELD FOR TRADING

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

	31/12/2008	31/12/2007
TE Data a Subsidiary Company		
Value of 77 889 unit of Commercial International Bank Investment Fund – Osoul Fund with price LE 136.86 for each unit at balance sheet date.(410 368 unit with price LE 126.19 for each unit for 2007).	10 660	51 784
Value of 91 771 unit of the National Societe General Bank Investment Fund with price L.E 119.864 for each unit at balance sheet date. (375 612 unit with price LE 110.923 for each unit for 2007).	11 000	41 664
The Egyptian Telecommunication Company for Information Systems (Xceed) a subsidiary company		
Value of 9 067 unit of Commercial International Bank Investment Fund – Osoul Fund with price LE 136.86 for each unit at balance sheet date. (9 067 unit with price LE 126.19 for each unit for 2007).	1 241	1 144
	22 901	94 592

22. CASH AND CASH EQUIVALENTS

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

23. CAPITAL AND RESERVES

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

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

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

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

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

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

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

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

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

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

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

24. EARNINGS PER SHARE

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

Profit attributable to ordinary shareholders

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

Number of ordinary shares

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

25. INTEREST-BEARING LOANS AND BORROWINGS

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

In thousands of Egyptian Pound	31/12/2008	31/12/2007
Non-current liabilities		
Unsecured bank loans:		
Local banks	197 637	1 102 500
Governmental loans	453 444	553 890
Foreign loans	575 098	694 598
Finance lease liabilities	36 543	57 283
	1 262 722	**2 408 271**
Current liabilities		
Short-term loans	6 602	6 683
Current portion of unsecured bank loans:		
Local banks	905 042	814 500
Governmental loans	100 105	97 077
Foreign loans	104 338	112 046
Current portion of finance lease liabilities	27 796	32 604
Foreign suppliers facilities	3 296	3 411
	1 147 179	**1 066 321**

Security

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

Repayment

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

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

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

Finance lease liabilities

Finance lease liabilities are payable as follows:

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

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

26. BONDS PAYABLE

- In February 2005, the Company issued 20 million nominal marketable bonds not convertible into shares at a par value of LE 100 each for period of (5) years. These bonds were offered for public subscription and issued in two portions as follows:

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

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

These bonds were used for partial settlement of long-term loans and bank overdraft accounts in local currency.

The bonds will be repaid / amortized on five equal instalments starting on December 1st, 2007 and provided that the last instalment will be repaid / amortized in February 2010. Bonds loan balance as of December 31, 2008 amounted to L.E 800 million including L.E 400 million (Fourth & fifth instalments) that shall become due within a year, and it was classified in the current liabilities in the balance sheet.

27. TRADE AND OTHER PAYABLES

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

28. PROVISIONS

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

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

29. FINANCIAL INSTRUMENTS

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

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

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

(i) Credit risk

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

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

(ii) Liquidity risk

The following are the expected maturities of financial liabilities at the balance sheet date.

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

(iii) Foreign currency risk

Finance lease liabilities are payable as follows:

Details	LE (000)	U.S. Dollars (000)	LE (000)	Sterling Pound (000)	LE (000)	Euro (000)	LE (000)	Japanese Yen (000)	Other Currencies LE (000)	Total LE (000)
31/12/08										
Receivables	935 908	169 779	-	-	5 983	769	-	-	3 435	945 326
Accured interest - deposits	1 812	329	-	-	6 213	799	-	-	-	8 025
Other debit balances	281	50 970	-	-	-	-	-	-	1 260	1 541
Cash on hand & at bank	879 088	159 471	2 389	300	463 643	59 608	-	-	21 523	1 366 643
Total assets	**1 817 089**	**380 549**	**2 389**	**300**	**475 839**	**61 176**	**-**	**-**	**26 218**	**2 321 535**
Suppliers and notes payable	37 170	6 743	-	-	224	29	-	-	578	37 972
Creditors & other credit balances	49 933	9 058	69	8	69 225	8 900	-	-	16 223	135 450
Banks overdraft	-	-	323	40	-	-	-	-	-	323
Foreign loans & facilities	536 746	97 369	-	-	662 716	85 202	36 820	600 817	-	1 236 282
Total liabilities	**623 849**	**113 170**	**392**	**48**	**732 165**	**94 131**	**36 820**	**600 817**	**16 801**	**1 410 027**
Risk surplus (deficit)	1 193 240	267 379	1 997	252	(256 326)	(32 955)	(36 820)	(600 817)	9 417	911 508
Closing exchange rate as of 31/12/2008	**-**	**5.5125**	**-**	**7.9802**	**-**	**7.7782**	**-**	**0.0613**	**-**	**-**
Average exchange rate during year 2008	**-**	**5.4565**	**-**	**10.0561**	**-**	**8.1049**	**-**	**0.0531**	**-**	**-**
31/12/07										
Receivables	1 051 407	190 818	-	-	13 120	1 630	-	-	1 558	1 066 085
Accured interest - deposits	138	25	11	1	483	60	-	-	-	632
Other Debit balances	116	21	-	-	-	-	-	-	864	980
Cash on hand & at bank	333 564	60 538	3 342	305	321 171	39 903	-	-	11 940	670 017
Total assets	**1 385 225**	**251 402**	**3 353**	**306**	**334 774**	**41 593**	**-**	**-**	**14 362**	**1 737 714**
Suppliers and notes payable	2 606	473	-	-	72	9	-	-	-	2 678
Creditors & other credit balances	92 166	16 727	77	7	58 893	7 317	60	1 218	16 330	167 526
Banks overdraft	832	151	449	41	-	-	-	-	-	1 281
Foreign loans & facilities	626 564	113 714	-	-	780 412	96 960	54 046	1 096 260	-	1 461 022
Total liabilities	**722 168**	**131 065**	**526**	**48**	**839 377**	**104 286**	**54 106**	**1 097 478**	**16 330**	**1 632 507**
Risk surplus (deficit)	663 057	120 337	2 827	258	(504 603)	(62 693)	(54 106)	(1 097 478)	(1 968)	105 207
Closing exchange rate as of 31/12/2007	**-**	**5.51**	**-**	**10.9575**	**-**	**8.0488**	**-**	**0.0493**	**-**	**-**
Average exchange rate during 2007	**-**	**5.65**	**-**	**11.3**	**-**	**7.8**	**-**	**0.0486**	**-**	**-**

(iv) Sensitivity analysis

A 10% strengthening of the foreign currencies against the EGP as of December 31, 2008 would have increased profit by the amounts L.E 91 151 K (L.E 10 520 K as of December 31, 2007). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007.

A 10% weakening of the foreign currencies against the EGP at 31/12/2008 would have had the equal but opposite effect on the foreign currencies to the amounts shown above, on the basis that all other variables remain constant .

(v) Interest rate risk

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

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

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

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Except of the investments in Vodafone Egypt, Nile on Line and Consortium Algerien de Telecommunications (CAT) which are accounted for using the equity method of accounting, the carrying values of the Group's other financial instruments approximate their fair values.

Estimation of fair values
The following summarizes the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Securities
Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs except for investments in Vodafone Egypt, Nile on Line, Consortium Algerien de Telecommunications (CAT), and Egypt Trust which were accounted for using the equity method of accounting.

Interest-bearing loans and borrowings
Fair value is calculated based on discounted expected future principal and interest cash flows.

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

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

Interest rates used for determining fair value.
The entity uses the government yield curve as of December 31, 2008 plus an adequate constant credit spread to discount financial instruments. The discount rate for minimum lease liabilities and receivables is 14%.

31. CAPITAL COMMITMENTS

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

32. CONTINGENCIES

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

33. RELATED PARTIES

Identity of related parties
The Group has a relationship with its associate **Vodafone Egypt and Consortium Algerian de Telecommunications (CAT).**

Transaction with Associates and unconsolidated subsidiaries

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

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

34. GROUP ENTITIES

Control of the Group

The Group's ultimate parent company is Telecom Egypt.

Subsidiaries	Country of incorporation	Ownership interest 30 September 2008	31 December2007
Middle East Radio Communication (MERC)-(Direct & Indirect)	Egypt	50.90	50.90
The Egyptian Telecommunication Company for Information Systems (Xceed)	Egypt	97.66	97.66
T. E. Data	Egypt	95.04	95.04
Centra Technologies	Egypt	58.76	58.76
* Centra Industries - Indirect ownership	Egypt	58.63	58.63
* Centra Distribution – Indirect ownership	Egypt	58.74	58.74
** T.E Data Jordan - Indirect ownership	Jordan	95.04	95.04
*** Xceed Middle East FZ – LLC – Indirect ownership	UAE	97.66	97.66
*** Xceed Customer Care Maroc	Morocco	97.66	-
Telecom Egypt France	France	100.00	-

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

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

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

35. INTERCONNECT AGREEMENT WITH MOBILE COMPANIES

Telecom Egypt company filed a complaint with the Dispute Resolution Board of the National Telecommunication Regulatory Authority (NTRA) with the purpose of changing interconnect rates with the mobile operators. The NTRA issued a ruling on the dispute on September 3, 2008 by changing the interconnect prices between the fixed and mobile networks. However, Mobinil objected to the administrative decision issued by the NTRA and filed a lawsuit on November 1, 2008 against the NTRA before the Administrative Court at the State Council asking for cessation and nullifying the NTRA decision in addition to the cancellation of all the consequent effects of the said decision. On the other hand, Vodafone – Egypt also filed a lawsuit against NTRA and Telecom Egypt before the Administrative Court to claim the cessation of the administrative decision and the nullity of the said decision.

The amount in dispute between Telecom Egypt and the mobile operators in relation to the said dispute during the period from September 3, 2008 till the end of December 2008 amounted to L.E 128 230 515 in favor of Telecom Egypt. Meanwhile, Telecom Egypt recorded revenues and expenses of the interconnect services between the company and the mobile companies according to the administrative decision issued by NTRA. Telecom Egypt is currently considering the proper legal actions including its defense procedures against Vodafone – Egypt in the light of the agreement in effect and the provisions of the Telecommunications Law.

Crop Yields

Subsidiaries & Investments

Xceed - TE Data - Centra - MERC

97.66%

Xceed was established in 2001 originally as an IT arm of local Telecom provider Telecom Egypt. It has since developed into something much larger, providing services to major multinational leaders all over the world.

Xceed is a global provider of quality, multilingual Business Process Outsourcing (BPO) services, offering integrated customer care, technical support and associated back-office processing for commercial and governmental clients worldwide. Xceed currently has four (4) sites within Cairo; two of which are operating 24/7. The other two locations are utilized as back up sites for business continuity purpose. Capitalizing on its ground breaking success, Xceed has an additional contact center in the Morocco technology Park; "CasaNearshore Park". Xceed has representative offices in North America, the UK, and Dubai.

Milestones

- Xceed won the "Best Career and Skill Paths Award" by Insights organization in Dubai.
- The first annual International Association of Outsourcing Professionals (IAOP) North Africa Chapter meeting was held in Egypt and chaired by Xceed's Vice President of Marketing & Business Development Ossama Nazmi.
- Xceed was recognized by the International Association for Outsourcing Professionals (IAOP) as "One of the Best 10 Rising Star Companies" in the Global Outsourcing 100 program sublists.
- Xceed Obtained ISO/ IEC 27001:2005 Information Security Management Certificate.
- Xceed was awarded business from Fortune Global 100 companies like: Microsoft Technical Support for MEA, Ericson Infra Structure Management Service , Cisco order Management Service as well as local prominent clients like Mobinil & Ministry of Health (Ambulance service).
- Xceed inaugurated additional contact center in Morocco Technology park "CasaNearshore Park".
- Xceed led the effort of waste management project namely; paper recycling in Smart Village.
- Xceed has achieved the Information Security Management System (ISMS), ISO-27001:2005 certification, one of 2008 targets.

95.04%

TE data was established in 2001 by Telecom Egypt to function as its data communications and internet arm.

The company is the internet service provider market leader in Egypt and Jordan and ambitious plans in other parts of the MENA region,TE data 's portfolio includes narrowband and broadband internet access services , managed dedicated internet access services , IP VPN connectivity services , and global connectivity services .TE data 's portfolio of services covers the communications needs of all whether consumers ,small and medium enterprises ,large corporations, and internet services providers .TE Data service's purpose is to cater for everybody's needs online .

Milestones

- TE Data signed a cooperation and partnership agreement with India's Tata Communications, a major global telecom firm, with the aim of further broadening TE Data's network, broadening its capacity in order to serve the growing worldwide connectivity needs of its enterprise customers thus benefiting its customers and enhancing its market leadership.
- TE Data won the Best Wireless Network implementation for the Wireless Network in Luxor, Egypt in the fourth annual NME Innovation Awards 2008. TE Data was selected to design, implement, and operate broadband wireless outdoor metropolitan area networks as part of a pilot project aiming at improving and expanding Internet connectivity within Egypt and promoting Egypt's high-tech image within the tourism sector. The "While in Egypt Stay Connected" project was sponsored by the Ministry of Communications and Information Technology (MCIT), the National Telecom Regulatory Authority (NTRA), and managed by the United States Agency for International Development (USAID) through Emerging Markets Group (EMG) as the prime contractor for this project.
- TE & TE Data launched a joint Corporate Social Responsibility program namely Anwaar, to spread literacy in Upper Egypt through working with well established non-governmental organizations in specific governorates like Qena and Sohag.
- TE Data witnessed a 90% growth rate, while the total market witnessed a 68% growth rate from 2007 to 2008.
- It's the fastest growing data communications and Internet service provider. Egypt's leader with the biggest broadband access, our Internet infrastructure is 70% of Egypt's capacity with 900 POPs starting 2009.
- Our global partnership with Verizon Business, Telecom Italy Sparkle, PCCW Global, VSNL-TATA Communications and Flag Telecom places us on the international arena.
- TE Data is operational in Egypt and Jordan with a business portfolio that includes narrowband and broadband Internet access services, managed dedicated Internet access services, IP VPN connectivity services, global connectivity services, in addition to consulting and professional services.
- Our broadband market share grew from 25% in 2004 to 59% in 2008. Our customer outlets where we serve all our clients grew from 2 in 2002 to 38 by 2008. Starting 2009, we are available in 7 CSOs, 22 exchanges and 10 B-tech stores all over Egypt.

58.76%

Centra Technology is a shareholding company established in the year 2002 under Investment law no. 159 for the year 1981 and its amendments. Its core business is to provide complete IT solutions and produce different models of a local brand platform of PCs, Servers and Notebooks of international quality, also supported by the best after sale services through a network of authorized and certified service centers providing the latest methodologies for customer satisfaction as the hotline service.

Milestones

- The company has been provided the software application through the cooperation with major companies, on the other hand Centra achieved many of long term support service contract with major customers.
- The company has been able to market the new products "Smart storage & Smart Client" produced by Centra Electronic Industries, & was able to acquire the supply orders of these machines with a total value of 35 million LE.
- Producing "Coral Series", a product of several different models fit for the authorities, medium & large institutions and banks, which has proved high operative efficiency compared to its foreign PCs competitors.
- Development of company equipments produced to individuals, & producing new developed computers under the name " Prime series"
- Strengthen the position of "Nova Server", which is the first product of a local network servers raised in the Egyptian market.
- The management of the company has achieved an obvious progress, as the company now provides integrated systems solutions besides producing & marketing PCs, through the cooperation with major global entities operating in the field of information technology.

51.00%

Middle East Radio Communication (MERC) is a joint stock company was established in year 2001 under law no.8 for year 1997. MERC is a leading company in the field of building, operating, and managing wireless communications stations. MERC has got a license from national telecom regulatory authority (NTRA). Moreover MERC produce, design and operate various types of programs and computer system and training on it, inaddition of developing software, operating systems and integrated systems, data entry on computers using electronic methods, establish database and electronic information system, and produce electronic contents by different forms such as voice, image and data.

Milestones

- Managing, operating, and developing Wireless Trunk Network (Analogue) that covers most of the republic governances.
- Managing, operating, and developing Terrestrial Trunk Radio (TETRA). In addition, increased number of sites by 11 sites, amounting 25 sites in 2008.
- Cooperation between the company and Vodafone Telecommunications Company stating the exercise site acquisition and construction of the second mobile network stations.
- The installation of 15 shelters for the C.D.M.A Project for Telecom Egypt as agreed upon by MERC.
- MERC continued the execution of the study of locating and installing mobile stations for the third operation "Etisalat" as agreed upon with Ericsson, the main contractor of Etisalat.

Investments	% of Ownership 31/12/08	Activity	Country of Operation
Consortium Algerian De Telecommunication	50.00%	Fixed Line Operator	Algeria
Vodafone	44.95%	GSM Mobile Operator	Egypt
IT Incubator Fund	46.15%	Venture Capital Fund	Egypt
Egypt Trust	35.71%	E-Commerce	Egypt
Ideavelopers	18.75%	V C Fund Management Company	Egypt
Nokia Siemens Networks	10.00%	Telecom Equipment Manufacturer	Egypt
Quicktel (Egyptian Telephone Company)	10.00%	Manufacture of Exchanges & Telephones	Egypt
Civil Information Technology Co.	10.00%	Software Development	Egypt
Arab Company for PC Manufacturing	10.00%	PC Manufacturing/Trading	Egypt
Menatel	3.77%	Public Payphone Operator	Egypt
Nile Telecom	1.81%	Public Payphone Operator	Egypt
Arabsat	1.59%	Satellite Telecommunications	Egypt
Thuraya	0.51%	Satellite Telecommunications	Egypt

Glossary

3G: Third Generation (The next generation of wireless network technology).These networks deliver voice, data, and multimedia content at rates as high as 2 Mbps.

All-IP: A single, common IP infrastructure that can handle all network services, including fixed and mobile communications, for voice and data services and also video services such as TV.

ADSL: Asymmetric Digital Subscriber Line; a new technology that provides high transmission speeds for video and voice to homes over ordinary copper telephone wire.

Annual General Shareholder's Assembly: This is required to be held each year, within three months from the end of the financial year, in order to approve annual financial statements.

ARPU: Average Revenue per User; A measure of the revenue generated per user or unit. This measure allows for the analysis of companies' revenue generation and growth at the per unit level, which can identify which products are high or low revenue-generators. (ARPU = Total Revenue / Average number of subscribers during the year).

BSC: Base Station Controller; provides the intelligence behind the BTSs, the BSC handles allocation of radio channels, receives measurements from the mobile phones.

BTS: BTS: Base Transceiver Station; contains the equipment for transmitting and receiving of radio signals (tranceivers), antennas, and equipment for and decrypting communications with the Base Station Controller (BSC).

CAGR: Compound Annual Growth Rate. The year-over-year growth rate of an investment over a specified period of time.

Capex: Capital Expenditure. Investments in tangible and intangible assets, this type of outlay is made by companies to maintain or increase the scope of their operations. Also called capital spending or capital expense.

Carrier's carrier: A network operator who provides network services to other telecommunications companies.

DPS: Dividend per Share. A distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders.

EBITDA: Earnings Before Interest, Taxes, Depreciation and Amortization; it can be used to evaluate a company's profitability. EBITDA = Operating Revenues – Expenses (excluding Interest, tax, depreciation, and amortization).

EBITDA Margin: EBITDA/ Operating Revenues

EGX (The Egyptian Exchanges): 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.

EPS: Earnings per Share

Free Cash Flow: Free Cash Flow = Net Income + (Depreciation / Amortization) – changes in working capital – capital expenditures. It can also be calculated by taking operating cash flow and subtracting capital expenditures.

GAAP: Generally Accepted Accounting Principle; The common set of accounting principles, standards and procedures that companies use to compile their financial statements. GAAP is a combination of authoritative standards (set by policy boards) and simply the commonly accepted ways of recording and reporting accounting information.

GDP: Gross Domestic Product; GDP of a country is one of the ways of measuring the size of its . GDP is defined as the total market value of all final goods and services produced within a given country in a given period of time (usually a calendar year). *GDP* = consumption + gross investment + government spending + (exports - imports)

Gearing Ratio: A general term describing a financial ratio that compares some form of owner's equity (or capital) to borrowed funds. Gearing is a measure of financial leverage, demonstrating the degree to which a firm's activities are funded by owner's funds versus creditor's funds.

Cash Flow: is a term that refers to the amount of being received and spent by a business during a defined period of time.

CDMA: Code Division Multiple Access; is a channel access method utilized by various 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 – i.e. refers to the orientation of a company to the needs and behaviors of its customers, rather than internal drivers. The opposite would be product centricity, where a company focuses primarily on its products

Customer Segmentation: Division of customers into homogenous groups (segments), representing a subgroup of people or organizations sharing one or more characteristics that cause them to have similar product needs, and to deal with each customer segment on a differentiated basis.

IP: Internet Protocol; is a data-oriented Protocol used for communicating data across a packet-switched internetwork.

IPTV: (IP Television) a technology that delivers digital television via fixed broadband access.

ISDN: Integrated Services Digital Network; is a circuit-switched telephone network system, designed to allow digital transmission of voice and data over ordinary telephone copper wires, resulting in better voice quality than an analog phone.

ISP: Internet Service Provider; is a business or organization that provides consumers or businesses access to the Internet and related services.

LSE: London Stock Exchange; is a stock exchange located in London, England, United Kingdom, it is one of the largest stock exchanges in the world, with many overseas listings as well as British companies.

MCIT: Egyptian Ministry of Communication and Information 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; is the primary service delivery node for GSM, responsible for handling voice calls and SMS as well as other services (such as conference calls, FAX and circuit switched data).

NTRA: Egyptian National Telecommunications Regulatory Authority.

Per Capita: Often the term is used to express a country or region's income level. For example, consider a fictional region that has a collective income of $1 000 000 and 20 residents. The per capita income, or average income per person, is $50 000.

Goodwill: An account that can be found in the assets portion of a company's balance sheet. Goodwill can often arise when one company is purchased by another company. In an acquisition, the amount paid for the company over book value usually accounts for the target firm's intangible assets.

GPRS: General Packet Radio Service; is a packet oriented Mobile Data Service available to users of Global System for Mobile Communication (GSM). It allows higher data transmission rates in GSM networks.

GSM: Global System for Mobile Communications; is the most popular standard for mobile phone in the world.

IFRS: International Financial Reporting Standards; are new standards and interpretations adopted by the International Accounting standards Board (IASB), introduced as of 1 January 2005.

Internet: is a worldwide, publicly accessible series of interconnected computer networks that transmit data by packet switching using the standard Internet Protocol (IP).

ROA: Return on Assets. A useful indicator of how profitable a company is relative to its total assets. It also gives an idea as to how well the company is able to use their assets to generate earnings.

SAC: Subscriber Acquisition Cost.

SME: Small & Medium Enterprise; are companies whose headcount or turnover falls below certain limits.

Teledensity: Telecommunications penetration expressed as a percentage of population.

Termination rate: A per minute charge paid by a telecommunications network operator when a customer makes a call to another mobile or fixed line network operator.

WLAN: Wireless Local Area Network; a short range radio network normally deployed in traffic hotspots such as airport lounges, hotels and restaurants. WLAN enables suitably equipped users to access the fixed network wirelessly, providing high speed access (up to 11 Mbit/s download) to distant servers.

YoY: Year on Year. A method of evaluating two or more measured events that compares the results of measurement at one time period with those from another time period (or series of time periods), on an annualized basis.

VOIP: Voice Over Internet Protocol; is a Protocol optimized for the transmission of voice through the Internet or other packet switched networks .

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