# Telecom Egypt Company
## Consolidated Interim Financial Statements
## Prepared in Accordance with IFRSs
## For The Three Months Ended March 31, 2014
## And Auditor's Review Report

**Telecom Egypt Company**
**Consolidated Interim Financial Statements**
**Prepared in Accordance with IFRSs**
**For The Three Months Ended March 31, 2014**
**& And Auditor's Review Report**

## Index

KPMG

Hazem Hassan
Public Accountants & Consultants

Pyramids Heights Office Park
Km 22 Cairo/Alex Road
P.O. Box 48 Al Ahram
Giza - Cairo - Egypt

Telephone : (202) 35 36 22 00 - 35 36 22 11
Telefax : (202) 35 36 23 01 - 35 36 23 05
E-mail : egypt@kpmg.com.eg
Postal Code : 12556 Al Ahram

# Review Report
## To the Board of Directors of Telecom Egypt Company

### Introduction

We have reviewed the accompanying consolidated statement of financial position of Telecom Egypt Company and its subsidiaries ("the Group") as at March 31, 2014 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three months period then ended, and a summary of significant accounting policies and other notes. Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with International Financial Reporting Standards. Our responsibility is to express a conclusion on these consolidated interim financial statements based on our review.

### Scope of Review

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

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements do not give a true and fair view of the financial position of the Group as at March 31, 2014, and of its financial performance and its cash flows for the three months period then ended in accordance with International Financial Reporting Standards.

### Emphasis of Matter

Without qualifying our conclusion, we draw attention to note no. (31-2) of the notes to the consolidated interim financial statements, a resolution has been taken by the Board of Directors of National Telecom Regulatory Authority (NTRA) to cancel the annual license fees cap incurred by the company starting from 1 July 2011, accordingly, the license fees will be calculated based on the percentages stated in the license granted to the company without fees cap.

The company submitted a grievance against the said resolution based on the fact that the terms of change, according to the granted license, for changing the annual license fees cap were not satisfied. On 24 February 2014 the company received a letter from the Chairman of NTRA stating that the company's grievance is currently being considered.

The company is of the opinion that it has a valid case according to the granted license, in addition to what has been mentioned in the grievance submitted to NTRA, which supports its position with respect to the claim not to change the basis of the annual license fees calculation. It is difficult at the moment to determine the final outcome of this dispute until an agreement is reached concerning the basis of the annual license fees calculation between the company and NTRA.

KPMG Hazem Hassan

**KPMG Hazem Hassan**

Cairo, Egypt
August 12, 2014

KPMG Hazem Hassan
Public Accountants and Consultants
23

## Telecom Egypt Company
## Consolidated statement of financial position

| In thousands of Egyptian Pound | Note | 31 March 2014 | 31 December 2013 Restated |
|---|---|---|---|
| **Assets** | | | |
| Property, plant and equipment | 13,3c | **11 478 499** | 11 602 035 |
| Intangible assets | 14,3d | **849 022** | 861 026 |
| Equity-accounted investees | 15,3a | **8 575 046** | 8 365 599 |
| Available-for-sale investments | 16,3f | **100 319** | 100 319 |
| Deferred tax assets | 18,3q | **331 107** | 327 620 |
| **Non-current assets** | | **21 333 993** | 21 256 599 |
| Inventories | 19,3g | **402 853** | 458 620 |
| Trade and other receivables | 20 | **4 971 450** | 4 810 085 |
| Held-to-maturity investment (treasury bills) | | **113 630** | 99 246 |
| Cash and cash equivalents | 21 | **6 827 089** | 5 662 378 |
| **Current assets** | | **12 315 022** | 11 030 329 |
| **Total assets** | | **33 649 015** | 32 286 928 |
| **Equity** | | | |
| Share capital | 22 | **17 070 716** | 17 070 716 |
| Reserves | 22,3j | **6 316 457** | 6 198 016 |
| Retained earnings | | **2 802 402** | 4 150 296 |
| **Equity attributable to owners of the company** | | **26 189 575** | 27 419 028 |
| **Non–controlling interests** | 3a | **15 120** | 16 493 |
| **Total equity** | | **26 204 695** | 27 435 521 |
| **Liabilities** | | | |
| Loans and borrowings | 24 | **437 577** | 475 266 |
| Trade and other payables | | **765** | 847 |
| Deferred income | 26 | **9 128** | 11 359 |
| Deferred tax liabilities | 18,3q | **3 836** | 3 065 |
| **Non-current liabilities** | | **451 306** | 490 537 |
| Loans and borrowings | 24 | **84 974** | 107 238 |
| Trade and other payables | 25 | **5 702 388** | 3 757 917 |
| Deferred income | 26 | **753 343** | 8 922 |
| Provisions | 27,3n | **452 309** | 486 793 |
| **Current liabilities** | | **6 993 014** | 4 360 870 |
| **Total liabilities** | | **7 444 320** | 4 851 407 |
| **Total equity and liabilities** | | **33 649 015** | 32 286 928 |

| Financial Director | Chief Financial officer | Vice Pres.of Financial, Admin affairs and HR | Chief Executive Officer & Managing Director | Chairman |
|---|---|---|---|---|
| Shaher Shokry | M.Shamroukh | T.Mashhour | | |
| Shaher Shokry | Mohamed Shamroukh | Taha Mashhor | Mohamed Amin Elnawawy | Omar ELSheikh |

Auditor's review report " attached "

The notes on pages 7 to 39 are an integral part of these consolidated interim financial statements.

**Telecom Egypt Company**
**Consolidated statement of profit or loss and other comprehensive income**

| In thousands of Egyptian Pound | Note | For the three months ended 31 March 2014 | 2013 Restated |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 4,30 | 2 564 136 | 2 716 793 |
| Operating costs | 5 | (1 584 035) | (1 667 716) |
| Gross profit | | 980 101 | 1 049 077 |
| Other income | 6 | 45 127 | 46 525 |
| Selling and distribution expenses | 7 | ( 309 534) | ( 263 370) |
| Administrative expenses | 8 | ( 390 288) | ( 372 033) |
| Other expenses | 9 | ( 6 056) | ( 19 739) |
| **Operating profit** | | 319 350 | 440 460 |
| Finance income | 11 | 113 390 | 347 573 |
| Finance costs | 11 | ( 13 209) | ( 29 172) |
| **Net finance income** | 11 | 100 181 | 318 401 |
| Share of profit of equity-accounted investees,net of tax | | 209 447 | 263 382 |
| **Profit before tax** | | 628 978 | 1 022 243 |
| Income tax expense | 12 | ( 150 116) | ( 220 029) |
| **Profit** | | 478 862 | 802 214 |
| **Other comprehensive income** | | | |
| Foreign operations - foreign currency translation differences | | ( 498) | 2 580 |
| **Other comprehensive income , net of tax** | | ( 498) | 2 580 |
| **Total comprehensive income** | | 478 364 | 804 794 |
| **Profit attributable to:** | | | |
| Owners of the company | | 478 103 | 801 539 |
| Non - controlling interests | | 759 | 675 |
| | | 478 862 | 802 214 |
| **Total comprehensive income attributable to:** | | | |
| Owners of the company | | 476 260 | 804 089 |
| Non - controlling interests | | 2 104 | 705 |
| | | 478 364 | 804 794 |
| **Earning per share** | | | |
| Basic earnings per share (LE/share) | 23 | 0.28 | 0.47 |

The notes on pages 7 to 39 are an integral part of these consolidated interim financial statements.

**Telecom Egypt Company**
**Consolidated statement of changes in equity**
**For the three months ended 31 March 2014**

| In thousands of Egyptian Pound | Note No | Share capital | Legal reserve | Translation reserve | Other reserve | Retained Earnings | Total equity attributable to equity holders of the company | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to owners of the company | | | | | | | |
| Balance at 1 January 2014 | | 17 070 716 | 1 377 564 | 10 090 | 4 810 362 | 4 150 296 | 27 419 028 | 16 493 | 27 435 521 |
| **Total comprehensive income for the period** | | | | | | | | | |
| Profit for the period | | - | - | - | - | 478 103 | 478 103 | 759 | 478 862 |
| Other comprehensive income | | - | - | ( 484) | - | - | ( 484) | ( 14) | ( 498) |
| **Total comprehensive income for the period** | | - | - | ( 484) | - | 478 103 | 477 619 | 745 | 478 364 |
| **Transactions with owners of the company** | | | | | | | | | |
| Transferred to reserves | | - | 118 925 | - | - | ( 118 925) | - | - | - |
| Dividends | | - | - | - | - | (1 707 072) | (1 707 072) | ( 2 118) | (1 709 190) |
| **Total transactions with owners of the company** | | - | 118 925 | - | - | (1 825 997) | (1 707 072) | ( 2 118) | (1 709 190) |
| **Balance at 31 March 2014** | | 17 070 716 | 1 496 489 | 9 606 | 4 810 362 | 2 802 402 | 26 189 575 | 15 120 | 26 204 695 |
| Balance at 1 January 2013 (Restated) | | 17 070 716 | 1 249 396 | 2 065 | 4 810 362 | 4 124 927 | 27 257 466 | 18 609 | 27 226 075 |
| **Total comprehensive income for the period** | | | | | | | | | |
| Profit for the period | | - | - | - | - | 801 539 | 801 539 | 675 | 802 214 |
| Other comprehensive income | | - | - | 2 550 | - | - | 2 550 | 30 | 2 580 |
| **Total comprehensive income for the period (restated)** | | - | - | 2 550 | - | 801 539 | 804 089 | 705 | 804 794 |
| **Transactions with owners of the company** | | | | | | | | | |
| Transferred to reserves | | - | 123 228 | - | - | ( 123 228) | - | - | - |
| Dividends | | - | - | - | - | (2 219 193) | (2 219 193) | ( 2 617) | (2 221 810) |
| **Total transactions with owners of the company** | | - | 123 228 | - | | (2 342 421) | (2 219 193) | ( 2 617) | (2 221 810) |
| **Balance at 31 March 2013 (Restated)** | | 17 070 716 | 1 372 624 | 4 615 | 4 810 362 | 2 584 045 | 25 842 362 | 16 697 | 25 809 059 |

The notes on pages 7 to 39 are an integral part of these consolidated interim financial statements.

**Telecom Egypt Company**
**Consolidated statement of cash flows**

In thousands of Egyptian Pound

| | Note | For the three months ended 31 March 2014 | 2013 Reclassified |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash receipts from customers | | 2 747 783 | 2 314 585 |
| Sales tax collected from customers | | 67 566 | 72 852 |
| Stamp tax and fees collected (from third party) | | 25 443 | 27 533 |
| Deposits Returned to customers | | ( 1 389) | ( 4 141) |
| Cash paid to suppliers | | ( 403 591) | ( 271 203) |
| Dividends paid to employees | | ( 33 475) | ( 29 632) |
| Cash paid to employees | | ( 623 121) | ( 576 653) |
| Cash paid on behalf of employees to third party | | ( 97 894) | ( 115 404) |
| Interest paid | | ( 6 866) | ( 10 002) |
| Repayments to Tax Authority - sales tax | | ( 78 987) | ( 164 526) |
| Repayments to Tax Authority - (other taxes) | | ( 145 647) | ( 95 829) |
| Other (payments) proceeds | | ( 87 761) | 232 180 |
| **Net cash from operating activities** | | 1 362 061 | 1 379 760 |
| **Cash flows from investing activities** | | | |
| Acquisition of property, plant and equipment and intangible assets | | ( 226 115) | ( 150 977) |
| Proceeds from sale of property, plant and equipment | | 127 | 55 |
| Acquisition of Investments | | ( 101 151) | ( 5 419) |
| Interest received | | 7 282 | 13 412 |
| Dividends received | | 6 732 | - |
| Proceeds from treasury bills interest and money market funds | | 170 869 | 176 613 |
| **Net cash (used in) / from investing activities** | | ( 142 256) | 33 684 |
| **Cash flows from financing activities** | | | |
| Repayment of loans and other facilities | | ( 57 264) | ( 83 087) |
| Proceeds from banks - credit accounts | | 3 188 | 211 |
| Repayment of finance lease liabilities | | ( 15) | ( 414) |
| Change of long-term liabilities | | - | 75 |
| Dividends paid | | - | ( 750) |
| **Net cash used in financing activities** | | ( 54 091) | ( 83 965) |
| **Net change in cash and cash equivalents** | | 1 165 714 | 1 329 479 |
| Cash and cash equivalents at 1 January | | 5 644 304 | 6 325 330 |
| Effect of movements in exchange rate on cash held | | ( 295) | 2 204 |
| **Cash and cash equivalents at 31 March** | (21) | 6 809 723 | 7 657 013 |

The notes on pages 7 to 39 are an integral part of these consolidated interim financial statements.

## 1. Reporting entity

Telecom Egypt Company (the "Company") is an Egyptian Joint Stock Company registered in the Arab Republic of Egypt and is engaged in the provision of public communications and associated products and services. The consolidated interim financial statements of the Company for the three monthes ended March 31, 2014 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

The main purpose of the Company includes:

- Establishing and operating telecommunications networks.
- Providing telecommunications services and operating and maintaining the networks, equipment and machinery necessary to provide the services and executing projects necessary to accomplish its purposes.
- Cooperating with international companies and organizations to connect the Arab Republic of Egypt with the world.
- Real estate investment for serving its purposes and executing its projects.
- The main purpose of the company was amended (article no.3 from articles of association) according to Extra-ordinary General Assembly Meeting decree on March 13,2014 , legal procedures for the changes in commercial registration are being undertaken.

The registered office of the Company is 26 Ramses Street, Cairo, Egypt.

## 2. Basis of preparation

### *a. Basis of accounting*

These consolidated interim financial interim statements have been prepared in accordance with IFRS. They were authorized for issue by the company's board of directors on August 12,2014

### *b. Basis of measurement*

The consolidated interim financial statements have been prepared under the historical cost basis except for the following:

- Financial instruments at fair value through profit or loss are measured at fair value.
- Available-for-sale financial assets are measured at fair value.

For presentational purposes, the current/non-current distinction has been used for the financial position, while expenses are analyzed in the profit or loss using a classification based on their function. The direct method has been selected to present the cash flow statement.

### *c. Functional and presentation currency*

These consolidated interim financial statements are presented in Egyptian Pound (LE), which is the Company's functional currency. All amounts have has been rounded to the nearest thousands,unless otherwise indicated.

**d. *Use of judgements and estimates***

In preparing these consolidated interim financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.
Information about significant areas of assumptions and estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated interim financial statements is included in the following notes:
- Impairment of non-financial and financial assets.
- Provisions and contingencies.
- Deferred tax assets.
- Useful life of property, plant & equipment..

## 3. Significant accounting polices

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

Certain comparative amounts have been reclassified to conform with the current period's presentation (see note 35).

**a. *Basis of consolidation***

***(i) Business combinations***

The Group accounts for business combinations using the acquisition method when control is transferred to the Group .The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment .Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities .

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

***(ii) Non-controlling interests***

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. a Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions

***(iii) Subsidiaries***

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The interim financial statements of subsidiaries are included in the consolidated interim financial statements from the date on which control commences until the date on which control ceases.

***(iv) Loss of control***

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

*(v)* ***Interests in equity-accounted investees***

The Group's interests in equity-accounted investees comprise interests in associates and a joint venture.
Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.
Interests in associates and the joint venture are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated interim financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

*(vi)* ***Transactions eliminated on consolidation***

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

*(vii)* **Accounting for acquisitions of non-controlling interests**

The Group has adopted *IAS 27 (revised), "Consolidated and separate financial statements"*. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the equity is re-measured to fair value, and a gain or loss is recognized in profit or loss.

*b.* ***Foreign currency***

**(i) Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of Group companies at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate when the fair value was determined. Foreign currency differences are generally recognised in profit or loss. Non-monetary items that are measured based on historical cost in a foreign currency are not translated.
However, foreign currency differences arising from the translation of the following items are recognised in OCI:
available-for-sale equity investments (except on impairment, in which case foreign currency differences that have been recognised in OCI are reclassified to profit or loss);

**(ii) Foreign operations**

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into euro at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into euro at the exchange rates at the dates of the transactions.
Foreign currency differences are recognised in OCI and accumulated in the translation reserve, except to the extent that the translation difference is allocated to NCI.
When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.
If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, then foreign currency differences arising from such item form part of the net investment in the foreign operation. Accordingly, such differences are recognised in OCI and accumulated in the translation reserve.

**c. *Property, plant and equipment***

**(i) *Recognition and measurement***

Items of property, plant and equipment are measured at cost or deemed cost less accumulated depreciation (see below) and accumulated impairment losses (see accounting policy i).
Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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.
Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and they are recognised in profit or loss and are recognized within other income/expenses in profit or loss.

**(ii) *Subsequent costs***

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

**(iii) *Depreciation***

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

| | Estimated useful life/years |
|---|---|
| • Buildings and infrastructure | 10 - 50 |
| • Technical equipment & Information technologies equipment | 5 - 20 |
| • Vehicles | 5 - 10 |
| • Furniture and fixtures | 3 - 16.67 |
| • Tools and other equipment | 1 - 8 |

**d. *Intangible assets***

Intangible assets are identifiable non-monetary assets without physical substance which can be controlled and which are capable of generating future economic benefits. Intangible assets are stated at purchased cost including any expenses that are directly attributable to preparing the asset for its intended use, net of accumulated amortization and impairment losses. Amortization is recognized in profit and loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since this mostly reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

**(i) *Licenses***

Licenses are measured initially at cost. Amortization is charged to the profit or loss on a straight-line basis over the period of its expected use or the term of the underlying agreement, whichever is shorter.

**(ii) *Right of way and Right of use***

The Group recognises an intangible asset arising from a Right of Way and Right of Use of an assets when it has the exclusive right for using that asset and deriving the benefits of that uses. An intangible asset is measured initially at cost upon initial recognition. Subsequent to initial recognition the intangible asset is measured at cost, less accumulated amortisation and accumulated impairment losses. Amortization is charged on a straight-line basis over the shorter of the period of its expected use which ranges from 10 to 20 years and the term of the underlying agreement, starting from the date of the acquisition of the right.

***(iii) Other intangible assets***

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

***e. Leased assets***

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognized on the Group's financial position.

***f. Financial Instruments***

Financial instruments consist of financial assets and liabilities whose classification is determined on their initial recognition and on the basis of the purpose for which they were acquired / incurred. Purchases and sales of financial instruments are recognized at their settlement date. Financial assets are derecognized when the right to receive cash flows from them ceases and the Group has effectively transferred all risks and rewards related to the instrument and its control.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities unless its fair value cannot be reliably determined), the Group establishes fair value by using valuation models based primarily on objective financial variables and, where possible, prices in recent transactions and market prices for similar financial instruments.

**(i) Financial Assets**

Financial assets are initially recognized at fair value and classified in one of the following categories and subsequently measured as described:

- Financial receivables

  Financial receivables are non-derivative financial instruments which are not traded on an active market and which are expected to generate fixed or determinable repayments. They are included as current assets unless they are contractually due over more than twelve months after the financial position date in which case they are classified as non-current assets. (These assets are measured at amortized cost using the effective interest method). If there is objective evidence of factors which indicate impairment, the asset is reduced to the present value of future cash flows. The impairment loss is recognized in the profit or loss. If, in future years, the factors which caused the impairment cease to exist, the carrying amount of the asset are reinstated up to the amount that would have been obtained had amortized cost been applied.

**(ii) Non-derivative financial liabilities**

Financial liabilities consisting of borrowings, trade payables and other obligations, such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method. When there is a change in cash flows which can be reliably estimated, the value of the financial liability is recalculated to reflect such change based on the present value of expected cash flows and the originally determined internal rate of return. Financial liabilities are classified as current liabilities except where the Group has an unconditional right to defer payment until at least twelve months after the financial position date.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

**(iii) Financial assets available-for-sale**

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognised in other comprehensive income and presented within equity in fair value reserve. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

**(iv) Financial asset at fair value through profit or loss (Investment- held for trading)**

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

**(v) Investment-held-to-maturity (Treasury bills)**

When the Group has the positive intent and ability to hold debt securities (Treasury bills) to maturity, then such financial assets are classified as held to maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured amortised cost using the effective interest method, less any impairment losses.
Treasury bills are shown in the balance sheet at their nominal value unearned interests.

**(vi) Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction, net of tax, from proceeds.

***g. Inventories***

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses
The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.
Work in progress is valued at cost at the latest production process reached. Finished goods are valued at the manufactory cost.

***h. Cash and cash equivalent***

Cash and cash equivalent comprise cash balances, banks current accounts, treasury bills, time deposits which do not exceed three months, money market funds and 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.

***i. Impairment***

**(i) Financial assets (including receivables)**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in other reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment attributable to time value are reflected as a component of interest income.

Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

**(ii) Non-financial assets**

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives, the recoverable amount is estimated each period at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

An impairment loss in respect of non-financial assets or cash-generating units, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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 amortisation, if no impairment loss had been recognised.

***j. Reserves***

***(i)Legal Reserves***

As per the Company's statutes 5% of net profit for the year is set aside to form a legal reserve, the transfer to such reserve ceases once it reaches 50% of the Company's paid in share capital. The reserve can be utilized for covering losses or for increasing the Company's share capital. If the reserve falls below the said 50%, the Company should resume setting aside 5% of its annual net profit until the reserve reaches 50% of the Company's paid in share capital.

***(ii)Other Reserves***

The General Assembly may form other reserves based on the Board of Directors' recommendation.

***k. Employee benefits***

***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 profit or loss using accrual basis of accounting.

*l.* ***Grants***

Grants are recognized initially as deferred income at fair value when there is reasonable assurance that it will be received and that the Group will comply with the associated conditions. Grants that compensate the Group for expenses incurred are recognized in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognized. Grants that compensate the Group for the cost of an asset are recognized in profit or loss on a systematic basis over the useful life of the asset.

*m.* ***Dividends***

Dividends recognized as a liability in the statement of financial position in the financial period in which the dividends are approved for distribution by the ordinary meeting of the shareholders.

*n.* ***Provisions***

A provision is recognized if as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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. The unwinding of the discount is recognized as finance cost.

*o.* ***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 is 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 profit and loss statement when the significant risks and rewards of ownership have been transferred to the buyer.

*p.* ***Expenses***

***(i) Operating lease payments***

Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

***(ii) Finance lease payments***

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

***(iii) Net financing costs***

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, impairment losses recognized on financial assets, change in the fair value of financial assets at fair value through profit or loss. Interest income includes, interest receivable on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss.

Foreign currency gains or losses are reported on a net basis.

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

q. ***Income tax***

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in the profit or loss except to the extent that it relates to business combination, or items recognized directly in equity, or other comprehensive income.

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

Deferred tax is provided using the financial position 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 financial position 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.

r. ***Earnings per share***

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for owned shares held.

s. ***New and amended IFRSs and Interpretations:***

The Group has adopted the following new and amended IFRSs and IFRIC interpretations, as of January 1, 2013, with no material impact on these consolidated interim financial statement.

t. ***New standards and interpretations not yet adopted***

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated interim financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early:

**IFRS 9 Financial Instruments (2010), IFRS 9 Financial Instruments (2009)**

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additional changes relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting. IFRS 9 (2010) and (2009) are effective for annual periods beginning on or after 1 January 2015, with early adoption permitted. The adoption of these standards is expected to have an impact on the Group's financial assets, but no impact on the Group's financial liabilities.

u. ***Financial risk management***

The Group is exposed 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 interim 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 analyze 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 and other receivables*

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk.

In general Trade & other receivables included in current assets relate to a variety of smaller amounts due from a wide range of counterparties, therefore, the Group does not consider that it has a significant concentration of credit risk.

*Cash and cash equivalents*

Credit risk relating to cash and cash equivalents and financial deposits arises from the risk that the counterparty becomes insolvent and accordingly is unable to return the deposited funds. To mitigate this risk, wherever possible the Group conducts transactions and deposits funds with financial institutions with high investment grade.

The maximum exposure to credit risk is disclosed in note (28–i).

***(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 monitors and mitigates liquidity risk arising from the uncertainty of cash inflows and outflows by maintaining sufficient liquidity of cash balances as well as undrawn credit lines and by diversifying its sources of finance. In general, liquidity risk is monitored at entity level whereby each subsidiary is responsible for managing and monitoring its cash flows and rolling liquidity reserve forecast in order to ensure that it has sufficient committed facilities to meet its liquidity needs.

The table included in note (28–ii) analyzes the group's financial liabilities into relevant maturity groupings based on the remaining period at the financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

***(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 group 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 optimizing the return.

*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) and Euro.

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 match non long term balance.

*Interest rate risk*

The Group is exposed to market risks as a result of changes in interest rates particularly in relation to borrowings. Borrowings issued at floating rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The basic strategy of interest rate risk management is to balance the debt structure with an appropriate mix of fixed and floating interest rate borrowings based on the Group's perception of future interest rate movements. In particular, the risk monitored relates to the impact of movements in floating rate indices on the Group's finance costs.

*Other market prices 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 Group'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.

***v. 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 profit from operating activities divided by total shareholders' equity, excluding non-controlling interests. The Board of Directors also monitors the level of dividends to shareholders. There were no changes in the Group's approach to capital management during the period. The Group is not subject to externally imposed capital requirements.

***w. Segment reporting***

The Group's operations fall into one broad class of business which is telecommunication and information services and hence, segmental analysis of revenue, expenses, assets and liabilities is not considered meaningful.

## 4. Revenue

| For the three months ended 31 March<br>In thousands of Egyptian Pound | 2014 | 2013 |
|---|---|---|
| Home | **764 473** | 722 459 |
| Enterprise | **426 775** | 438 003 |
| Domestic wholesale | **544 075** | 575 287 |
| International carrier | **731 266** | 887 954 |
| International cables and networks | **97 547** | 93 090 |
| | **2 564 136** | 2 716 793 |

## 5. Operating costs

| For the three months ended 31 March<br>In thousands of Egyptian Pound | Note | 2014 | 2013 |
|---|---|---|---|
| Interconnection cost | | **583 399** | 661 861 |
| Fuel | | **21 713** | 23 123 |
| Spare parts | | **14 478** | 48 863 |
| Maintenance | | **61 596** | 38 840 |
| Leased circuits & satellite subscriptions | | **31 242** | 36 577 |
| Property, plant and equipment depreciation | 13 | **365 277** | 404 608 |
| Amortization of intangible assets | 14 | **12 007** | 12 618 |
| Salaries and wages | 10 | **269 469** | 237 750 |
| Compulsory social security contributions | | **31 139** | 27 565 |
| Employee's compensated absence | | **5 794** | - |
| Frequencies and licenses | | **60 068** | 63 069 |
| Employees' share in profit | | **49 823** | 37 081 |
| Other operating costs | | **78 030** | 75 761 |
| | | **1 584 035** | 1 667 716 |

## 6. Other income

**For the three months ended 31 March**

| In thousands of Egyptian Pound | Note | 2014 | 2013 |
|---|---|---|---|
| Grants* | | 2 230 | 11 157 |
| Fines and delay interest collected | | 15 779 | 24 059 |
| Others | | 27 118 | 11 309 |
| | | 45 127 | 46 525 |

* The amount represents amortization of the grants awarded by the USAID to finance some of the Company's projects, as well as the grants awarded by the projects' management of Marine Cables for the construction of a building in Alexandria and the right of way for Marine Cables.

## 7. Selling and distribution expenses

**For the three months ended 31 March**

| In thousands of Egyptian Pound | Note | 2014 | 2013 |
|---|---|---|---|
| Salaries & wages | 10 | 186 831 | 169 377 |
| Compulsory social security contributions | | 21 111 | 20 113 |
| Employees' compensated absence | | 3 979 | - |
| Property, plant & equipment depreciation | 13 | 2 233 | 2 176 |
| Employees' share in profit | | 34 153 | 26 531 |
| Tax & fees | | 1 281 | 974 |
| Rent | | 5 322 | 4 804 |
| Advertisements | | 9 435 | 10 757 |
| Others | | 45 189 | 28 638 |
| | | 309 534 | 263 370 |

## 8. Administrative expenses

**For the three months ended 31 March**

| In thousands of Egyptian Pound | Note | 2014 | 2013 Restated |
|---|---|---|---|
| Salaries & wages | 10 | 226 771 | 214 607 |
| Compulsory social security contributions | | 20 084 | 18 275 |
| Employees' compensated absence | | 6 100 | - |
| Early retirement compensations | 10 | 439 | 429 |
| End of service benefits | 10 | 42 872 | 38 974 |
| Employees' share in profit | | 45 240 | 36 723 |
| Property, plant & equipment depreciation | 13 | 12 653 | 12 846 |
| Tax & customs fees | | 8 925 | 15 867 |
| Bad debts | | 442 | 2 721 |
| Others* | | 26 762 | 31 591 |
| | | 390 288 | 372 033 |

* Adjustments were made to the comparative figures resulted in an increase in other expenses by an amount of L.E. 83 K as shown in note no. (35).

## 9. Other expenses

**For the three months ended 31 March**
In thousands of Egyptian Pound

| | Note | 2014 | 2013 |
|---|---|---|---|
| Provisions formed | 27 | **1 148** | 19 565 |
| Net loss on disposal of property plant & equipment | | **53** | 100 |
| Donations | | **4 855** | 74 |
| | | **6 056** | 19 739 |

## 10. Personnel expenses

**For the three months ended 31 March**
In thousands of Egyptian Pound

| | Note | 2014 | 2013 |
|---|---|---|---|
| **Salaries and wages:** | | | |
| Operating cost | 5 | **269 469** | 237 750 |
| Selling and distribution expenses | 7 | **186 831** | 169 377 |
| Administrative expenses | 8 | **226 771** | 214 607 |
| | | **683 071** | 621 734 |
| Compulsory social security contributions | 3k | **72 334** | 65 953 |
| Early retirement compensations | 8 | **439** | 429 |
| End of service benefits | 8 | **42 872** | 38 974 |
| Employees compensated absence | | **15 873** | - |
| Employees' share in profit | | **129 216** | 100 335 |
| | | **943 805** | 827 425 |

**Employees' Benefits**

(i) Early Retirement Scheme

The Company has an early retirement scheme whereby employees who wish to retire, prior to the legal retirement age, are entitled to receive a compensation amounting to 75% of their latest basic salary for the remaining service period up to the retirement age with a maximum of 10 years for men and 15 years for women. Compensations relating to early retirement amounted to LE 439 K for the period ended March 2014 (against LE 429 K for the same period of the year 2013) are included in general and administrative expenses, note. no (8).

(ii) End of service Benefits

The employees are granted an end of service benefits through a Loyalty & belonging Fund established in January 2004. Employees' benefit are based on the employees' basic salary in January 1, 2002 increasing at a compound rate of 5%. The subscription for employees hired after January 1, 2002, is calculated according to a subscription schedule for new hires and increasing at a compound rate of 5% starting from the next year from the hiring date. The employees share in loyalty & belonging fund according to constant subscription are based on the same employees' basic salary where the end of service benefit calculated. The Company's contribution for the period ended March 31, 2014 amounts to LE 42 872 K (against LE 38 974 K for the same period as of the year 2013). The Company's contribution is included in general and administrative expenses, note. no (8).

## 11. Net finance income

**For the three months ended 31 March**
In thousands of Egyptian Pound

| | 2014 | 2013 |
|---|---|---|
| Interest income | 100 092 | 108 351 |
| Revenues from money market funds | 3 494 | 18 542 |
| Revenues from available for sale investment | - | 9 993 |
| Net foreign exchange gain | 9 804 | 210 687 |
| Finance income | 113 390 | 347 573 |
| Interest expense | ( 2 384) | ( 3 421) |
| Impairment loss on trade receivables | ( 10 825) | ( 25 751) |
| Finance costs | ( 13 209) | ( 29 172) |
| **Net finance income** | 100 181 | 318 401 |

## 12. Taxes

### Current tax expense

**For the three months ended 31 March**
In thousands of Egyptian Pound

| | 2014 | 2013 |
|---|---|---|
| Tax recognised in profit or loss | | |
| Current tax expense | | |
| Current period | ( 152 832) | ( 229 323) |
| Deferred tax | | |
| Origination and reversal of temporary differences | 2 716 | 9 294 |
| **Tax expense** | ( 150 116) | ( 220 029) |

## 13. Property, plant and equipment

| In thousands of Egyptian Pound | Land, buildings &infrastructure | Technical equipments & information technologies & fixtures on trunk radio network | Vehicles | Office furniture & fixtures | Tools & supplies | Under construction | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| Balance at 1 January 2013 (restated) | 21 010 751 | 20 158 307 | 160 711 | 608 559 | 63 386 | 617 634 | 42 619 348 |
| Acquisitions | 503 865 | 294 442 | 1 065 | 49 990 | 8 644 | 813 133 | 1 671 139 |
| Disposals | ( 173 059) | ( 15 897) | ( 4 208) | ( 2 210) | ( 265) | ( 944 509) | (1 140 148) |
| Effect of movements in foreign exchange | - | 1 767 | 29 | 1 044 | - | - | 2 840 |
| Balance at 31 December 2013 | 21 341 557 | 20 438 619 | 157 597 | 657 383 | 71 765 | 486 258 | 43 153 179 |
| Balance at 1 January 2014 | **21 341 557** | **20 438 619** | **157 597** | **657 383** | **71 765** | **486 258** | **43 153 179** |
| Acquisitions | **37 363** | **153 707** | **1 345** | **7 276** | **536** | **712 790** | **913 017** |
| Disposals | - | **( 4 202)** | **( 1 269)** | **( 1 761)** | - | **( 656 119)** | **( 663 351)** |
| Effect of movements in foreign exchange | - | **( 11)** | **( 5)** | **( 133)** | - | - | **( 149)** |
| Balance at 31 March 2014 | **21 378 920** | **20 588 113** | **157 668** | **662 765** | **72 301** | **542 929** | **43 402 696** |

## 13. Property, plant and equipment (continued)

| In thousands of Egyptian Pound | Land, buildings &infrastructure | Technical equipments & information technologies & fixtures on trunk radio network | Vehicles | Office furniture & fixtures | Tools & supplies | Under construction | Total |
|---|---|---|---|---|---|---|---|
| **Depreciation** | | | | | | | |
| Balance at 1 January 2013 (Restated) | 11 799 912 | 17 583 878 | 146 150 | 500 159 | 54 356 | - | 30 084 455 |
| Depreciation charge for the year | 818 426 | 747 444 | 6 026 | 44 030 | 2 785 | - | 1 618 711 |
| Disposals | ( 131 367) | ( 15 299) | ( 4 021) | ( 2 159) | ( 265) | - | ( 153 111) |
| Effect of movements in foreign exchange | - | 519 | 23 | 547 | - | - | 1 089 |
| Balance at 31 December 2013 | 12 486 971 | 18 316 542 | 148 178 | 542 577 | 56 876 | - | 31 551 144 |
| Balance at 1 January 2014 | 12 486 971 | 18 316 542 | 148 178 | 542 577 | 56 876 | - | 31 551 144 |
| Depreciation charge for the period | 199 347 | 167 844 | 1 278 | 9 348 | 2 346 | - | 380 163 |
| Disposals | - | ( 4 193) | ( 1 184) | ( 1 675) | - | - | ( 7 052) |
| Effect of movements in foreign exchange | - | 7 | ( 4) | ( 61) | - | - | ( 58) |
| Balance at 31 March 2014 | 12 686 318 | 18 480 200 | 148 268 | 550 189 | 59 222 | - | 31 924 197 |
| **Carrying amounts** | | | | | | | |
| At 1 January 2013 | 9 210 839 | 2 574 429 | 14 561 | 108 400 | 9 030 | 617 634 | 12 534 893 |
| At 31 December 2013 | 8 854 586 | 2 122 077 | 9 419 | 114 806 | 14 889 | 486 258 | 11 602 035 |
| At 31 March 2014 | 8 692 602 | 2 107 913 | 9 400 | 112 576 | 13 079 | 542 929 | 11 478 499 |

**13. Property, plant and equipment (continued)**

**Fully depreciated property, plant and equipment (PPE)**
PPE cost includes 19 032 million relating to fully depreciated PPE that are still in use.

**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 preferential price. At 31 March 2014, the net carrying amount of leased equipment and vehicles is nil (2013: LE 30 K).

**Depreciation**
The depreciation charge is recognized in the following line items in the profit or loss:

| In thousands of Egyptian Pound | Note | For The three months Ended, 2014 | 2013 |
|---|---|---|---|
| Operating costs | 5 | 365 277 | 404 608 |
| Selling and distribution expenses | 7 | 2 233 | 2 176 |
| Administrative expenses | 8 | 12 653 | 12 846 |
| | | 380 163 | 419 630 |

**14. Intangible assets**

| In thousands of Egyptian Pound | Note | Land usufruct | Land possession | Right of way | Internet service license | Right of using ROU | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| Balance at 1 January 2013 (Restated) | | 1 | 352 466 | 810 686 | 21 331 | 147 412 | 1 331 896 |
| Reclssification | | - | - | - | 52 | ( 52) | - |
| Additions | | - | - | 33 641 | - | - | 33 641 |
| Disposals | | - | - | ( 107 089) | - | - | ( 107 089) |
| Effects of movements in foreign exchange | | - | - | - | 86 | 238 | 324 |
| Balance at 31 December 2013 | | 1 | 352 466 | 737 238 | 21 469 | 147 598 | 1 258 772 |
| Balance at 1 January 2014 | | 1 | 352 466 | 737 238 | 21 469 | 147 598 | 1 258 772 |
| Reclssification | | - | - | - | - | - | - |
| Additions | | - | - | - | - | - | - |
| Disposal | | - | - | ( 2 780) | - | - | ( 2 780) |
| Effects of movements in foreign exchange | | - | - | - | 3 | 5 | 8 |
| Balance at 31 March 2014 | | 1 | 352 466 | 734 458 | 21 472 | 147 603 | 1 256 000 |
| **Amortization** | | | | | | | |
| Balance at 1 January 2013 | | - | - | 239 620 | 20 346 | 105 480 | 365 446 |
| Reclassification | | - | - | - | 44 | ( 44) | - |
| Amortization for the year | | - | - | 44 394 | 163 | 5 370 | 49 927 |
| Disposal | | - | - | ( 17 958) | - | - | ( 17 958) |
| Effects of movements in foreign exchange | | - | - | - | 41 | 290 | 331 |
| Balance at 31 December 2013 | | - | - | 266 056 | 20 594 | 111 096 | 397 746 |
| Balance at 1 January 2014 | | - | - | 266 056 | 20 594 | 111 096 | 397 746 |
| Reclassification | | - | - | - | - | - | - |
| Amortization for the period | 5 | - | - | 10 615 | 42 | 1 350 | 12 007 |
| Disposal | | - | - | ( 2 780) | - | - | ( 2 780) |
| Effect of movements in foreign exchange | | - | - | - | - | 5 | 5 |
| Balance at 31 March 2014 | | - | - | 273 891 | 20 636 | 112 451 | 406 978 |
| **Carrying amounts** | | | | | | | |
| At 1 January 2013 (restated) | | 1 | 352 466 | 571 066 | 985 | 41 932 | 966 450 |
| At 31 December 2013 | | 1 | 352 466 | 471 182 | 875 | 36 502 | 861 026 |
| At 31 March 2014 | | 1 | 352 466 | 460 567 | 836 | 35 152 | 849 022 |

## 14. Intangible assets (continued)

Accumulated amortization and impairment losses as of March 31, 2014 include L.E 79 825 K impairment on right of use of international circuits (ROU) and licenses for internet service for one of the company's subsidiaries.

**Amortization charge**
The amortization charge is recognized in the following line items in the profit or loss:

| In thousands of Egyptian Pound | Note | For the three months ended 31 March, 2014 | 2013 |
|---|---|---|---|
| Operating costs | 5 | 12 007 | 12 618 |
| | | 12 007 | 12 618 |

## 15. Equity-accounted investees

The Group has the following investment in associates:

| In thousands of Egyptian Pound | Ownership 31 March 2014 | 31 December 2013 | Carrying amount 31 March 2014 | 31 December 2013 |
|---|---|---|---|---|
| Wataneya for Telecommunication | 50.00% | 50.00% | - | - |
| International Telecommunication Consortium Limited. (ITCL) | 50.00% | 50.00% | - | - |
| Vodafone Egypt. (SAE) | 44.95% | 44.95% | 8 575 046 | 8 365 599 |
| Egypt Trust | 35.71% | 35.71% | - | - |
| Consortium Algérien de Télé – communications (CAT) | 33.00% | 33.00% | - | - |
| Sofisat | 25.00% | 25.00% | - | - |
| Total | | | 8 575 046 | 8 365 599 |

- Investment in Wataneya for Telecommunication amounting to LE 125 K is fully impaired.
- Investment in International Telecommunication Consortium Limited (ITCL) amounting to LE 54 K is fully impaired.
- Investment in Consortium Algerien de Telecommunications (CAT) amounting to LE 133 K is shown a nil balance as the Company sustained losses that exceed the investment's carrying amount.
- Investment in Egypt Trust amounting to LE 7 500 k is fully impaired.

**Investment in Vodafone – Egypt**

The investments in Vodafone Egypt on March 31,2014 represents the ownership of 107 869 799 shares with a percentage of 44.95% from the total shares of Vodafone Egypt.
The financial year of Vodafone Egypt ends on March 31, the equity method was applied in recognizing the investment in Vodafone Egypt when preparing the Condensed Consolidated Interim Financial Statements as of March 31, 2014 by using the consolidated financial statements of Vodafone Egypt for the financial year ended in March 31, 2014 that were authorized from Company's Board of directors which presents the 12 months from the 1st of April 2013 till March 31, 2014 deduct the movements of the period from 1st of April 2013 till December 31, 2013 from the interim financial statements of Vodafone Egypt as of December 31, 2013 to determine the share of financial period from January 1, 2014 to March 31, 2014 of business results.

Summary financial information for equity accounted investees, not adjusted for the percentage ownership held by the group:

In million of Egyptian Pound

| | Assets | Liabilities | Equity | Revenues | Profit |
|---|---|---|---|---|---|
| **31-12-2013:** | | | | (For 9 months) | |
| Vodafone Egypt | 15 801 | 7 350 | 8 451 | 10 052 | 1 375 |
| | 15 801 | 7 350 | 8 451 | 10 052 | 1 375 |
| **31-3-2014:** | | | | (For Financial year) | |
| Vodafone Egypt | 16 812 | 7 896 | 8 916 | 13 331 | 1 841 |
| | 16 812 | 7 896 | 8 916 | 13 331 | 1 841 |

## 16. Available-for-sale investments

| In thousands of Egyptian Pound | 31 March 2014 | 31 December 2013 |
|---|---|---|
| Equity securities available-for-sale – Foreign* | **26 683** | 26 683 |
| Investment in other companies | **94 705** | 94 705 |
| | **121 388** | 121 388 |
| Less: | | |
| Impairment loss on investment in other companies | **21 069** | 21 069 |
| | **100 319** | 100 319 |

* The company's share in Arab Sat represented in 7 968 455 shares amounting to LE 11 856 K including free shares distributed during 2010 by Arab Sat to all the shareholders pro - rata of existing shares at that time. The company's contribution in Arab Sat remains the same at 1.5937%

## 17. Other receivables

Other receivables balance amounted to a zero net balance representing in LE 453 902 K the value of the finance provided by Telecom Egypt to Consortium Algerian de Telecommunication Company (CAT) where Telecom Egypt participates directly and indirectly by 50%, this company suffers from financial difficulties and sustains material losses. The Extra-Ordinary General Assembly Meeting of the company (CAT) held on July 1, 2009 approved the dissolution and liquidation of the company. an impairment loss was formed in the light of these circumstances, since there is high probability that Telecom Egypt will not be able to collect the finance given to Consortium Algerian de Telecommunication Company.

## 18. Deferred tax assets and liabilities

### Recognized deferred tax assets

Deferred tax assets \ (liabilities) are attributable to the following:

| In thousands of Egyptian Pound | Assets | | Liabilities | |
|---|---|---|---|---|
| | 31 March 2014 | 31 December 2013 | 31 March 2014 | 31 December 2013 |
| Property, plant and equipment | 20 635 | 18 798 | - | - |
| Intangible assets | - | - | ( 3 836) | ( 3 065) |
| Inventory | 4 689 | 4 688 | - | - |
| Trade & other receivables | 218 618 | 219 938 | - | - |
| Provisions | 44 517 | 44 517 | - | - |
| Accrued liabilities | 42 648 | 39 679 | - | - |
| Total deferred tax assets (liability) | 331 107 | 327 620 | ( 3 836) | ( 3 065) |

### Unrecognized deferred tax assets

| In thousands of Egyptian Pound | 31 March 2014 | 31 December 2013 |
|---|---|---|
| Impairment loss on trade and other receivables | 535 595 | 525 007 |
| Provision for contingent liabilities and claims | 1 452 | 1 119 |
| | 537 047 | 526 126 |

Deferred tax assets have not been recognized in respect of the above items because there is no reasonable certainty concerning the company's ability to benefit in the future from these assets.

## 19. Inventories

| In thousands of Egyptian Pound | 31 March 2014 | 31 December 2013 |
|---|---|---|
| Spare parts, supplies and cables* | 398 079 | 443 340 |
| Telephone sets and directories | 4 774 | 15 280 |
| | 402 853 | 458 620 |

*The value of inventory was written down by LE 20 087 K (against LE 20 081 K at December 31, 2013) for obsolete and slow moving items directly from the cost of each type of inventory.

## 20. Trade and other receivables

| In thousands of Egyptian Pound | 31 March 2014 | 31 December 2013 |
|---|---|---|
| Trade receivables due to equity accounted investees | 173 249 | ( 92 197) |
| **Other trade and notes receivable:** | | |
| Governmental sector | 319 141 | 306 178 |
| Private sector | 2 751 198 | 2 492 855 |
| Foreign telecommunication operators | 61 269 | 679 102 |
| Notes receivable | 160 | 87 |
| | 3 305 017 | 3 386 025 |
| **Other receivables and pre-payments:** | | |
| Advance payments to suppliers | 94 436 | 21 323 |
| Deposits with others | 24 010 | 15 604 |
| Payments on the account of corporate tax | 96 836 | 86 611 |
| Sales Tax Authority - advances | 741 519 | 710 567 |
| Other receivables | 709 632 | 589 955 |
| | 4 971 450 | 4 810 085 |

## 21. Cash and cash equivalents

| In thousands of Egyptian Pound | Note | 31 March 2014 | 31 December 2013 |
|---|---|---|---|
| Bank balances | | 45 881 | 91 667 |
| Time deposits ( less than 3 months) | | 2 873 565 | 2 035 373 |
| Cash on hand | | 18 469 | 14 588 |
| Treasury bills ( less than 3 months) | | 3 704 745 | 3 390 332 |
| Money market funds ( less than 3 months) | | 184 429 | 130 418 |
| **Cash and cash equivalents** | | 6 827 089 | 5 662 378 |
| Restricted cash | 31 | ( 17 366) | ( 18 074) |
| **Cash and cash equivalents in the statement of cash flows** | | 6 809 723 | 5 644 304 |

## 22. Capital and reserves

*Share capital*

The Company's issued and fully paid up capital amounted to LE 17 070 716 K represented in 1 707 071 600 shares of par value LE 10.

In December 2005, the share capital ownership became as follows; 80% the Egyptian Government and 20% private investors.

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.

*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.

## 23. Earnings per share

*Basic earnings per share*

The calculation of basic earnings per share at March 31, 2014 was based on the profit attributable to owners of the company of LE 478 103 (March 31, 2013: LE 801 539 K) and a number of ordinary shares outstanding during the period ended March 31, 2014 of 1 707 071 600 (March 31, 2013:1 707 071 600), calculated as follows:

| **For the three months ended 31 March**<br>In thousands of Egyptian Pound | **2014** | **2013** |
|---|---|---|
| Profit for the period | **478 862** | 802 214 |
| Profit attributable to owners of the company | **478 103** | 801 539 |

| *Number of ordinary shares*<br>In thousands | **2014** | **2013** |
|---|---|---|
| Issued ordinary shares at 1 January | **1 707 072** | 1 707 072 |
| Number of ordinary shares at 31 March | **1 707 072** | 1 707 072 |
| Basic earnings per share (LE/share) | **0.28** | 0.47 |

## 24. 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 foreign currency risk and interest rate risk, see note 28 (iii), (v).

| In thousands of Egyptian Pound | 31 March 2014 | 31 December 2013 |
|---|---|---|
| **Non-current liabilities** | | |
| **Unsecured bank loans:** | | |
| Governmental loans | 75 397 | 111 134 |
| Foreign loans | 362 180 | 364 132 |
| | 437 577 | 475 266 |
| **Current liabilities** | | |
| **Current portion of unsecured bank loans:** | | |
| Local banks | 13 961 | 10 773 |
| Governmental loans | 36 041 | 55 490 |
| Foreign loans | 34 213 | 40 185 |
| Current portion of finance lease liabilities | - | 30 |
| Foreign suppliers facilities | 759 | 760 |
| | 84 974 | 107 238 |

**Security**

- Foreign suppliers facilities in euro amounted to LE 759 K equivalent to Euro 79 K against letters of guarantee issued by National Bank of Egypt in favor of Siemens as a guarantee for payment of this facility and there are no other guarantees.

| 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:** | | | | | | | |
| Governmental loans | U.S.$ | 4% | 111 438 | 36 041 | 34 171 | 41 226 | - |
| **Total Governmental loans** | | | 111 438 | 36 041 | 34 171 | 41 226 | - |
| Foreign loans | EURO | 0.75 - 5.5% | 396 393 | 34 213 | 27 512 | 37 834 | 296 834 |
| **Total foreign loans** | | | 396 393 | 34 213 | 27 512 | 37 834 | 296 834 |
| Foreign suppliers' facilities - foreign | EURO | 5.50% | 759 | 759 | - | - | - |
| Local suppliers' facilities - subsidiary | LE | Capor+0.1% | 13 961 | 13 961 | - | - | - |
| **Total suppliers' facilities** | | | 14 720 | 14 720 | - | - | - |
| | | | 522 551 | 84 974 | 61 683 | 79 060 | 296 834 |

- The available unused balance of foreign loans and facilities at March 31, 2014 equivelent to an amount of L.E. 7 939 K

**Finance lease liabilities**

Finance lease liabilities are payable as follows:

| In thousands of Egyptian Pound | Minimum lease payments 31/03/2014 | Interest 31/03/2014 | Principal 31/03/2014 | Minimum lease payments 31/12/2013 | Interest 31/12/2013 | Principal 31/12/2013 |
|---|---|---|---|---|---|---|
| Less than one year | - | - | - | 32 | 2 | 30 |
| Between one and two years | - | - | - | - | - | - |
| | | | | 32 | 2 | 30 |

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

## 25. Trade and other payables

| In thousands of Egyptian Pound | 31 March 2014 | 31 December 2013 Restated |
|---|---|---|
| **Trade payables:** | | |
| Local suppliers | 150 269 | 166 017 |
| Notes payable | 7 190 | 8 998 |
| | 157 459 | 175 015 |
| **Other payables:** | | |
| Tax Authority ( taxes other than income tax ) | 209 140 | 105 548 |
| Tax Authority - income tax | 864 848 | 715 592 |
| Deposits from others | 656 298 | 656 224 |
| Customers advances | 358 547 | 347 412 |
| Other payables due to equity accounted investees | 1 220 | 1 014 |
| Accrued expenses | 349 722 | 840 613 |
| Dividends payable | 2 203 627 | - |
| Fixed assets creditors | 203 557 | 194 132 |
| Other credit balances | 697 970 | 722 367 |
| | 5 702 388 | 3 757 917 |

- Adjustments were made to the previous year balance of accrued expenses by an amount of LE 332 K as shown in note no. (35).

## 26. Deferred income

Deferred income classified as non-current liabilities consists of the non-current portion of deferred grants in the amount of LE 9 128 K at March 31, 2014 (December 31,2013: LE 11 359 K).

Deferred income classified as current liabilities amounting to LE 753 343 K at March 31, 2014 (against 8922 value at December 31,2013) consists of LE 744 421 K rental income paid in advance by the mobile operators for transmission services and LE 8 922 K represents deferred grants, which will be recognized as income next year.

## 27. Provisions

| In thousands of Egyptian Pound | Note | 31 March 2014 | | | 31 December 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | | Taxes | Claims | Total | Taxes | Claims | Warranties | Total |
| Balance at 1 January | | 428 289 | 58 504 | 486 793 | 236 663 | 97 828 | 24 | 334 515 |
| Provisions formed | 9 | 1 148 | – | 1 148 | 226 688 | 110 | – | 226 798 |
| Provisions used | | ( 13 678) | ( 21 951) | ( 35 629) | ( 35 062) | – | – | ( 35 062) |
| Provisions reversed | | – | – | – | – | ( 39 441) | ( 24) | ( 39 465) |
| Translation differences | | – | ( 3) | ( 3) | – | 7 | – | 7 |
| Balance at end of the period / year | | 415 759 | 36 550 | 452 309 | 428 289 | 58 504 | – | 486 793 |

As at March 31, 2014 provisions are mainly related to taxes, lawsuits, and expected social insurance claim in respect of contracts concluded with

## 28. Financial instruments

The Group's principal financial instruments comprise of cash and cash equivalents, available- for- sale investments, borrowings, finance lease obligations 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 and other receivables and trade and other payables 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*

| In thousands of Egyptian Pound | Note | Carrying amount 31 March 2014 | 31 December 2014 |
|---|---|---|---|
| Available-for-sale investments | 16 | 100 319 | 100 319 |
| Trade and other receivables | 20 | 4 971 450 | 4 810 085 |
| Cash at banks and cash equivalents | 21 | 6 808 620 | 5 647 790 |
| | | 11 880 389 | 10 558 194 |

The following table shows the movement in the allowance for impairment of trade and other receivables:

| In thousands of Egyptian Pound | 31 March 2014 | 31 December 2013 |
|---|---|---|
| At January 1 | **2 529 589** | 2 720 863 |
| Exchange differences | **11** | 512 |
| Used | - | ( 3 906) |
| Reversal of impairment in income statement | **( 10 825)** | ( 187 880) |
| At the end of the period / year | **2 518 775** | 2 529 589 |

*(ii) Liquidity risk*

The table below analyses the group's financial liabilities into relevant maturity groupings based on the remaining years at the financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| In thousands of Egyptian Pound | Carrying Amount | One year or less | From 1-2 Years | From 3-5 Years | More than five years |
|---|---|---|---|---|---|
| March 31, 2014 | | | | | |
| Trade and other payables | 5 702 388 | 5 702 388 | - | - | - |
| Other payables | 765 | - | - | - | 765 |
| Borrowings | 522 551 | 84 974 | 61 683 | 79 060 | 296 834 |
| | 6 225 704 | 5 787 362 | 61 683 | 79 060 | 297 599 |
| December 31, 2013 | | | | | |
| Trade and other payables (Restated) | 3 757 917 | 3 757 917 | - | - | - |
| Other payables | 847 | - | - | - | 847 |
| Borrowings | 582 504 | 107 238 | 63 470 | 133 671 | 278 125 |
| | 4 341 268 | 3 865 155 | 63 470 | 133 671 | 278 972 |

*(iii) Foreign currency risk*

The group's exposure to foregin currency risk was as follows based on notional amount :

**Details**

| **In thousands** | **U.S. Dollars** | **Sterling Pound** | **Euro** | **Canadian Dollar** | **Swedish krona** | **Maroc Dirham** | **Jordan Dinar** | **Total LE** |
|---|---|---|---|---|---|---|---|---|
| **31 March 2014** | | | | | | | | |
| Trade and other receivables | 137 851 | - | 1 700 | 1 843 | - | 6 709 | 260 | 998 564 |
| Cash on hand & at banks | 309 617 | 300 | 62 010 | 2 | - | 16 568 | 2 065 | 2 794 939 |
| **Total assets** | 447 468 | 300 | 63 710 | 1 845 | - | 23 277 | 2 325 | 3 793 503 |
| Trade and other payables | 23 204 | 5 | 2 948 | - | 8 692 | 1 340 | 565 | 206 399 |
| Foreign loans & facilities | 15 959 | - | 41 346 | - | - | - | - | 508 584 |
| **Total liabilities** | 39 163 | 5 | 44 294 | - | 8 692 | 1 340 | 565 | 714 983 |
| Risk surplus (deficit) | **408 305** | **295** | **19 416** | **1 845** | **( 8 692)** | **21 937** | **1 760** | **3 078 520** |
| **Equivalent in Egyptian Pound** | **2 851 030** | **3 429** | **186 500** | **11 653** | **( 9 336)** | **17 892** | **17 352** | **3 078 520** |
| **31 December 2013** | | | | | | | | |
| Trade and other receivables | 225 687 | - | 1 552 | 1 943 | - | 6 211 | 428 | 1 608 618 |
| Cash on hand & at banks | 189 985 | 300 | 61 922 | 85 | - | 15 348 | 1 954 | 1 954 154 |
| **Total assets** | 415 672 | 300 | 63 474 | 2 028 | - | 21 559 | 2 382 | 3 562 772 |
| Trade and other payables | 17 491 | 5 | 3 678 | - | 8 692 | 1 037 | 560 | 173 013 |
| Foreign loans & facilities | 23 928 | - | 42 148 | - | - | - | - | 571 697 |
| **Total liabilities** | 41 419 | 5 | 45 826 | - | 8 692 | 1 037 | 560 | 744 710 |
| Risk surplus (deficit) | **374 253** | **295** | **17 648** | **2 028** | **( 8 692)** | **20 522** | **1 822** | **2 818 062** |
| **Equivalent in Egyptian Pound** | **2 606 148** | **3 388** | **169 610** | **13 260** | **( 9 430)** | **17 157** | **17 929** | **2 818 062** |

**The exchange rates applied in relation to the L.E. are as follows:**

| | Average exchange rate during: | | Closing exchange rate as at: | |
|---|---|---|---|---|
| | **31/3/2014** | **31/12/2013** | **31/3/2014** | **31/12/2013** |
| **U.S. Dollar** | 6.9746 | 6.8758 | 6.9826 | 6.9636 |
| **Sterling Pound** | 11.5697 | 10.8737 | 11.6225 | 11.4857 |
| **Euro** | 9.5709 | 9.2302 | 9.6055 | 9.6107 |
| **Canadian Dollar** | 6.4272 | 6.5140 | 6.3159 | 6.5385 |
| **Swedish Krona** | 1.7730 | 1.0619 | 1.0741 | 1.0849 |
| **Maroc Dirham** | 0.8258 | 0.7770 | 0.8156 | 0.8360 |
| **Jordan Dinar** | 9.8496 | 9.4088 | 9.8589 | 9.8404 |

***(iv) Sensitivity analysis***

A 10 % strengthening of the foreign currencies against the EGP as of 31 March, 2014 would have increased profit by the amounts LE 307 852 K (LE 281 806 K as of December 31, 2013). This analysis is based on foreign currency exchange rate variance that the group considered to be reasonably possible at the end of reporting period this analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2013.

A 10 % weakening of the foreign currencies against the EGP at March 31, 2014 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 were:

| In thousands of Egyptian Pound | Note | 31 March 2014 | 31 December 2013 |
|---|---|---|---|
| **Fixed rate instruments** | | | |
| Financial assets – deposits | 21 | 2 873 565 | 2 035 373 |
| Financial liabilities - (Loans and borrowings) | 24 | 522 551 | 582 504 |
| | | 3 396 116 | 2 617 877 |

## 29. Fair value of financial instruments

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

Except of the investments in Vodafone Egypt, and Consortium Algerian de Telecommunications (CAT) and Egypt Trust 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, Consortium Algerian de Telecommunications (CAT) and Egypt Trust which were accounted for using the equity method of accounting and are not listed in the Stock Exchange.

***Interest-bearing loans***

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 March 31, 2014 plus an adequate constant credit spread to discount financial instruments. The discount rate for minimum lease liabilities and receivables is 14%.

## 30. Capital commitments

The company's capital commitments for the unexecuted parts of contracts until March 31, 2014 amounted to LE 123 million ( against LE 151.9 million as at December 31, 2013 ) includes LE 3.5 million represents the uncalled installments of investees' share in capital. These commitments are expected to be settled in the subsequent period except for the uncalled installments of investees' share in capital, which shall be settled when required by the Board of Directors of those investees companies.

## 31. Contingencies

**31-1** ***In addition to the amounts included in the consolidated statement of financial position as of March 31, 2014, the company has the following contingent liabilities:***

| In thousands of Egyptian Pound | 31 March 2014 | 31 December 2013 |
|---|---|---|
| Letters of guarantee issued by banks on behalf of the Group | 33 253 | 54 464 |
| Letters of credit | 193 543 | 85 953 |

- Letters of guarantee issued by banks on behalf of the group on March 31, 2014 includes letters of guarantee against restricted cash and cash equivalent – Note no. 21.

**31-2** ***NATIONAL TELECOM REGULATORY AUTHORITY (NTRA) ANNUAL LICENSE FEES***

- NTRA annual licenses fees are booked and paid in accordance with article no. 38 of the license granted to Telecom Egypt, which states that Telecom Egypt is to pay licenses fees amounting to 3% of total revenues (excluding international calls revenues) in addition to 5% of international calls revenues. However, the same article states that starting from 2006 till 2008, Telecom Egypt has to pay the annual license fees cap. Starting from first of July 2008, NTRA has the right to reconsider either to proceed with the annual license fees cap, or apply the said percentages; depending on market conditions and tariff restructuring.
- Telecom Egypt received a claim from NTRA according to NTRA Board of Directors' resolution during year 2012, cancelling the annual license fees cap and claiming 5% of international calls revenue, in addition to 3% of the remaining revenues starting from the fiscal year 2011/2012. The amount disputed till 31 March 2014 amounts to approximately L.E. 560 million.
- Telecom Egypt submitted a grievance to the Minister of Telecommunications and the Chairman of NTRA requesting to continue applying the annual license fees cap as the terms of change according to the granted licenses for changing the annual license fees cap depending on market conditions and tariff restructuring were not satisfied, which didn't have any positive impact on the company's activity evidenced by the company's financial analysis included in the company's grievance which is based on company's issued financial statements.
- On 24 February 2014 Telecom Egypt received a letter from the Chairman of NTRA stating that the company's grievance is currently being considered.
- Telecom Egypt is of the opinion that it has a valid case for its grievance, since neither the market conditions nor the tariff restructuring changes had a positive impact on the company's activity so that NTRA could change from the annual license fees cap to apply the said percentages.

**32. 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***

During the financial period ended March 31, 2014 , fixed to mobile interconnection, audio text fees and sale of products and services in favor of Vodafone Egypt LE 232 654 K . Lease of company's premises and towers in favor of the group, transmission and international calls and telecomunication services amounted to LE 91 855 and the balance due from/to Vodafone Egypt at March 31, 2014 amounted to LE 173 249 K (Note 20) and LE 1 220 K (Note 25) respectively.

**33. Group entities**

**Control of the Group**

**The Group's ultimate parent company is Telecom Egypt**

| | | Country of incorporation | Ownership interest | |
|---|---|---|---|---|
| | | | 31 March 2014 | 31 December 2013 |
| | Telecom Egypt France | France | 100.00 | 100.00 |
| | T. E. Data | Egypt | 99.99 | 99.99 |
| * | T.E. Data Jordan | Jordan | 99.99 | 99.99 |
| | TE Investment Holding | Egypt | 99.99 | 99.99 |
| | The Egyptian Telecommunication Company for Information Systems (Xceed) | Egypt | 97.66 | 97.66 |
| ** | Xceed Customer Care Maroc - indirect ownership | Morocco | 97.66 | 97.66 |
| | Centra Technologies | Egypt | 58.76 | 58.76 |
| *** | Centra Distribution | Egypt | 58.74 | 58.74 |
| *** | Centra Industries | Egypt | 58.63 | 58.63 |
| *** | Middle East Radio Communication ( MERC ) | Egypt | 51.00 | 51.00 |

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

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

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

**34. Claims and litigations**

The Company's external legal advisor's opinion is that the following cases are still in preliminary stage; hence the final outcome cannot currently be reliably estimated.

**34.1 Interconnect agreement with mobile companies**

Telecom Egypt had filed a complaint before the Dispute Resolution Board of the National Telecommunication Regulatory Authority (NTRA) requesting the application of interconnection rates with the mobile operators (Mobinil and Vodafone), for the implementation of the law's obligation and signed agreement between Telecom Egypt and each of Mobinil and Vodafone. On September 3,2008 The NTRA issued a decision in favor of Telecom Egypt and amended on December 31,2009 and on January 14,2010, the mobile operators (Vodafone and Mobinil) had appealed to the administration court between the mobile operators and the National Telecommunication Regulatory Authority (NTRA) and the two appeals are still in progress, knowing that Vodafone is still applying the interconnection rates mentioned in those agreements till the appeal is resolved, However, Mobinil company do not apply those interconnection rates, knowing that Telecom Egypt is not part of the filed appeal by Mobinil and against the (NTRA) to repeal the previous mentioned Decision.

On September 2009, Mobinil had filed the Arbitration Case no. 644/2009 requesting the application of the interconnection rates mentioned in the signed agreements with Telecom Egypt as an objection to evade the (NTRA) mentioned decisions claiming that Telecom Egypt made a contract violation and as a compensation to resort to the (NTRA) and not to conclude the services agreement related to the Transmission and International portals and the compensation of this violation. On October 2009, Telecom Egypt had filed the Arbitration Case against Mobinil and filed the Arbitration Case no. 650/2009 against Vodafone, that's where Telecom Egypt's management believes that these two companies calculate Telecom Egypt with rates exceeds the rates where these two companies are dealing with each other and this violate the article no.(13) from the interconnection agreement between Telecom Egypt and these two companies and still those cases before the arbitral courts. Telecom Egypt's external legal counselor believe that the company's legal position is grounded on the interconnection agreement, and in the light of the telecommunication law in both cases.

According to the external legal counselor's opinion the company recognize its revenues and its costs related to the interconnection service with mobile operators according to the decisions released by the National Telecommunication Regulatory Authority and that's till the dispute is resolved.

The amount in dispute as per the company's record between Telecom Egypt and both company " Mobinil , Vodafone " in relation to the said dispute during the period from September 3, 2008 to the end of March 2014 is an amount of LE 1 078 330 K.

**34.2 Other claim**

- The Company has filed an arbitration case against an investee, in which the Company owns 25%, claiming compensations for breach of obligations stipulated in a revenue sharing agreement concluded between the Company and the investee and requesting the termination of the said agreement Also, the investee has filed a counter arbitration case against the Company claiming compensation for an alleged breach of obligations stipulated in the same agreement.

- Also, the company has filed an arbitration claim against the prepaid cords companies which filed a counter claim against telecom Egypt and all these claims are still under inspection as Cairo regional center commercial arbitration.

## 35. Comparative figures

The comparative figures of the condensed consolidated balance sheet was amended and represented on December 31,2013, also the condensed consolidated income statement for the three months ended on March 31,2013 was amended by 2013 share of the cost of buying microsoft software licenses for computers of a subsidiary, the following is the effect of these changes on consolidated balance sheet and income statement:-

### Effect on statement of financial position:

| Description | 31/12/2013 L.E.(000) as previously reported | LE(000) Adjustments | 31/12/2013 L.E.(000) Restated |
|---|---|---|---|
| Trade and other payables | 3 757 585 | 332 | 3 757 917 |
| Retained earnings | 4 150 491 | ( 195) | 4 150 296 |
| Non - controlling interests | 16 630 | ( 137) | 16 493 |

### Effect on Statement of profit or loss and other comprehensive income

| Description | For the three months ended 31/3/2013 L.E.(000) as previously reported | LE(000) Adjustments | For the three months ended 31/3/2013 L.E.(000) Restated |
|---|---|---|---|
| General and adminstrative expenses | 371 950 | 83 | 372 033 |

### Consolidated statement of cash flows

Reclassification was made to comparative figures for consolidated statement of cash flows items to conform to the current presentation.