

telecomegypt



**Telecom Egypt Company
Condensed Consolidated Interim Financial Statements
Prepared in Accordance with IFRSs
For The Three Months Ended March 31, 2020
And Independent Auditor's Review Report**

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Hazem Hassan

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Independent Auditors' Report on Review **Of Condensed Consolidated Interim Financial Statements** **To the Board of Directors of Telecom Egypt Company**

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Telecom Egypt Company and its subsidiaries (“the Group”) as at March 31, 2020, the condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three months period then ended, and notes to the interim financial statements (“the condensed consolidated interim financial statements”). Management is responsible for the preparation and fair presentation of these condensed consolidated interim financial statements in accordance with IAS 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements number 2410, "Limited Review of Interim Financial Statements 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 International Standards 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 on these condensed consolidated interim financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements do not give a true and fair view of the financial position of the Group as at March 31, 2020, and of its consolidated financial performance and its consolidated cash flows for the three months period then ended in accordance with IAS 34 “Interim Financial Reporting”.



Hazem Hassan

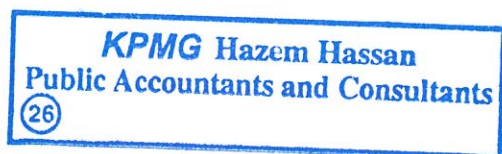
Emphasis of Matter

Without qualifying our conclusion, we draw attention to note no. (28) of the notes to the condensed consolidated interim financial statements, a dispute arose between the company and both Orange Egypt Company and Etisalat Misr Company and its subsidiaries (plaintiff companies) in regards to the company's change of technology used in the infrastructure necessary to provide internet service to customers which the plaintiff companies contracted to rent from the company, the plaintiff companies have filed lawsuits against the company regarding this matter and those litigations are still under deliberation before the judicial bodies and expert committees and the final ruling has not been issued, the plaintiffs companies filed complaints to the Egyptian Competition Authority (ECA) against the company on the basis that the company has carried out practices limiting competition in the Egyptian market.

According to the opinion of the company's legal consultant, these lawsuits are still in the process of submitting documents and judicial defenses from both sides of the dispute before the judicial bodies and expert committees and that it is not possible to determine the final legal position of those cases, it is difficult, in the meantime to determine the outcome of the above mentioned lawsuits till the final ruling of the judicial bodies is issued.

KPMG Hazem Hassan
Cairo, Egypt

August 12, 2020



Telecom Egypt Company
Condensed consolidated statement of financial position

In thousands of Egyptian Pound	Note	31 March 2020	31 December 2019 Reclassified
Assets			
Property, plant and equipment	11	36 337 515	36 301 170
Intangible assets	12	10 609 151	10 823 421
Equity-accounted investees	13	11 216 552	10 763 157
Available-for-sale investments		84 551	79 811
Other financial assets		57 422	60 072
Deferred tax assets	22	295 882	341 223
Non-current assets		58 601 073	58 368 854
Inventories	14	2 274 050	2 353 882
Held-to-maturity investment (treasury bills)		393	25 829
Trade and other receivables	15	12 079 277	10 515 202
Cash and cash equivalents	16	1 396 220	1 433 184
Current assets		15 749 940	14 328 097
Total assets		74 351 013	72 696 951
Equity			
Share capital	17	17 070 716	17 070 716
Reserves	17	4 980 418	4 752 002
Retained earnings		12 729 704	12 441 313
Equity attributable to owners of the company		34 780 838	34 264 031
Non-controlling interests		10 192	14 904
Total equity		34 791 030	34 278 935
Liabilities			
Loans and credit facilities	19	4 330 152	4 785 550
Trade and other payables	20	5 847 400	5 376 579
Deferred revenue		296 328	308 313
Deferred tax liabilities	22	1 636 646	1 558 975
Non-current liabilities		12 110 526	12 029 417
Loans and credit facilities	19	12 661 625	11 666 363
Trade and other payables	20	11 332 035	12 096 241
Deferred revenue		2 099 308	803 743
Credit accounts due to associates		505 284	1 049 642
Provisions	21	851 205	772 610
Current liabilities		27 449 457	26 388 599
Total liabilities		39 559 983	38 418 016
Total equity and liabilities		74 351 013	72 696 951

Director of Financial Affairs



"Ehab Abdo"

Senior Director of Financial Affairs



"Wael Hanafy"

Chief Financial Officer



"Mohamed Shamroukh"

Managing Director
& Chief Executive Officer


"Adel Hamed"

Board of Directors approval

Chairman



"Maged Osman"

Independent auditor's review report " attached "

The notes on pages 7 to 24 are an integral part of these condensed consolidated interim financial statements.

Telecom Egypt Company
Condensed consolidated statement of profit or loss and other comprehensive income

For the three months ended 31 March

In thousands of Egyptian Pound	Note	2020	2019
Continuing operations			
Revenue	5	7 003 874	6 097 317
Operating costs	6	(4 367 376)	(3 686 918)
Gross profit		2 636 498	2 410 399
Other income		127 217	99 771
Selling and distribution expenses	7	(815 724)	(597 778)
Administrative expenses	8	(853 058)	(871 845)
(Impairment loss) reversal on trade and other receivables		(35 968)	26 865
Other expenses		(139 964)	(12 158)
Operating profit		919 001	1 055 254
Finance income		459 700	477 732
Finance costs		(425 876)	(417 169)
Net finance income	10	33 824	60 563
Share of profit of equity-accounted investees, net of tax		451 118	617 554
Profit before tax		1 403 943	1 733 371
Income tax		(415 378)	(269 551)
Profit for the period		988 565	1 463 820
Other comprehensive income			
Foreign operations - foreign currency translation differences		(37 403)	(55 309)
Other comprehensive income , net of tax		(37 403)	(55 309)
Total comprehensive income		951 162	1 408 511
Profit attributable to:			
Owners of the company		987 761	1 462 805
Non - controlling interests		804	1 015
		988 565	1 463 820
Total comprehensive income attributable to:			
Owners of the company		950 358	1 407 496
Non - controlling interests		804	1 015
		951 162	1 408 511
Earning per share			
Basic earnings per share (LE)	18	0.62	0.86
Diluted earnings per share (LE)	18	0.62	0.86

The notes on pages 7 to 24 are an integral part of these condensed consolidated interim financial statements.

Telecom Egypt Company
Condensed consolidated statement of changes in equity
For the three months ended 31 March 2020

	Attributable to owners of the company						Total equity		
	Note	Share capital	Legal reserve	Translation reserve	Other reserve	Retained Earnings		Total equity attributable to equity holders of the company	Non-controlling interest
Balance at 1 January 2020 (Reclassified)		17 070 716	1 966 047	(10 623)	2 796 578	12 441 312	34 264 031	14 904	34 278 935
Total comprehensive income for the period									
Profit for the period		-	-	-	-	987 761	987 761	804	988 565
Other comprehensive income		-	-	(37 403)	-	-	(37 403)	-	(37 403)
Total comprehensive income		-	-	(37 403)	-	987 761	950 358	804	951 162
Transactions with shareholders of the company									
Transferred to legal reserves		-	274 847	-	-	(274 847)	-	-	-
Dividends		-	-	-	-	(426 768)	(426 768)	(5 516)	(432 284)
Restatements on retained earnings in associates		-	-	-	-	2 245	2 245	-	2 245
Excluded of evaluation landing & building		-	-	-	-	(9 028)	(9 028)	-	(9 028)
Total transactions with shareholders of the company		-	274 847	-	-	(699 370)	(433 551)	(5 516)	(439 067)
Balance as at 31 March 2020		17 070 716	2 240 894	(48 026)	2 787 550	12 729 704	34 780 838	10 192	34 791 030
balance as at 1 January 2019 (Restated)		17 070 716	1 899 028	176 729	2 796 578	9 578 959	31 522 010	14 967	31 536 977
Impact of adjustments on comparative figures		-	-	-	-	(47 041)	(47 041)	-	(47 041)
balance as at 1 January 2019		17 070 716	1 899 028	176 729	2 796 578	9 531 918	31 474 969	14 967	31 489 936
Total comprehensive income									
Profit for the period		-	-	-	-	1 462 805	1 462 805	1 015	1 463 820
Other comprehensive income		-	-	(55 309)	-	-	(55 309)	-	(55 309)
Total comprehensive income		-	-	(55 309)	-	1 462 805	1 407 496	1 015	1 408 511
Transactions with shareholders of the company									
Transferred to legal reserves		-	66 500	-	-	(66 500)	-	-	-
Dividends		-	-	-	-	(426 768)	(426 768)	(5 917)	(432 685)
Total transactions with shareholders of the company		-	66 500	-	-	(493 268)	(426 768)	(5 917)	(432 685)
Balance as at 31 March 2019		17 070 716	1 965 528	121 420	2 796 578	10 501 455	32 455 697	10 065	32 465 762

The notes on pages 7 to 24 are an integral part of these condensed consolidated interim financial statements.

Telecom Egypt Company
Condensed consolidated statement of cash flows

In thousands of Egyptian Pound	<u>Note</u>	For the three months ended 31 March	
		2020	2019 Reclassified
Cash flows from operating activities			
Cash receipts from customers		5 984 447	6 565 292
Value added tax collected from customers		148 969	114 194
Stamp tax and fees collected (from third party)		26 179	25 645
Deposits collected from customers		372	205
Cash paid to suppliers		(1 162 663)	(1 822 477)
Payments of NTRA license fees		(266 796)	(343 534)
Dividends paid to employees and board of directors		(19 239)	(15 955)
Cash paid to employees and board of directors		(1 400 499)	(1 518 639)
Cash paid on behalf of employees to third party		(254 447)	(262 220)
Interest paid		(305 582)	(300 976)
Payments to Tax Authority - income tax		(18 360)	(17 989)
Payments to Tax Authority - value added tax		(356 022)	(343 247)
Payments to Tax Authority - other taxes		(357 122)	(347 730)
Other (payments) proceeds		(121 750)	244 698
Net cash provided by operating activities		1 897 487	1 977 267
Cash flows from investing activities			
Payments for purchase of property, plant and equipment and intangible assets		(2 573 915)	(2 084 727)
Payments for purchase of intangible assets		(25 000)	(25 703)
Proceeds from sale of property, plant and equipment and intangible assets		3	18
Payments for acquisition of investments		(4 740)	-
Payments for retrieval of held -to- maturity investments - treasury bills		(386)	(8 529)
Interest received		15 318	11 436
Dividends of profit collected from investments		-	4 614 084
Proceeds from securities (treasury bills - mutual fund)		241	227
Net cash (used in) provided by investing activities		(2 588 479)	2 506 806
Cash flows from financing activities			
Payments for loans		(361 322)	-
Proceeds / (payments) from other facilities		1 024 604	(4 170 383)
Net cash provided by (used in) financing activities		663 282	(4 170 383)
Net change in cash and cash equivalents		(27 710)	313 690
Cash and cash equivalents at 1 January		1 311 391	1 081 867
Effect of movements in exchange rate on cash held		(9 286)	(8 074)
Cash and cash equivalents at 31 March	16	1 274 395	1 387 483

The notes on pages 7 to 24 are an integral part of these condensed 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 period ended March 31, 2020 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 represents in the following:
 - Owning, setting up, operating, maintenance and development of telecommunication networks and infrastructure necessary for communication services for using and / or managing and / or leasing to others and / or dealing on them.
 - Providing voice, video and data transmission telecommunication services to subscribers and / or managing and / or leasing to others and / or dealing on them.
 - Participating or contributing to global communication systems, such as: - submarine cables and satellites and obtaining capacities or circuits for using and / or managing and / or leasing to others and / or dealing on them.
 - Dealing or contracting or Participating with authorities, agencies, companies, organizations or any entity exercising an activity similar to or identical to the company’s activities or relates or assists the company to achieve its purposes either in Arab Republic of Egypt or abroad.
 - Managing, selling, leasing, purchasing, possessing, renting and dealing on any property and rights or benefit or right in any property. Including the movable and immovable property which could be acquired or owned by the company.
 - Selling, purchasing and distributing of fixed line sets, mobile phones and computers, its peripherals, accessories and supplies, complementary devices and necessary spare parts and related maintenance works.
 - Setting up voice, video and written data transmission networks and providing value-added services, content services, marketing, electronic signature and online money transfer.
 - Real estate investment for serving its purposes and executing its projects.
- The registered office of the Company is 26 Ramses Street, Cairo, Egypt.
- The nominal shares for the company are traded in the Egyptian Stock Exchange and London Stock Exchange.

2. Basis of preparation

a. Basis of accounting

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 31 December 2019 ('last annual financial statements'). They do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements.

These condensed consolidated interim financial statements were authorized for issuance by the Company's Board of Directors on August 12, 2020.

b. Use of judgements and estimates

In preparing these condensed consolidated interim financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements.

C. Measurement of fair values

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the chief financial officer.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which the valuations should be classified.

Significant valuation issues are reported to the group audit committee.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

D. Functional and presentation currency

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

E. Significant accounting policies

The accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2019. A number of new standards are effective from 1 January 2020 but they do not have a material effect on the Group's financial statements.

F. Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier is permitted; however, the group has not early adopted any of the forthcoming new or amended standards in preparing these condensed consolidated interim financial statements.

Notes to the condensed consolidated interim financial statements Prepared in accordance with (IFRSs)
For The Three Months Ended March 31, 2020 (continued)

3. Segment reporting

Operating activities related to the company is managed by operating segments at the group activates level as integrated activity, based on the nature of product and the service provided. The segment reporting is prepared according to services provided by activities as a group as follows:

- Communications, marine cables and infrastructure services.
- Internet services.
- Outsourcing services.

For the three months ended March 31,2020

Description	Communications, marine cables and infrastructure	Internet	Outsourcing	All other	Total
	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Revenue	4 248 471	2 501 083	226 283	28 037	7 003 874
Operating costs	(3 749 938)	(196 051)	(396 744)	(24 643)	(4 367 376)
Gross profit	498 533	2 305 032	(170 461)	3 394	2 636 498
Credit interest	4 316	5 557	494	3 830	14 197
Debit interest and Finance cost	(351 764)	-	-	(820)	(352 584)
Depreciation and amortization	(1 064 982)	(62 887)	(14 907)	(1 074)	(1 143 850)
share of profit of equity-accounted investees, net of tax	-	-	-	451 118	451 118
Non cash items					
Impairment on financial assets	(12 423)	(23 545)	-	-	(35 968)
Provisions	-	(3 600)	-	-	(3 600)
Total assets	70 151 047	3 248 014	601 928	350 024	74 351 013
Total liabilities	36 285 357	1 921 103	299 596	978 927	39 484 983

For the three months ended March 31,2019

Description	Communications, marine cables and infrastructure	Internet	Outsourcing	All other	Total
	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Revenue	3 996 615	1 918 407	165 507	16 788	6 097 317
Operating costs	(3 289 219)	(322 453)	(58 073)	(17 173)	(3 686 918)
Gross profit	707 396	1 595 954	107 434	(385)	2 410 399
Credit interest	8 488	11 582	844	3 592	24 506
Debit interest and Finance cost	(414 933)	-	(1 165)	(1 071)	(417 169)
Depreciation and amortization	(757 219)	(48 241)	(8 155)	(606)	(814 221)
share of profit of equity-accounted investees, net of tax	-	-	-	617 554	617 554
Non cash items					
Impairment loss on financial assets	25 913	-	-	952	26 865
Provisions	-	(5 100)	(95)	-	(5 195)
Total assets	58 027 281	2 223 359	394 530	351 386	60 996 556
Total liabilities	26 075 760	1 449 269	206 058	612 376	28 343 463

4. Impact of covid - 19

The financial period ended on March 31, 2020, included a major global event through outbreak Coronavirus (Covid-19) which advocated the company to take into consideration with performing the precautionary measures to protect its employees and customers from the risk of spreading the virus, The Group's executive management assigned an overall plan and precautionary measures for dealing with the pandemic.

Firstly: Actions taken by the company to Employees

Reduction in presence of the group's companies workforce at this time by following the work from home policy, to do that the fixed internet package was increased to a doubling load capacity, In addition to increase the mobile internet package. Furthermore sending a periodical messages for employees to motivate them on following the precautionary measures. And application of the country guidelines regarding the women, special needs and chronic disease. And provide the functions of prevention especially the employees that relate directly with the clients.

Secondly: Actions taken by the company to Customers

Extending the internet package by 20% with alimit of 30 Gigabyte as The company has been taking the customer safety in consideration during this exceptional circumstances by extending the repayment periods for the January and April invoices until the middle of June, with the availability for all electronic means of payments through Telecom Egypt website or the electronic wallet (WE Pay)

Third: Actions taken by the company to the Egyptian general public in light of the social responsibility

The company adopted multiple initiatives, as the medical, social and symbiotic, which aim to help and counselling the Egyptian general public with the main risks of coronavirus pandemic.

The main risks that defined by crisis management team and approved by the compan as following :

1- The risks of collection, deposit and credit liquidity

- The company collects debts from its clients normally, with consideration extend the time of payment for the January and April invoices untill the middle of June 2020 regarding the fixed voice, whereas the fixed voice revenue represents the ineffective ratio of the total revenue. The company is studying the impairment of customer balances according to the requirements of the Egyptian Accounting Standards.
- The company has a financial position heavy and balanced supported by the company's cash sales and collections from the market, and the company has a distinct credit rating with Egyptian and international banks.

2- A decrease in indicators of the company's non-financial assets and investments

Telecom Egypt analyze changes in the value of non-financial assets and clarify those changes in accordance with the requirements of the Egyptian accounting standards and financial reporting of losses in the value of those assets, as that decrease would have a considerable impact on the financial indicators. However the management at their own discretion, considers that there is no a decrease shall require written.

3- Selling and distribution risks

Telecom Egypt Group achieved growth in the first-quarter revenue compared to the comparable period in all business units to reflect the absence of the negative impact of Coronavirus on the company's revenue, and the company's sales plans have been reviewed and updated to be suitable for the current events.

Under the procedures established by the company and the suffered risks and the current situation in the country, the company ensures carrying on providing and stability of the service for the customers by expansion of the infrastructure and attract new clients in light of increasingly widespread use of the telecommunication services and the reliability on it.

It is evident from the above, that until now there is no negative impact on the Telecom Egypt's condensed consolidated interim financial statements, for the financial period ended March 31, 2020 as well as during the subsequent periods to that date.

5. Revenues

In thousands of Egyptian Pound	For the three months ended 31 March	
	2020	2019
Home and personal communications	3 130 888	2 411 662
Enterprise	786 254	749 938
Domestic wholesale	1 247 863	1 309 187
International carrier	1 135 804	1 128 307
International cables and networks	703 065	498 223
	7 003 874	6 097 317

Revenues has increased by an amount of L.E. 906 557 K mainly due to the increase in home and personal communications revenues by an amount of L.E. 719 226 K due to the increase in revenues resulting from internet services, fixed line services and mobile phone services, in addition to the increase in International cables and networks by an amount of L.E. 204 842 K, and the increase in Enterprise revenue by an amount of L.E. 36 316 K, however the decrease in Domestic Wholesale revenue by an amount of L.E. 61 324 K led to the limitation of this increase.

6. Operating costs

In thousands of Egyptian Pound	For the three months ended 31 March	
	2020	2019
Interconnection cost	1 369 927	1 133 768
Property, plant and equipment depreciation	891 846	596 591
Amortization of intangible assets	198 036	180 712
Salaries and wages	696 724	675 444
Company's social insurance contribution	76 601	78 951
Employee's compensated absence	2 743	13
Employees' share in profit	94 673	87 017
Frequencies and licenses	237 205	230 610
Other operating costs	799 621	703 812
	4 367 376	3 686 918

Operating costs have increased by an amount of L.E. 680 458 K mainly due to the following: -

- The increase of interconnection cost by an amount of L.E. 236 159 K which is mainly due to the increase in cost of international connection fees and national roaming fees.
- The increase in the depreciation and amortization item by an amount of L.E. 312 579 K due to the additions of the last year after the first quarter and the current period.
- The increase in salaries and wages and equivalent item by an amount of L.E. 29 316 K due to the annual increase by 10 % from the basic salary starting from January 2020
- The increase in other operating costs item is mainly due to the increase of organizations service cost item by an amount of L.E. 114 682 K, however the decrease in cost of merchandise available for sale item by an amount of L.E. 78 365 K led to the limitation of this increase.

7. Selling and distribution expenses

In thousands of Egyptian Pound	For the three months ended 31 March	
	2020	2019
Salaries & wages	279 282	214 705
Company's social insurance contribution	26 967	25 468
Employees' compensated absence	6 194	-
Employees' share in profit	37 950	27 661
Property, plant & equipment depreciation	29 333	1 574
Amortization of intangible assets	721	2 109
Advertising and marketing	198 526	199 530
Other selling and distribution expenses	236 751	126 731
	815 724	597 778

The increase in selling and distribution expenses by an amount of L.E 217 946 K mainly due to the increase in salaries and wages and equivalent item by an amount of L.E. 82 559 K and the increase in the depreciation and amortization item by an amount of L.E 26 371 K and the increase in other selling and distribution expenses by an amount of L.E. 110 020 K due to the increase in both of sales and collection commissions item by an amount of L.E 43 852 K, organizations service cost item by an amount of L.E 56 691 K and tax and duties item by an amount of L.E 14 909 K.

8. Administrative expenses

In thousands of Egyptian Pound	For the three months ended 31 March	
	2020	2019
Salaries & wages	511 115	514 483
Company's social insurance contribution	37 584	41 467
Employees' compensated absence	5 876	4 300
End of service benefits	45 000	69 045
Employees' & BOD share in profit	73 400	69 022
Property, plant & equipment depreciation	23 218	32 657
Amortization of intangible assets	696	578
Other administration expenses	156 169	140 293
	853 058	871 845

The decrease in administrative expenses by an amount of L.E. 18 787 K is mainly due to decrease in salaries and wages and equivalent item by an amount of L.E 29 720 K in addition to the decrease in the depreciation and amortization item by an amount of L.E 9 321 K, however the increase in other administrative expenses by an amount of L.E 15 876 K led to the limitation of this decrease.

9. EMPLOYEES' BENEFITS

9-1 Early retirement scheme (Telecom Egypt)

The Company applies an optional early retirement scheme under which a compensation is paid to employees who desired and meet the requirements to end their service before the legal age of retirement, therefore the company's Board of Directors decided in its meeting which have been held on March 24, 2019 to approve the application of the optional early retirement scheme for the employees of the company before the legal age of retirement. Also on June 9, 2019, internal instructions were issued under no. (8) to determine the mechanism of applying the optional early retirement scheme by specifying the conditions of enrollment in the scheme and the benefits offered to the employees of the company, enrollment application to be submitted during the period from June 9, 2019 till July 9, 2019 according to the following:

First: The important conditions of the optional early retirement

- The subscription duration in social insurance not less than Twenty years.
- Approval of the company's manpower planning committee of the company according to the requirement of work and the company has the right to reject any application.
- The subscription application submitted by the employee is final and not repealed at the expiration of seven days from the date of its submission.

Second: The most important benefits of an optional early retirement

- Payment of compensation for the remaining period, which represents the total of the remaining salaries including periodic increment up to the legal age of retirement calculated at present value by a specified discount rate.
- Payment of compensation instead of the loyalty and belonging grant of 100 months on the basic salary on 1/1/2015 with an increase of 5% per annum.
- Payment of compensation for unused leaves in accordance with the regulations in force.
- Payment of an amount of 1500 per month for three years or until the age of sixty whichever is the earliest.
- Enjoying medical insurance system for employees and their families for three years or until the age of sixty whichever is the earliest.
- Enjoying the benefit of telecommunication services for employees for three years or until the age of sixty whichever is the earliest.

The company's manpower planning committee has considered the applications for early retirement submitted by employees to enroll in the system to determine the extent to which those applications meet the conditions and whether the company needs the applicant employee or not, the said committee has completed the study of most of the applications submitted by the employees of the company, based on its recommendations and after obtaining all the necessary approvals, a number of administrative orders have been issued for the end of the service of employees whose meet the requirements of the above scheme, the said committee have completed the study of all the applications submitted to it by the employees of the company, issuing its recommendations and have prepared the final reports of the results of its work were all the liabilities that the company had bare as a result of the application of the optional early retirement scheme an amount of L.E 1 266 549 K was charged to the income statement for the year ended December 31,2019.

9-2 End of service benefits (the company's contribution in loyalty and belonging fund)

The employees are granted an end of service benefits through a Loyalty & belonging Fund established in January 2004. Employees' benefit is based on the employees' basic salary in January 1, 2015 increasing annually at a compound rate of 5%. The subscription for employees hired after January 1, 2015 is calculated according to a subscription schedule for new hires and increase annually at a compound rate of 5% starting from the next year of the hiring date with the same conditions of annual raise of employees.

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 share represents annual defined contribution and the company had contributed by an amount of L.E 45 000 K for the period ended in March 31, 2020 (against an amount of L.E. 69 045 K for the same period of 2019) stated in the general and administrative expenses as shown in (Note no. 8).

10. Net finance income

In thousands of Egyptian Pound	For the three months ended 31 March	
	2020	2019
Total finance income	459 700	477 732
Total finance costs	(425 876)	(417 169)
Net finance income	33 824	60 563

The decrease in net finance income by an amount of L.E 26 739 K during the period is mainly due to the decrease in interest income by an amount of L.E 10 309 K, the increase in interest expense by an amount of L.E 9 934 K and the decrease in gain from sale of available for sale investments by an amount of L.E 9 874 K.

11. Property, plant and equipment

Description	31/3/2020	31/3/2019	31/3/2020	31/3/2019	31/3/2020	31/3/2019	31/12/2019
	Cost	Cost	Accumulated depreciation	Accumulated depreciation	Net	Net	Net
	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>
Land, Buildings & Infrastructure	36 265 965	31 252 586	16 259 780	15 688 003	20 006 185	15 564 583	19 703 170
Technical equipments & information technologies	32 270 920	28 578 322	21 260 800	21 552 207	11 010 120	7 026 115	9 622 722
Vehicles	228 034	187 732	155 539	150 569	72 495	37 163	67 032
Office furniture & fixtures	1 184 052	1 016 679	893 133	810 516	290 919	206 163	277 293
Tools & supplies	203 346	143 578	101 805	86 409	101 541	57 169	57 742
Under construction	4 856 255	4 704 393	-	-	4 856 255	4 704 393	6 573 211
Total	75 008 572	65 883 290	38 671 057	38 287 704	36 337 515	27 595 586	36 301 170

- The increase in net carrying value of Property, plant and equipment by an amount of L.E. 8 741 929 K due to the increase in land, buildings & infrastructure item and technical equipments & information technologies & fixtures on trunk radio network item by an amount of L.E. 4 441 602 K and L.E. 3 984 005 K respectively, and the increase in under construction item by an amount of L.E. 151 862 K.
- The cost of Property, plant and equipment as of March 31, 2020 includes an amount of L.E. 21 998 Million fully depreciated Property, plant and equipment and still in use.

12. Intangible assets

	31/3/2020	31/12/2019	31/3/2019
	L.E. (000)	L.E. (000)	L.E. (000)
Cost			
Fourth generation network license	8 633 330	8 633 330	8 633 330
Submarine Cables (right of way)	2 112 755	2 096 630	2 400 805
Right of Use (ROU)	880 965	882 013	720 546
License (internet service - programs)	127 158	183 585	79 312
Land (possession-usufruct)	440 684	440 684	440 684
Under construction	221 355	255 420	74 506
Lease ROU	676 788	676 788	621 834
Goodwill	15 839	15 839	-
	13 108 874	13 184 289	12 971 017
Less:			
Accumulated amortization and impairment	2 499 723	2 360 868	1763 917
Net intangible assets	10 609 151	10 823 421	11 207 100

- The decrease in net carrying value of intangible assets mainly due to the decrease in submarine cables (right of way) item by an amount of L.E. 288 050 K and the amortization during the period by an amount of L.E. 199 453 K and the disposal by an amount of L.E. 56 382 K, however the increase in the under construction item by an amount of L.E. 146 849 K led to the limitation of this decrease.
- Intangible assets cost includes at March 31, 2020 an amount of L.E. 175 Million, fully amortized intangible assets and still in use.

13. Equity-accounted investees

In thousands of Egyptian Pound

	Ownership		Carrying amount	
	31 March 2020	31 December 2019	31 March 2020	31 December 2019
Wataneya for Telecommunication	50.00%	50.00%	-	-
International Telecommunication Consortium Limited. (ITCL)	50.00%	50.00%	-	-
Vodafone Egypt. (SAE)*	44.95%	44.95%	11 216 537	10 763 003
Egypt Trust	35.71%	35.71%	15	154
Consortium Algérien de Télé- communications (CAT)	33.00%	33.00%	-	-
Total			11 216 552	10 763 157

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

* Investment in Vodafone – Egypt

The investments in Vodafone Egypt on March 31, 2020 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 of each year and the equity method was applied in recognizing the investment in Vodafone Egypt during preparing the Condensed Consolidated Interim Financial Statements as of March 31, 2020 by using the consolidated financial data of Vodafone Egypt for the financial year ended in March 31, 2020 which presents the 12 months from the 1st of April 2019 till March 31, 2020, deduct the movements of the period from April 1, 2019 till December 31, 2019 from the interim financial data of Vodafone Egypt as of December 31, 2019, to determine the share of financial period from January 1 to March 31, 2020 of business results.

** Egypt Trust

The balance is represented in Subscription of the remaining 25% of the company's share in Egypt Trust capital after deduction the company's share in the associates accumulated losses, the commercial registration related to in process.

14. Inventories

In thousands of Egyptian Pound	31 March 2020	31 December 2019
Spare parts	1 052 217	1 012 846
Merchandise for sale telecommunication equipment and computers	498 892	534 207
Project cables and supplies	526 360	638 654
Others	196 581	168 175
	2 274 050	2 353 882

The value of inventories was written down by L.E. 23 381 K (against LE 23 375 K as at December 31, 2019) for obsolete and slow-moving items directly from the cost of each type of inventory.

15. Trade and other receivables

In thousands of Egyptian Pound	31 March 2020	31 December 2019
Trade receivables - National	3 478 164	2 749 314
Trade receivables - International	2 694 567	2 326 926
Notes Receivable	182	1 215
Other trade and notes receivable	6 172 913	5 077 455
suppliers- debit balances	1 623 241	788 389
Deposits with others	254 680	256 206
Due from ministries & organizations and companies and franchises	907 001	993 908
Payments on the account of corporate tax	34 597	111 687
Tax authority - withholding tax	743 102	575 122
Tax authority - value added tax	1 693 168	2 341 449
Other receivables	650 575	370 986
Other receivables and pre-payments	5 906 364	5 437 747
	12 079 277	10 515 202

Trade and other receivables have increased by an amount of L.E. 1 564 075 K mainly due to the increase in suppliers- debit balances item by an amount of L.E. 834 852 K and Trade receivables – National item by an amount of L.E. 728 850 K and Trade receivables – International item by an amount of L.E. 367 641 K as a result of decline in collections during the period and Tax authority – withholding tax by an amount of L.E. 167 980 K, however the decrease in Tax authority – value added tax by an amount of L.E. 648 281 K and payment on account of corporate tax by an amount of L.E. 77 090 K led to the limitation of this increase.

16. Cash and cash equivalents

In thousands of Egyptian Pound	Note	31 March 2020	31 December 2019	31 March 2019
Bank balances		851 383	967 140	788 723
Time deposits (less than 3 months)		394 231	295 061	226 723
Cash on hand		14 347	4 322	233 543
Treasury bills (less than 3 months)		53 209	66 579	51 805
Money market funds (less than 3 months)		83 050	100 082	115 689
Cash and cash equivalents		1 396 220	1 433 184	1 416 483
Restricted Cash	24	(121 825)	(121 793)	(29 000)
Cash and cash equivalents in the statement of cash flows		1 274 395	1 311 391	1 387 483

17. 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.

18. Earnings per share

Basic and diluted earnings per share

The calculation of basic and diluted earnings per share at March 31, 2020 based on the profit attributable to owners of the company of L.E. 987 761 K (March 31, 2019: L.E. 1 462 800 K) and a number of ordinary shares outstanding during the period ended March 31, 2020 of 1 707 071 600 (March 31, 2019: 1 707 071 600), calculated as follows:

In thousands of Egyptian Pound	For the three months ended 31 March	
	2020	2019
Profit for the period	988 565	1 463 815
Profit attributable to owners of the company	987 761	1 462 800
Number of ordinary shares		
In thousands		
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 (L.E./share)	0.58	0.86
Diluted earnings per share (L.E./share)	0.58	0.86

19. Loans and credit facilities

- The increase in the balance of loans and credit facilities by an amount of L.E 539 864 K mainly resulting from proceeds of loans and credit facilities with local and foreign currencies amounted to L.E. 1 024 604 K, where loans and credit facilities with local and foreign currencies in March, 31 2020 amounted to L.E. 16 991 777 K (against L.E. 16 451 913 K at 31 December, 2019) due within a year by an amount of L.E. 12 661 625 K, including credit facilities by an amount of L.E. 11 208 959 K.

20. Trade and other payables

In thousands of Egyptian Pound	31 March 2020	31 December 2019
Local suppliers	1 822 096	1 983 339
Notes payable	29 468	17 440
Accrued expenses	1 022 918	874 600
Assets creditors	8 720 184	9 993 357
Due to organizations and companies	283 083	315 657
Trade payables	11 877 749	13 184 393
Tax Authority - income tax	849 473	565 080
Tax Authority (taxes other than income tax)	537 928	623 018
Deposits from others	495 938	495 610
Customers advances	739 932	679 526
Dividends payable	435 231	3 392
Due to National Telecommunication Regulatory Authority (NTRA)	856 292	701 182
Liabilities of early retirement scheme	-	108 262
Lease liabilities	519 116	569 046
Other credit balances	867 776	543 311
Other payables	5 301 686	4 288 427
	17 179 435	17 472 820
Non current	5 847 400	5 376 579
Current	11 332 035	12 096 241

Trade and other payables have decreased by an amount of L.E. 293 385 K mainly due to the decrease in assets creditors item by an amount of L.E. 1 273 173 K and local suppliers item by an amount of L.E. 161 243 K, however the increase in both of dividends payable item by an amount of L.E. 431 839 K due to 2019 dividends and Tax Authority – income tax by an amount of L.E. 284 393 K and the increase in accrued expenses by an amount of L.E. 148 318 K in addition to the increase in other credit balances by an amount of L.E. 216 203 K led to the limitation of this decrease.

21. Provisions

In thousands of Egyptian Pound	31 March 2020	31 March 2019	31 December 2019
	Provision for liabilities	Provision for liabilities, Claims	Provision for liabilities, Claims
Balance at 1 January	772 610	740 529	740 529
Provisions formed	3 600	5 195	43 841
Provisions used	-	-	(11 746)
Translation differences	(5)	(5)	(14)
Balance at end of the period	776 205	745 719	772 610

* As at March 31, 2020 provisions are mainly related to taxes, liabilities, lawsuits, and compensation in respect of agreements concluded with others.

22. Deferred tax

Recognized deferred tax assets and liabilities

	<u>31/3/2020</u>		<u>31/12/2019</u>	
	Assets	Liabilities	Assets	Liabilities
	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>
Total deferred tax asset / (liability)	295 882	(1 636 646)	341 223	(1 558 975)
Net deferred tax liability	-	(1 340 764)	-	(1 217 752)
Deferred tax charged to income statement for the period / year		<u>(123 012)</u>		<u>(162 073)</u>

Unrecognized deferred tax assets

	<u>31/3/2020</u>	<u>31/12/2019</u>
	<u>L.E.(000)</u>	<u>L.E.(000)</u>
Unrecognized deferred tax assets	<u>620 945</u>	<u>(573 096)</u>

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 use the benefits in the future from these assets.

23. Capital commitments

The group's capital commitments for the unexecuted parts of contracts up to March 31, 2020 amounted to L.E 802 Million (against L.E. 781 Million up to December 31, 2019).

24. Contingencies

In addition to the amounts included in the condensed consolidated statement of financial position as of March 31, 2020, the company has the following contingent liabilities:

In thousands of Egyptian Pounds	<u>31 March 2020</u>	<u>31 December 2019</u>
Letters of guarantee issued by banks on behalf of the Group	1 093 349	1 100 298
Letters of credit	960 280	2 796 897

25. TAX POSITION (Telecom Egypt Company)

25-1 Corporate tax

- Tax inspection was performed for the years till December 31, 2015 and all due taxes were settled.
- Tax inspection for the years 2016 and 2017 is in process.
- Tax return was submitted according to the income tax law and all taxes were paid during the legal dates.

25- 2 Value added Tax /Sales

- Tax inspection for the years 2010 until 2015 was performed and the tax differences were settled and the company didn't pay the additional tax, lawsuit was raised regarding it.
- Tax inspection for the years 2016 and 2017 is in process.
- Tax returns were submitted according to the value added tax law and the accrued taxes were paid.

25- 3 Salary Tax

- Tax inspection was performed for the years till December 31 ,2014 and the Company was notified with tax differences and all due taxes were settled, the company disputed for one item and has been transferred to the internal Committee.
- Tax inspection for the year 2015 is in process.

25- 4 Stamp Tax

- Tax inspection for the period from March 27, 1998 to December 31, 2000 was performed for certain sectors and the company was notified with assessment basis, the company objected and appealed on the legal dates.
- Tax inspection for the period from January 1, 2001 till July 31, 2006 was performed for certain sectors of the company and taxes due were settled. Tax inspection for the remaining sectors is currently being undertaken for the same period.
- Tax inspection for period from August 1, 2006 to December 31, 2016 was performed and due taxes were settled.
- Tax inspection for the years 2017 and 2018 is in process.

25- 5 Real Estate Tax

- All taxes are paid according to the tax forms received by the company. The company's Legal Department follows up the disputes according to the real estate tax law.
- Tax returns were submitted according to the new real estate tax law No.196 for the year 2008 on the due dates. .
Provisions were formed to meet any tax liabilities that may arise from the tax inspection.

Provisions were formed to meet any tax liabilities that may arise from the tax inspection.

26. 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, 2020, fixed to mobile interconnection, audio text fees and sale of products and services in favor of Vodafone Egypt LE 431 911 K. Lease of company's premises and towers in favor of the group, transmission and international calls and telecommunication services amounted to L.E. 131 772 K and the balance due to Vodafone Egypt at March 31, 2020 amounted to LE 273 469 K.

27. Group entities

TE direct and indirect share in subsidiaries companies on March 31, 2020 which were included in the condensed consolidated interim financial statements is as follows:

<u>Company name:</u>	<u>Country of incorporation</u>	<u>Ownership interest</u>	
		<u>31/3/2020</u>	<u>31/12/2019</u>
Telecom Egypt France	France	100.00 %	100.00 %
WE Data	Egypt	100.00 %	100.00 %
T.E Data Jordan	Jordan	100.00 %	100.00 %
TE Investment Holding	Egypt	100.00 %	100.00 %
The Egyptian Telecommunication Company for Information Systems (Xceed)	Egypt	100.00 %	100.00 %
Xceed Customer Care Maroc	Morocco	100.00 %	100.00 %
Centra Technologies	Egypt	100.00 %	100.00 %
Centra Industries	Egypt	100.00 %	100.00 %
Telecom Egypt Globe	Singapore	100.00 %	100.00 %
Egyptian international submarine cables company (Eisc)	Egypt	100.00 %	100.00 %
Middle East and North Africa Submarine Cable Company (MENA CABLE)	Egypt	100.00 %	100.00 %
Mena Company For Submarine Cable Company (MENA CABLE ITALY)	Italy	100.00 %	100.00 %
Centra Distribution	Egypt	99.99 %	99.99 %
Middle East Radio Communication (MERC)	Egypt	51.00 %	51.00 %

28 – CLAIMS AND LITIGATION:

28-1 The Existing Remedy lawsuit between Telecom Egypt “TE”, Etisalat Misr Company & its subsidiaries: the EGY Net and Nile on Line)

The aforementioned telecom operators “companies” (Etisalat’s and its subsidiaries) filed a lawsuit “in the Economic Court” against Telecom Egypt on January 18, 2019 , based on the decision of the Egyptian Competition Protection Authority “ECA” on March 8, 2016, where the claiming companies had filed a complaint with the ECA against TE on the basis that the TE’s has carried out practices that restrict competition in the Egyptian market, and the ECA decision to prove the violation of Telecom Egypt

where the claiming companies claim that the Telecom Egypt implemented The process of replacing and installing the modern fiber-optic cable “MSAN” network suddenly replaces and swapped the copper cables infrastructure without prior notification or coordination, which entailed cutting off the service for the clients of the claiming operators, and at the 28 May 2019 case session, the court decided to reserve the lawsuit for the judgment for the 25th of June 2019 session, so that the court issued a preliminary ruling delegating a tripartite experts committee. The lawsuit is under investigation and analysis by the Committee of technical and financial experts and the committee has not completed its mission up to date.

The legal advisor of the TE’s believes that it is not possible to stand up to date on the legal position in the lawsuit, as the claiming telecom operators (Etisalat Misr & its subsidiaries) and TE are still in the stage of submitting documents before the experts’ committee.

28-2 The dispute between Telecom Egypt and Orange Egypt Company

On February 20, 2019, Orange Egypt filed a lawsuit in the “Economic Court” against Telecom Egypt “TE” and “WE-Data” , This is based on the decision of the Egyptian Competition Protection Authority “ECA” on March 8, 2016, where the claiming companies had filed a complaint with the ECA against TE on the basis that the TE’s has carried out practices that restrict competition in the Egyptian market, and the ECA decision to prove the violation of Telecom Egypt.

where the claiming company (Orange Egypt) claiming that TE developed a plan to swap and replace PSTN network “land-line network” outdoor cabinet which using copper cables network with new fiber optic cable network “MSAN cabins” and began implementing them, resulting in the cessation of Internet (Fixed broadband) service for the claiming telecom operators (Orange Misr and link.net) customers.

On June 3, 2020, the court issued a decision delegating a panel of experts from the Egyptian Competition Protection Authority “ECA”, A request was submitted for the response of the expert committee, as it had previously ruled on the matter, and at the August 6 session set to consider the request for the dismissal of the experts committee, and none of the litigants attended, and we implemented the court’s decision in the previous session regarding the announcement of the parties to the case, and consideration of the response was postponed to the October 5, 2020 session.

Moreover, the Legal Adviser of the TE’s believes that it is not possible to stand up to date on the legal position in the case due to the lack of documents submitted by the claiming company and refer the invitation to The Committee of Experts

29. Comparative figures

- Reclassification was made to some of the comparative figures of the condensed consolidated statement of financial position and the condensed consolidated statement of cash flows to conform to the current presentation of the condensed consolidated interim financial statements.
- The following is the effect of reclassification on the condensed consolidated interim financial statements:

29.1 Effect on the condensed consolidated statement of financial position

	31/12/2019 as previously reported	<u>Reclassification</u>	31/12/2019 <u>Reclassified</u>
	<u>debit / (credit)</u> <u>L.E.(000)</u>	<u>debit / (credit)</u> <u>L.E.(000)</u>	<u>debit / (credit)</u> <u>L.E.(000)</u>
Reserves	(4 755 558)	3 556	(4 752 002)
Retained earnings	(12 437 757)	(3 556)	(12 441 313)

29.2 Effect on the condensed consolidated statement of cash flows

	<u>For the three months ended</u> 31/3/2019 as previously reported	<u>Reclassification</u>	<u>For the three months ended</u> 31/3/2019 <u>Reclassified</u>
	<u>LE(000)</u>	<u>LE(000)</u>	<u>LE(000)</u>
Cash receipts from customers	6 420 356	144 936	6 565 292
Payments for NTRA license fees	(198 598)	(144 936)	(343 534)
Payments for purchase of property, plant and equipment and intangible assets	(2 109 727)	25 000	(2 084 727)
Payments for purchase of intangible assets	(703)	(25 000)	(25 703)