

telecomegypt



**Telecom Egypt Company
Consolidated Financial Statements
Prepared in Accordance with IFRSs
For The Financial Year Ended December 31, 2018
And Independent Auditor's Report**

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For The Financial Year Ended December 31, 2018
& And Independent Auditor's Report

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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

INDEPENDENT AUDITOR'S REPORT

To The Board of Directors of Telecom Egypt Company

Report on the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Telecom Egypt Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the international Ethical Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the other ethical requirements that are relevant to our audit of the Group's consolidated financial statements in accordance with the provisions of the Egyptian laws, and we have fulfilled our ethical responsibilities in accordance with these requirements.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



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Revenue recognition and related IT Systems	
The key audit matters	How the matter was addressed in our audit
<p>We have considered this as a key audit matter due to the estimates and judgments involved in the application of the revenue recognition accounting standards; and the complexity of IT systems and processes used in the group's revenue recognition.</p>	<p>We tested revenue through a combination of controls testing, data analytics and substantive audit procedures covering, in particular:</p> <ul style="list-style-type: none">➤ Understanding the significant revenue processes And identifying the relevant controls(including IT Systems, interfaces and reports);➤ Tested IT general controls, covering pervasive IT Risks around access security, change management, Data center and network operations.➤ Assessed the Group's selected accounting policies and checked compliance of revenue recognition therewith;➤ Performed data analysis and analytical reviews on significant revenue streams;➤ Tested IT application controls around input, data validation and processing of transactions; and➤ Tested automated and manual controls, and performing substantive tests, to ascertain accuracy and completeness of revenue. <p>Further, we instructed the auditors of the Group's significant entities to perform consistent audit procedures on revenue.</p> <p>We also assessed the adequacy and presentation of revenue related disclosures in notes of the consolidated financial statements.</p>
<p>For further information on revenue recognition and related IT Systems refer to the following notes of the consolidated financial statements:</p> <ul style="list-style-type: none">• Note 41o (Significant Accounting Policies)• Note 4 (Revenue)	



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Provisions, Impairment loss and contingent liabilities from tax, Legal and other regulatory matters	
Key audit matters	How the matter was addressed in our audit
<p>The Group operates in multiple jurisdictions, which exposed it to certain tax, legal and other regulatory matters. The accounting of these matters require high level of judgments by management in estimating the provisions and presenting the related disclosures in accordance with IFRS.</p>	<p>In responding to this area of focus, our procedures included the following:</p> <ul style="list-style-type: none">➤ Understanding the group’s policies in addressing tax, legal and regulatory requirements;➤ Assessed the adequacy of the design and implementation of controls over the appropriateness and completeness of provisions;➤ Discussed open matters with the group’s tax, legal and regulatory teams;➤ Read external legal opinions and other relevant documents supporting management’s conclusions on these matters, where available; and➤ Obtained direct confirmation and/or discussion with third party legal counsel and tax representatives regarding material cases, where applicable. <p>Further, we have communicated with component auditors to perform consistent audit procedures.</p> <p>We corroborated the completeness and appropriateness of the related disclosures in notes of the consolidated financial statements.</p>
<p>For further information on provisions, impairment loss and contingent liabilities from tax, legal and other regulatory matters refer to the following notes of the consolidated financial statements:</p> <ul style="list-style-type: none">• Note 2d (Use of Judgments and Estimates)• Notes 41f & 41n (Significant Accounting Policies)• Note 27 (Provisions)• Note 33 (Tax Position)• Note 35 (Significant Claims and Litigations)	



Recognition of deferred tax assets	
Key audit matters	How the matter was addressed in our audit
<p>The Group has recognised deferred tax assets for deductible temporary differences that it believes are recoverable.</p> <p>The recoverability of recognised deferred tax assets is in part dependent on the Group’s ability to generate future taxable profits sufficient to utilise deductible temporary differences</p> <p>We have determined this to be a key audit matter, due to the inherent uncertainty in forecasting the amount and timing of future taxable profits and the reversal of temporary differences.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> ➤ using our own tax specialists to evaluate the tax strategies the Group expects will enable the successful recovery of the recognised deferred tax assets; ➤ assessing the accuracy of forecast future taxable profits by evaluating historical forecasting accuracy and comparing the assumptions, such as projected growth rates, with our own expectations of those assumptions derived from our knowledge of the industry and our understanding obtained during our audit, including where applicable their consistency with business plans and forecasts used for impairment testing purposes; and <p>Further, we have communicated with component auditors to perform consistent audit procedures.</p> <p>We have evaluated the adequacy of the financial statement disclosures, including disclosures of key assumptions, judgments and sensitivities.</p>
<p>For further information on deferred tax assets refer to the following notes of the consolidated financial statements:</p> <ul style="list-style-type: none"> • Note 2d (Use of Judgments and Estimates) • Note 41q (Significant Accounting Policies) • Note 18 (Deferred tax assets and liabilities) 	

Other Information

Management is responsible for the other information. The other information comprises all information included in the Board of Directors’ report of the Group for the financial year ended 31 December 2018 but does not include the consolidated financial statements and our auditor’s reports thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.



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In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work that we have performed, we conclude that there is a material misstatement of this other information, then we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.



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- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

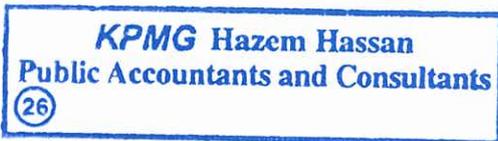
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG Hazem Hassan

Cairo March 24, 2019



In thousands of Egyptian Pound	Note	31 December 2018	31 December 2017 Restated	1 January 2017 Reclassified
Assets				
Property, plant and equipment	13,41c	26 827 223	21 060 218	15 871 109
Intangible assets	14,41d	10 824 133	10 371 491	7 092 806
Equity-accounted investees	15,41a	13 396 524	11 660 662	9 328 339
Available-for-sale investments	16,41f	79 811	77 568	81 273
Other financial assets	17	74 672	-	-
Deferred tax assets	18,41q	239 160	397 437	418 502
Non-current assets		51 441 523	43 567 376	32 792 029
Inventories	19,41g	1 766 009	1 183 773	662 097
Held-to-maturity investment (treasury bills)		105 488	113 320	144 428
Trade and other receivables	20	9 072 217	6 737 251	6 699 066
Cash and cash equivalents	21	892 775	524 209	1 035 999
Current assets		11 836 489	8 558 553	8 541 590
Total assets		63 278 012	52 125 929	41 333 619
Equity				
Share capital	22	17 070 716	17 070 716	17 070 716
Reserves	22,41j	4 872 335	4 831 797	4 608 231
Retained earnings		9 766 290	7 702 020	7 237 809
Equity attributable to owners of the company		31 709 341	29 604 533	28 916 756
Non-controlling interests	3a	14 967	11 695	10 429
Total equity		31 724 308	29 616 228	28 927 185
Liabilities				
Loans and borrowings	24	550 168	614 472	626 235
Trade and other payables	25	3 667 798	1 270 634	114 226
Deferred revenue	26	371 930	39 448	-
Deferred tax liabilities	18,41q	1 294 839	764 609	634 838
Non-current liabilities		5 884 735	2 689 163	1 375 299
Loans and borrowings	24	13 303 507	6 678 793	2 715 554
Trade and other payables	25	10 098 460	10 579 853	6 663 773
Deferred revenue	26	471 354	363 876	193 524
Credit accounts due to associates		1 055 119	368 056	356 173
Provisions	27,41n	740 529	1 829 960	1 102 111
Current liabilities		25 668 969	19 820 538	11 031 135
Total liabilities		31 553 704	22 509 701	12 406 434
Total equity and liabilities		63 278 012	52 125 929	41 333 619

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 report " attached "

The notes on pages 7 to 56 are an integral part of these consolidated financial statements.

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

For the year ended 31 December

In thousands of Egyptian Pound	Note	2018	2017 Restated
Continuing operations			
Revenue	4,410	22 952 795	18 567 282
Operating costs	5	(14 686 546)	(11 591 074)
Gross profit		8 266 249	6 976 208
Other income	6	344 600	308 493
Selling and distribution expenses	7	(2 700 501)	(1 784 821)
Administrative expenses	8	(2 711 080)	(2 808 013)
Reversal (Impairment loss) on trade and other receivables		3 607	(41 293)
Other expenses	9	(197 837)	(1 364 151)
Operating profit		3 005 038	1 286 423
Finance income	11	183 412	113 223
Finance costs	11	(1 499 017)	(717 948)
Net finance cost	11	(1 315 605)	(604 725)
Share of profit of equity-accounted investees, net of tax		2 180 825	2 359 291
Profit before tax		3 870 258	3 040 989
Income tax	12	(1 040 200)	(671 040)
Profit		2 830 058	2 369 949
Other comprehensive income			
Foreign operations - foreign currency translation differences		(9 274)	28 086
Other comprehensive income , net of tax		(9 274)	28 086
Total comprehensive income		2 820 784	2 398 035
Profit attributable to:			
Owners of the company		2 823 784	2 366 762
Non - controlling interests		6 274	3 187
		2 830 058	2 369 949
Total comprehensive income attributable to:			
Owners of the company		2 814 510	2 394 848
Non - controlling interests		6 274	3 187
		2 820 784	2 398 035
Earning per share			
Basic earnings per share (LE)	23,41r	1.65	1.39
Diluted earnings per share (LE)	23,41r	1.65	1.39

The notes on pages 7 to 56 are an integral part of these consolidated financial statements.

Attributable to owners of the company

In thousands of Egyptian Pound	Share capital	Legal reserve	Translation reserve	Other reserve	Retained Earnings	Total equity attributable to equity holders of the company	Non-controlling interest	Total equity
Balance as at 1 January 2017 (Reclassified)	17 070 716	1 650 296	161 357	2 796 578	7 237 809	28 916 756	10 429	28 927 185
Total comprehensive income								
Profit for the year (Restated)	-	-	-	-	2 366 762	2 366 762	3 187	2 369 949
Other comprehensive income	-	-	28 086	-	-	28 086	-	28 086
Total comprehensive income (Restated)	-	-	28 086	-	2 366 762	2 394 848	3 187	2 398 035
Transactions with owners of the company								
Transferred to reserves	-	195 480	-	-	(195 480)	-	-	-
Dividends	-	-	-	-	(1 707 071)	(1 707 071)	(1 921)	(1 708 992)
Total transactions with owners of the company	-	195 480	-	-	(1 902 551)	(1 707 071)	(1 921)	(1 708 992)
Balance as at 31 December 2017 (Restated)	17 070 716	1 845 776	189 443	2 796 578	7 702 020	29 604 533	11 695	29 616 228
Balance at 1 January 2018 (Restated)	17 070 716	1 845 776	189 443	2 796 578	7 702 020	29 604 533	11 695	29 616 228
Total comprehensive income for the year								
Profit for the year	-	-	-	-	2 823 784	2 823 784	6 274	2 830 058
Other comprehensive income	-	-	(9 274)	-	-	(9 274)	-	(9 274)
Total comprehensive income	-	-	(9 274)	-	2 823 784	2 814 510	6 274	2 820 784
Transactions with owners of the company								
Restatements on retained earnings in subsidiaries	-	-	-	-	(20 099)	(20 099)	-	(20 099)
Restatements on retained earnings in associates	-	-	-	-	4 495	4 495	-	4 495
Transferred to reserves	-	53 252	-	-	(53 252)	-	-	-
Dividends	-	-	-	-	(426 768)	(426 768)	(3 002)	(429 770)
Acquisition of non-controlling interest in subsidiaries	-	-	(3 440)	-	(263 890)	(267 330)	-	(267 330)
Total transactions with owners of the company	-	53 252	(3 440)	-	(759 514)	(709 702)	(3 002)	(712 704)
Balance as at 31 December 2018	17 070 716	1 899 028	176 729	2 796 578	9 766 290	31 709 341	14 967	31 724 308

The notes on pages 7 to 56 are an integral part of these consolidated financial statements.

In thousands of Egyptian Pound	Note	For the year ended 31 December	
		2018	2017 Reclassified
Cash flows from operating activities			
Cash receipts from customers		21 008 454	15 262 881
Value added tax collected from customers		412 710	370 112
Stamp tax and fees collected (from third party)		32 070	29 436
Deposits collected from customers		1 009	257
Cash paid to suppliers		(5 154 249)	(2 589 706)
Payments of NTRA license fees		(604 355)	(439 000)
Dividends paid to employees and Board of Directors		(374 267)	(329 234)
Cash paid to employees and Board of Directors		(4 603 676)	(3 867 121)
Cash paid on behalf of employees to third party		(825 476)	(682 678)
Interest paid		(921 712)	(325 226)
Payments to Tax Authority - income tax		(292 042)	(274 981)
Payments to Tax Authority - value added tax		(2 467 970)	(1 859 081)
Payments to Tax Authority - other taxes		(978 400)	(676 764)
Cash paid to third parties for claims		(919 278)	-
Cash paid on long-term liabilities		(784 389)	-
Other (payments) / proceeds		(32 868)	30 562
Net cash from operating activities		3 495 561	4 649 457
Cash flows from investing activities			
Payments for purchase of property, plant and equipment and intangible assets		(8 027 576)	(6 088 007)
Payments for purchase of intangible assets		(780 178)	(1 419 828)
Proceeds from sale of property, plant and equipment and intangible assets		66	149
Payments for acquisition of investements		(993 465)	-
Payments for retrieval of held -to- maturity investments - treasury bills		(219 517)	(222 174)
Interest received		44 785	55 014
Dividends collected from investments		453 595	37 753
Proceeds from sale of available for sale investment		7	-
Proceeds from retrieval of held-to-maturity investment - treasury bills		227 472	261 861
Proceeds from income of securities (treasury bills - mutual fund)		22 411	15 611
Net cash used in investing activities		(9 272 400)	(7 359 621)
Cash flows from financing activities			
Payments for loans and other facilities		(48 090)	(133 969)
Proceeds from loans and other facilities		6 633 922	4 033 067
Dividends paid to shareholders		(429 927)	(1 708 896)
Net cash from financing activities		6 155 905	2 190 202
Net increase/(decrease) in cash and cash equivalents		379 066	(519 962)
Cash and cash equivalents at 1 January		506 936	1 024 876
Effect of movements in exchange rate on cash hold		(12 447)	2 022
Cash and cash equivalents at 31 December	21	873 555	506 936

The notes on pages 7 to 56 are an integral part of these consolidated 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 financial year ended December 31, 2018 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 consolidated financial statements have been prepared in accordance with IFRS. They were approved by the company’s Board of Directors for issuance on March 24, 2019.

This is the first set of the group’s annual financial statements in IFRS 15 “Revenue from contracts with customer and IFRS 9 “financial instrument” have been applied. Changes to significant accounting policies are described in note (3).

b. Basis of measurement

The consolidated 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 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.

d. Use of judgements and estimates

In preparing these consolidated 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 recognized 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 recognized in the consolidated financial statements is included in the following notes:

- Impairment of non-financial and financial assets.
- Provisions and contingencies.
- Deferred tax assets and liabilities.
- Useful life of property, plant & equipment.

e. Measurement of fair value

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.

3. Changes in significant accounting policies

The Group has initially adopted IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments from 1 January 2018.

a. IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement

Claims and variations are included in the contract price when they are approved by the parties to the contract. Claims and variations are ‘approved’ when it creates legally enforceable rights and obligations on the parties to the contract. This approval may be written, oral or implied by customary business practices, and should be legally enforceable.

Variable considerations are included in the contract price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. At each reporting date, the Group updates the estimated contract price - including its assessment of whether an estimate of variable consideration is constrained - for the circumstances present at the reporting date and the changes in circumstances that occurred during the reporting period.

There is no material impact on the Group’s financial statement from applying IFRS 15 during the financial year ended as of December 31, 2017.

The following tables summaries the impacts of adopting IFRS 15 on the Group’s statement of financial position as at 31 December 2018 and its statement of profit or loss and OCI for the year then ended for each of the line items affected. There was no material impact on the Group’s statement of cash flows for the year ended 31 December 2018.

Impact on the consolidated statement of financial position.

31-December-18

In thousands

	As reported	Adjustments	Amount without adoption of IFRS 15
Assets			
Non-current assets	51 441 523	–	51 441 523
Trade and other receivables	9 072 217	(207 723)	8 864 494
Current assets	11 836 489	(207 723)	11 628 766
Total assets	63 278 012	(207 723)	63 070 289
Equity			
Retained earnings	9 766 290	(141 215)	9 625 075
Equity attributable to the owners of the company	31 709 341	(141 215)	31 568 126
Non-controlling interest	14 967	–	14 967
Total equity	31 724 308	(141 215)	31 583 093
Liabilities			
Non-current liabilities	5 884 735	–	5 884 735
Trade and other payables	10 098 460	(66 508)	10 031 952
Current liabilities	25 668 969	(66 508)	25 602 461
Total liabilities	31 553 704	(66 508)	31 487 196
Total equity and liabilities	63 278 012	(207 723)	63 070 289

Impact on the consolidated statement of profit or loss and OCI

In thousands

	As reported	Adjustments	Amount without adoption of IFRS 15
Revenue	22 952 795	(182 213)	22 770 582
Gross profit	8 266 249	(182 213)	8 084 036
Income tax	(1 040 200)	40 998	(999 202)
Profit for the year	2 830 058	(141 215)	2 688 843

b. IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

(i) Classification and measurement of financial assets and financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortized cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid "financial instrument as a whole is assessed for classification.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
 - Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding
- A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:
- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
 - Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

Subsequent measurement – financial assets

Financial assets at FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss. Financial assets at amortized cost These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses (see accounting policy on impairment below). Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on de-recognition is recognized in profit or loss.

Debt investments at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On de-recognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI

These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

(ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39. The financial assets at amortized cost consist of trade receivables, cash and cash equivalents, and corporate debt securities.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
 - Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.
- The Group has elected to measure loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information. The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Group considers a financial asset to be in default when:

- The trade receivable is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- The financial asset is more than 90 days past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs:

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Presentation of impairment

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is recognized in OCI, instead of reducing the carrying amount of the asset.

Impairment losses related to trade and other receivables, including contract assets, are presented separately in the statement of profit or loss and OCI as a result, the Group reclassified impairment losses amounting to L.E 41 293 K, recognized under IAS 39, from 'Finance costs 'to impairment loss on trade and other receivables, including contract assets' in the statement of profit or loss and OCI for the year ended 31 December 2017. .

Group did not have a significant impact on the presentation adopted in the statement of financial position by adopting IFRS 9. Also, there are no change in presentation of impairment losses on other financial assets in the statement of profit or loss and OCI.

There is no material impact on the Group's financial statement from applying IFRS 9.

Notes to the consolidated financial statements prepared in accordance with (IFRSs)
For the year ended December 31, 2018 (continued)

4. Revenue

In thousands of Egyptian Pound	For the year ended 31 December	
	2018	2017
Home and personal communications	8 246 495	5 662 272
Enterprise	3 215 287	2 791 244
Domestic wholesale	3 570 733	3 303 833
International carrier	4 424 255	4 868 176
International cables and networks	3 496 025	1 941 757
	22 952 795	18 567 282

5. Operating costs

In thousands of Egyptian Pound	Note	For the year ended 31 December	
		2018	2017 Restated
Interconnection cost		4 295 373	4 152 402
Fuel		638 210	446 679
Spare parts		128 807	84 130
Maintenance		392 863	311 484
Leased circuits & satellite subscriptions		237 754	245 893
Property, plant and equipment depreciation*	13	2 009 188	1 755 132
Amortization of intangible assets	14	620 242	263 638
Salaries and wages	10	2 077 766	1 793 875
Company's social insurance contribution		236 487	194 181
Employee's compensated absence		5 410	7 411
Employees' share in profit		325 845	286 728
Frequencies and licenses		780 843	686 139
Cost of merchandise available for sale		602 408	459 469
Right of use (IRU) outside Egypt		1 308 891	144 990
Organizations service cost		441 850	247 617
Other operating costs		584 609	511 306
		14 686 546	11 591 074

* Restatement was made to the comparative figures as shown in note no. (38 - 2).

Notes to the consolidated financial statements prepared in accordance with (IFRSs)
For the year ended December 31, 2018 (continued)

6. Other income

In thousands of Egyptian Pound	For the year ended 31 December	
	2018	2017
Fines and delay interest collected	120 117	86 941
Others	224 483	221 552
	344 600	308 493

7. Selling and distribution expenses

In thousands of Egyptian Pound	Note	For the year ended 31 December	
		2018	2017
Salaries & wages	10	1 034 420	986 121
Company's social insurance contribution		111 328	100 217
Employees' compensated absence		3 840	5 259
Employees' share in profit		162 223	157 618
Property, plant & equipment depreciation	13	463	2 793
Amortization of intangible assets	14	35	35
Tax & fees		87 656	26 074
Rent		12 611	21 644
Advertisements		937 272	200 968
Discount allowed		-	220
Organizations service cost		506	62 035
Sales and collection commissions		242 267	126 456
Others selling and distribution expenses		107 880	95 381
		2 700 501	1 784 821

8. Administrative expenses

In thousands of Egyptian Pound	Note	For the year ended 31 December	
		2018	2017
Salaries & wages	10	1 598 879	1 582 640
Company's social insurance contribution		140 533	119 500
Employees' compensated absence		8 203	11 236
Early retirement compensations	10	-	904
End of service benefits	10	-	260 000
Employees' & BOD share in profit		261 661	260 284
Property, plant & equipment depreciation	13	78 177	74 524
Amortization of intangible assets	14	71	73
Organizations service cost		212 931	207 818
Tax & duties		119 384	99 399
Bad debts		396	6 951
Takaful contribution expense		41 890	-
Bank charges		16 343	12 713
Other administration expenses		232 612	171 971
		2 711 080	2 808 013

Notes to the consolidated financial statements prepared in accordance with (IFRSs)
For the year ended December 31, 2018 (continued)

9. Other expenses

In thousands of Egyptian Pound	Note	For the year ended 31 December	
		2018	2017
Provisions formed	27	102 083	1 214 627
Net loss on disposal of property plant & equipment		17 000	52 861
Donations		75 668	62 302
Others		3 086	34 361
		197 837	1 364 151

10. Personnel expenses

In thousands of Egyptian Pound	Note	For the year ended 31 December	
		2018	2017
Salaries and wages:			
Operating cost	5	2 077 766	1 793 875
Selling and distribution expenses	7	1 034 420	986 121
Administrative expenses	8	1 598 879	1 582 640
		4 711 065	4 362 636
Compulsory social security contributions	3k	488 348	413 898
Early retirement compensations	8	-	904
End of service benefits	8	-	260 000
Employees compensated absence		17 453	23 906
Employees' & BOD share in profit		749 729	704 630
		5 966 595	5 765 974

Employees' Benefits

(i) Early Retirement Scheme (Telecom Egypt Company)

The Company had an early retirement scheme where employees who wishes 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 – by the date of 30/3/2016, internal instructions no. 9 were issued related to apply the optional early retirement for employees during the period from 3/4/2016 until 31/5/2016 the employees who wishes to retire prior to the legal retirement age are entitled to receive a compensation amounting to 125% of their latest basic salary for the remaining service period up to the retirement age with a maximum of 15 years.
And now the company doesn't apply any early retirement scheme.

(ii) 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 are based on the employees' basic salary in January 1, 2012 increasing annually at a compound rate of 5%. The subscription for employees hired after January 1, 2012, is calculated according to a subscription schedule for new hires (starting of hiring date 1/1/2012) and increasing at a compound rate of 5% annually starting from the next year from 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.

Notes to the consolidated financial statements prepared in accordance with (IFRSs)
For the year ended December 31, 2018 (continued)

11. Net finance Cost

In thousands of Egyptian Pound	For the year ended 31 December	
	2018	Reclassified 2017
Interest income	92 215	85 673
Divided income from available for sale investment	14 460	27 550
Translation gain of foreign currencies balances and transactions	76 736	-
Gain from sale of available for sale investments	1	-
Finance income	183 412	113 223
Interest expense	(1 093 239)	(330 699)
Impairment loss on available-for-sale investments	-	(3 705)
Finance costs of deferred payments contracts	(405 778)	(247 017)
Translation loss of foreign currencies balances and transactions	-	(136 527)
Finance costs	(1 499 017)	(717 948)
Net finance Cost	(1 315 605)	(604 725)

-Reclassification was made to comparative figures as shown in note no .(38 - 2)

12. Income tax

In thousands of Egyptian Pound	For the year ended 31 December	
	2018	2017
Amounts recognised in profit or loss		
Current tax expense		
Current year	(351 693)	(520 204)
Deferred tax		
Origination and reversal of temporary differences	(688 507)	(150 836)
Tax expense	(1 040 200)	(671 040)

13. Property, plant and equipment

Cost	Land, buildings & infrastructure	Technical equipments & information technologies & fixtures on trunk radio network	Vehicles	Office furniture & fixtures	Tools & supplies	Under construction	Total
Balance at 1 January 2017 * (Reclassified)	24,831,997	22,198,620	187,032	792,614	96,179	1,716,809	49,823,251
adjustment	53,327	(32,953)	-	(31)	-	-	20,343
Acquisitions (Restated) *	2,487,389	3,321,864	2,480	1,134,37	36,864	7,126,855	13,088,889
Disposals	(313,065)	(49,399)	(5,317)	(4,696)	(1,555)	-	(374,032)
Transfer to assets	-	-	-	-	-	(5,962,034)	(5,962,034)
Effect of movements in foreign exchange	-	8,553	190	14,782	-	-	23,525
Balance at 31 December 2017 (Restated) *	27,059,648	25,446,685	184,385	916,106	131,488	2,881,630	56,619,942
Balance at 1 January 2018 (Restated) *	27,059,648	25,446,685	184,385	916,106	131,488	2,881,630	56,619,942
Acquisitions asset cost	793,334	52,931	-	4,898	-	-	851,163
Additions	2,446,909	2,775,187	8,097	76,146	12,434	7,816,614	13,135,387
Disposals	(511,312)	(125,062)	(5,136)	(6,961)	(1,273)	(5,339,264)	(5,989,008)
Transfer to assets	(2,933)	(5,562)	(7)	(850)	-	-	(9,352)
Balance at 31 December 2018	29,785,646	28,144,179	187,339	989,339	142,649	5,358,980	64,608,132

*Restatement and reclassification were made to the comparative figures as shown in note no. (38).

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 2017	13 996 074	19 091 666	149 354	647 976	67 072	-	33 952 142
adjustment	4 779	954	-	-	-	-	5 733
Depreciation charge for the year (Restated) *	783 194	972 439	4 821	64 378	7 617	-	1 832 449
Disposals	(181 415)	(46 609)	(5 231)	(4 582)	(1 554)	-	(239 391)
Effect of movements in foreign exchange	-	2 851	186	5 754	-	-	8 791
Balance at 31 December 2017 (Restated)*	14 602 632	20 021 301	149 130	713 526	73 135	-	35 559 724
Balance at 1 January 2018 (Restated)*	14 602 632	20 021 301	149 130	713 526	73 135	-	35 559 724
Adjustment from subsidiaries	32 510	5 308	-	206	-	-	38 024
Accumulated depreciation for acquisition asset cost	602 097	37 355	-	4 104	-	-	643 556
Depreciation charge for the year	716 426	1 281 899	5 700	72 691	11 112	-	2 087 828
Disposals	(409 441)	(120 801)	(5 078)	(6 890)	(1 273)	-	(543 483)
Effect of movements in foreign exchange	(1 511)	(2 647)	(7)	(575)	-	-	(4 740)
Balance at 31 December 2018	15 542 713	21 222 415	149 745	783 062	82 974	-	37 780 909
Carrying amounts							
At 1 January 2017 (Reclassified) *	10 835 923	3 106 954	37 678	144 638	29 107	1 716 809	15 871 109
At 31 December 2017 (Restated) *	12 457 016	5 425 384	35 255	202 580	58 353	2 881 630	21 060 218
At 31 December 2018	14 242 933	6 921 764	37 594	206 277	59 675	5 358 980	26 827 223

* Restatement and reclassification were made to the comparative figures as shown in note no. (38).

13. Property, plant and equipment (continued)

Fully depreciated property, plant and equipment (PPE)

PPE cost includes an amount of L.E. 23 743 million relating to fully depreciated PPE that are still in use.

Depreciation

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

In thousands of Egyptian Pound	Note	For the year ended 31 December	
		2018	2017
			Restated
Operating costs	5	2 009 188	1 755 132
Selling and distribution expenses	7	463	2 793
Administrative expenses	8	78 177	74 524
		2 087 828	1 832 449

14. Intangible assets

In thousands of Egyptian Pound	Fourth generation license	Right of way	Right of using ROU	Soft ware license	Internet service license	Land possession	Land usufruct	Under construction	Total
Cost									
Balance at 1 January 2017	-	1 231 136	152 565	56 382	23 133	440 683	1	5 701 479	7 605 379
Adjustments	-	29 130	-	-	-	-	-	-	29 130
Additions	8 633 330	585 185	-	-	-	-	-	3 546 803	12 765 318
Disposals	-	(23 261)	-	-	-	-	-	(9 218 515)	(9 241 776)
Effects of movements in foreign exchange	-	-	438	-	150	-	-	-	588
Balance at 31 December 2017	8 633 330	1 822 190	153 003	56 382	23 283	440 683	1	29 767	11 158 639
Balance at 1 January 2018	8 633 330	1 822 190	153 003	56 382	23 283	440 683	1	29 767	11 158 639
Acquisition asset cost	-	3 947 146	401 773	-	-	-	-	-	4 348 919
Additions	-	149 889	524 648	-	-	-	-	715 546	1 390 083
Disposals	-	(3 511 865)	(358 246)	-	-	-	-	(674 537)	(4 544 648)
Effects of movements in foreign exchange	-	(273)	(846)	-	(286)	-	-	-	(1 405)
Balance at 31 December 2018	8 633 330	2 407 087	720 332	56 382	22 997	440 683	1	70 776	12 351 588
Amortization									
Balance at 1 January 2017	-	345 503	126 613	18 795	21 662	-	-	-	512 573
Adjustments	-	11 894	-	-	-	-	-	-	11 894
Amortization for the year	131 301	106 774	6 695	18 795	181	-	-	-	263 746
Disposals	-	(1 402)	-	-	-	-	-	-	(1 402)
Effects of movements in foreign exchange	-	-	265	-	72	-	-	-	337
Balance at 31 December 2017	131 301	462 769	133 573	37 590	21 915	-	-	-	787 148
Balance at 1 January 2018	131 301	462 769	133 573	37 590	21 915	-	-	-	787 148
Adjustments from subsidiaries	-	33 883	-	-	-	-	-	-	33 883
Accumulated amortization for acquisition assets	-	3 162 367	199 602	-	-	-	-	-	3 361 969
Amortization for the year	459 569	120 813	20 997	18 792	177	-	-	-	620 348
Disposal	-	(3 088 051)	(186 905)	-	-	-	-	-	(3 274 956)
Effect of movements in foreign exchange	-	(58)	(723)	-	(156)	-	-	-	(937)
Balance at 31 December 2018	590 870	691 723	166 544	56 382	21 936	-	-	-	1 527 455
Carrying amounts									
At 1 January 2017	-	885 633	25 952	37 587	1 471	440 683	1	5 701 479	7 092 806
At 31 December 2017	8 502 029	1 359 421	19 430	18 792	1 368	440 683	1	29 767	10 371 491
At 31 December 2018	8 042 460	1 715 364	553 788	-	1 061	440 683	1	70 776	10 824 133

- Intangible assets costs included L.E 175 Million intangible assets fully amortized and still in used.

14. Intangible assets (continued)

- Accumulated amortization and impairment loss as at December 31, 2018 include an amount of LE 79 825 K represented in impairment loss on Right of Use (ROU) and Internet Services Licensing by one of the 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 year ended 31 December	
		2018	2017
Operating costs	5	620 242	263 638
Selling and distribution expenses	7	35	35
Administrative expenses	8	71	73
		620 348	263 746

15. Equity-accounted investees

The Group has the following investment in associates:

In thousands of Egyptian Pound	Ownership		Carrying amount	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Waneya for Telecommunication **	50.00%	50.00%	-	-
International Telecommunication Consortium Limited. (ITCL) **	50.00%	50.00%	-	-
Vodafone Egypt. (SAE)*	44.95%	44.95%	13 396 377	11 660 573
Egypt Trust **	35.71%	35.71%	147	89
Consortium Algérien de Télé – communications (CAT) **	33.00%	33.00%	-	-
			13 396 524	11 660 662

- Investment in Waneya 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 December 31, 2018 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 Consolidated Financial Statements as of December 31, 2018 by using the Consolidated Financial Statements of Vodafone Egypt for the financial year ended March 31, 2018 that were authorized by the Company's management which presents the 12 months from the 1st of April 2017 till March 31, 2018, less the movements for the period from the 1st of April 2017 till December 31, 2017 extracted from the consolidated Financial Statements for Vodafone Egypt as of December 31, 2017. Plus, the movements for the period from the 1st of April 2018 till December 31, 2018 extracted from the consolidated Financial Statements for Vodafone Egypt as of December 31, 2018, to determine the share of financial period from January 1 to December 31, 2018 of business results.

** The impairment loss on investments for Egypt Trust, Waneya for Telecommunication, Consortium Algerian Telecommunications (CAT) and International Telecommunication Consortium Limited (ITCL) due to the realized losses by these investee companies which exceeded this investments amount, as the Extra Ordinary General Assembly meeting of Consortium Algeria Telecommunication held on July 1, 2009 approved the dissolution and liquidation of CAT.

Notes to the consolidated financial statements prepared in accordance with (IFRSs)
For the year ended December 31, 2018 (continued)

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

In million of Egyptian Pound

	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>	<u>Revenues</u>	<u>Profit</u>
31-12-2017:				(For the 9 months)	
Vodafone Egypt	27 044	11 263	15 781	12 744	3 660
31-03-2018:				(For the financial year)	
Vodafone Egypt	28 480	12 035	16 445	21 212	4 324
31-12-2018:				(For the 9 months)	
Vodafone Egypt	34 392	14 749	19 643	17 993	4 188

16. Available-for-sale investments

In thousands of Egyptian Pound

	31 December 2018	31 December 2017
Equity securities available-for-sale – Foreign*	26 676	26 683
Investment in other companies	87 205	87 205
Payment for purchase available for sale investments	2 250	-
	116 131	113 888
<u>Less:</u>		
Impairment loss on investment in other companies	36 320	36 320
	79 811	77 568

* This item includes the company's share in Arab Sat represented in 7 968 455 shares amounting to L.E. 11 856 K including free shares distributed during 2010 by Arab Sat to all the shareholders based on their shares, accordingly telecom Egypt contribution in Arab Sat capital remains as the same at 1.5937%.

17. Other financial assets

In thousands of Egyptian Pound

	31 December 2018	31 December 2017
Due from associate account investees *	453 902	453 902
Prepaid expenses	74 672	-
	528 574	453 902
<u>Less:</u>		
Impairment loss on other financial assets	453 902	453 902
	74 672	-

* The amount represented in 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 of (CAT) held on July 1, 2009 approved the dissolution and liquidation of (CAT) . an impairment loss was formed for the full balance 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.

Notes to the consolidated financial statements prepared in accordance with (IFRSs)
For the year ended December 31, 2018 (continued).

18. Deferred tax assets and liabilities

18.1 Recognized deferred tax assets and liabilities

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

In thousands of Egyptian Pound	Assets		Liabilities	
	31 December 2018	31 December 2017 Reclassified	31 December 2018	31 December 2017 Reclassified
Property, plant and equipment	-	-	(419 279)	(154 852)
Intangible assets	-	-	(153 917)	(40 403)
Write-down of inventory	3 672	3 389	-	-
Impairment loss on trade & other receivables	183 407	79 999	-	-
Provisions	13 518	276 860	-	-
Accrued liabilities	35 583	35 785	-	-
Net gain of translation of foreign currencies balances	-	-	(102)	(64 465)
Unrealized gain or loss for exchange currencies *	-	560	-	-
Losses of Re-valuation of available for sale financial investment	2 980	844	-	-
Undistributed profit in subsidiaries and associates	-	-	(721 541)	(504 889)
Total deferred tax assets (liability)	239 160	397 437	(1 294 839)	(764 609)

* Reclassification was made to comparative figures as shown in note no . (38 - 1).

18.2 Unrecognized deferred tax assets

In thousands of Egyptian Pound	31 December 2018	31 December 2017
Impairment loss on trade and other receivables	533 457	523 512
Provision for liabilities and claims	15 605	13 067
Other	5 241	5 299
	554 303	541 878

- Deferred tax assets have not been recognized in respect of the above items due to uncertainty of the utilization of their benefits in the foreseeable future.

18.3 Reconciliation of effective tax rate

In thousands of Egyptian Pound	31 December 2018	31 December 2017 Restated
Net profit for the year before income tax *	3 870 258	3 040 989
Income tax according to the current tax law (22.5%)	870 808	684 223
Tax on dividends from subsidiaries and associates	35 833	6 098
Add / (Less):		
Tax rate difference for subsidiaries outside Egypt	(255)	(1 644)
Provisions and impairment	(18 597)	49 002
Exempted investments income	(5 100)	(14 845)
Unrealized foreign exchange differences	(61 468)	-
foreign tax paid outside Egypt	(3 945)	(5 251)
Adjustments on other items	12 177	(232 902)
Previous years tax difference	(5 905)	(2 245)
Tax on undistributed profit in subsidiaries and associates	216 652	188 604
	169 392	(13 183)
Income tax	1 040 200	671 040
Effective tax rate	26.88%	22.07%

* Restatement was made to the comparative figures as shown in note no . (38 - 2).

Notes to the consolidated financial statements prepared in accordance with (IFRSs)
For the year ended December 31, 2018 (continued)

19. Inventories

In thousands of Egyptian Pound	31 December 2018	31 December 2017
Spare parts	754 080	636 816
Merchandise for sale telecommunication equipment and computers	385 586	159 309
Project cables and supplies	482 239	263 973
Others	144 104	123 675
	1 766 009	1 183 773

- The value of inventory was written down by LE 19 215 K (against LE 18 229 K as at December 31, 2017) for obsolete and slow moving items deducted directly from the cost of each type of inventory.

20. Trade and other receivables

In thousands of Egyptian Pound	31 December 2018	31 December 2017
		Reclassified
Trade receivables - National	2 182 172	2 153 613
Trade receivables - International	2 403 805	2 217 525
Notes Receivable	505	559
Other trade and notes receivable	4 586 482	4 371 697
Advance payments to suppliers	439 761	241 977
Deposits with others	254 891	204 908
Due from ministries & organizations and companies and franchises	1 129 171	602 478
Payments on the account of corporate tax	45 963	84 842
Tax authority - withholding tax	224 581	224 073
Tax authority - value added tax	1 910 067	562 508
Other receivables*	481 301	444 768
Other receivables and pre-payments	4 485 735	2 365 554
	9 072 217	6 737 251

*Reclassification was made to comparative figures as shown in note no .(38 - 1).

21. Cash and cash equivalents

In thousands of Egyptian Pound	Note	31 December 2018	31 December 2017
Bank balances		255 027	255 023
Time deposits (less than 3 months)		376 656	126 948
Cash on hand		10 832	11 908
Treasury bills (less than 3 months)		135 063	40 766
Money market funds (less than 3 months)		115 197	89 564
Cash and cash equivalents		892 775	524 209
Restricted Cash	31	(19 220)	(17 273)
Cash and cash equivalents in the statement of cash flows		873 555	506 936

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 December 31, 2018 based on the profit attributable to owners of the company of L.E. 2 823 784 K (December 31, 2017: L.E 2 366 762 K) and a number of ordinary shares outstanding during the period ended December 31, 2018 of 1 707 071 600 (December 31, 2017:1 707 071 600), calculated as follows:

In thousands of Egyptian Pound	For the year ended 31 December	
	2018	2017 Restated
Profit for the year	2 830 058	2 369 949
Profit attributable to owners of the company	2 823 784	2 366 762
Number of ordinary shares		
In thousands		
Issued ordinary shares at 1 January	1 707 072	1 707 072
Number of ordinary shares at 31 December	1 707 072	1 707 072
Basic earnings per share (L.E./share)	1.65	1.39
Diluted earnings per share (L.E./share)	1.65	1.39

* Restatement was made to the comparative figures as shown in note no . (38 - 2).

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 December 2018	31 December 2017
Non-current liabilities		
Unsecured bank loans:		
Foreign loans	550 168	614 472
	550 168	614 472
Current liabilities		
Current portion of unsecured bank loans:		
Governmental loans	-	20 332
Foreign loans	40 043	41 688
Local bank facilities	3 642 140	4 350 650
Local banks foreign facilities	9 619 712	2 264 444
Foreign suppliers facilities	1 612	1 679
Total current liabilities	13 303 507	6 678 793

Repayment							
In thousands of Egyptian Pound	Loan Currency	Effective Interest Rate	Total	12 months or less	1-2 Years	3-5 Years	More than 5 years
Foreign loans	EURO	0.75 - 5.5%	590 211	40 043	80 085	120 128	349 955
Total foreign loans			590 211	40 043	80 085	120 128	349 955
Foreign suppliers' facilities - foreign	EURO	5.50%	1 612	1 612	-	-	-
Total suppliers' facilities			1 612	1 612	-	-	-
Local bank facilities	U.S.\$	variable interest rate	9 619 712	9 619 712	-	-	-
Local bank facilities	LE	variable interest rate	3 642 140	3 642 140	-	-	-
Total bank facilities			13 261 852	13 261 852	-	-	-
			13 853 675	13 303 507	80 085	120 128	349 955

25. Trade and other payables

In thousands of Egyptian Pound	31 December 2018	31 December 2017 Reclassified
Local suppliers	1 149 074	811 279
Notes payable	18 975	29 205
Accrued expenses	898 184	1 235 114
Assets creditors	8 114 940	6 536 942
Due to organizations and companies	532 003	355 457
Trade payables	10 713 176	8 967 997
Tax Authority - income tax	312 890	510 832
Tax Authority (taxes other than income tax)	638 569	523 676
Deposits from others	458 930	403 212
Customers advances	404 313	280 668
Dividends payable	3 442	3 333
Due to National Telecommunication Regulatory Authority (NTRA)	384 843	497 480
Other credit balances	850 095	663 289
Other payables	3 053 082	2 882 490
	13 766 258	11 850 487
Non current	3 667 798	1 270 634
Current	10 098 460	10 579 853
	13 766 258	11 850 487

-Reclassification was made to the comparative figures as shown in note no . (38 - 1) .

26. Deferred revenue

In thousands of Egyptian Pound	31 December 2018	31 December 2017 Reclassified
Internet and telecommunications services*	334 875	328 798
Operating Services and maintenance	428 347	39 448
Mobile Services	49 750	27 214
Mobile Transmission	30 312	7 864
	843 284	403 324
Non current	371 930	39 448
Current	471 354	363 876
	843 284	403 324

*Reclassification was made to the comparative figures as shown in note no .(38 - 1) .

27. Provisions

In thousands of Egyptian Pound	Note	31 December 2018 Provision for liabilities	31 December 2017 Provision for liabilities, Claims Reclassified
Balance at 1 January		1 829 960	1 102 111
Reclassification		811	(96 037)
Provisions formed	9	102 083	1 214 627
Provisions used *		(1 192 320)	(390 747)
Translation differences		(5)	6
Balance at end of the year		740 529	1 829 960

- Claims provision is related to contingent tax liabilities, lawsuits, compensation and social insurance claims in respect of contracting contracts .

*Reclassification was made to the comparative figures as shown in note no .(38 - 1) .

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

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

In thousands of Egyptian Pound	Note	Carrying amount	
		31 December 2018	31 December 2017
Trade and other receivables	20	9 072 217	6 737 251
Held-to-maturity investment (treasury bills)		105 488	113 320
Cash at banks and cash equivalents	21	881 943	512 301
		10 059 648	7 362 872

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

In thousands of Egyptian Pound	31 December 2018	31 December 2017
At January 1	2 237 689	2 843 673
Reclassification	-	42
(Reversal) Impairment charged to statement of profit or loss and other comprehensive income	(3 607)	41 293
Impairment used	(4 762)	(743 642)
Exchange differences	(542)	96 323
	2 228 778	2 237 689

(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
December 31, 2018					
Trade and other payables	13 766 258	10 098 460	791 777	2 649 498	226 523
Borrowings	13 853 675	13 303 507	80 085	120 128	349 955
	27 619 933	23 401 967	871 862	2 769 626	576 478
December 31, 2017					
Trade and other payables	11 850 487	10 579 853	537 209	490 028	243 397
Borrowings	7 293 265	6 678 793	83 377	125 066	406 029
	19 143 752	17 258 646	620 586	615 094	649 426

Notes to the consolidated financial statements prepared in accordance with (IFRSs)
For the year ended December 31, 2018 (continued)

(iii) Foreign currency risk

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

Details

In thousands	U.S. Dollars	Sterling Pound	Euro	Canadian Dollar	Swedish krona	Moroccan Dirham	Jordanian Dinar	Total L.E.
December 31, 2018								
Trade and other receivables	158 511	-	97	2 715	-	61 206	321	2 987 381
Cash on hand & at banks	77 740	221	1 390	1	-	2 826	2 201	1 480 098
Total assets	236 251	221	1 487	2 716	-	64 032	2 522	4 467 479
Trade and other payables	182 941	5	57 201	-	5	20 471	472	4 479 080
Foreign loans & facilities	160 968	-	29 018	-	-	-	-	3 461 879
Total liabilities	343 909	5	86 219	-	5	20 471	472	7 940 959
Risk surplus (deficit)	(107 658)	216	(84 732)	2 716	(5)	43 561	2 050	(3 473 480)
Equivalent in Egyptian Pound	(1 919 542)	4 890	(1 728 101)	35 532	(10)	82 252	51 499	(3 473 480)
December 31, 2017								
Trade and other receivables	157 473	-	534	2 784	-	52 864	891	2 963 244
Cash on hand & at banks	-	245	675	-	-	1 615	1 949	71 934
Total assets	157 473	245	1 209	2 784	-	54 479	2 840	3 035 178
Trade and other payables	122 113	5	47 213	-	5	16 088	324	3 204 962
Foreign loans & facilities	94 423	-	30 982	-	-	-	-	2 331 026
Total liabilities	216 536	5	78 195	-	5	16 088	324	5 535 988
Risk surplus (deficit)	(59 063)	240	(76 986)	2 784	(5)	38 391	2 516	(2 500 810)
Equivalent in Egyptian Pound	(1 046 596)	5 735	(1 634 667)	39 310	(11)	72 559	62 860	(2 500 810)

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

	Average exchange rate during the year ended:		Closing exchange rate as at:	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
U.S. Dollar	17.7608	17.8058	17.8300	17.7200
Sterling Pound	23.6505	22.9624	22.6379	23.8975
Euro	20.9598	20.1139	20.3949	21.2333
Canadian Dollar	13.6000	13.9800	13.0825	14.1200
Swedish Krona	2.4053	2.0853	1.9868	2.1591
Moroccan Dirham	1.8800	1.8300	1.8882	1.8900
Jordanian Dinar	25.0529	25.7299	25.1215	24.9843

(iv) Sensitivity analysis

A 10% strengthening of the foreign currencies against the EGP as of December 31, 2018 may lead to losses increase by an amount of L.E 347 348 K (L.E. 250 081 K as of December 31, 2017). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis on 2017.

And a 10% weakening of the foreign currencies against L.E. at December 31, 2018 would have had the equal but opposite effect on the foreign currencies to the amounts shown above.

(v) Interest rate risk

At the consolidated financial statements date, the interest rate profile of the company's financial instruments is:

Description	31/12/2018	31/12/2017
	<u>L.E. (000)</u>	<u>L.E. (000)</u>
<u>Financial instruments with variable interest rate</u>		
Financial assets – deposits	376 656	126 948
Financial liabilities (loans-credit facilities)	13 853 675	7 293 265

29. Fair value of financial instruments

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

The fair value of these financial instruments does not materially differ from its book value.

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 December 31, 2018 plus an adequate constant credit spread to discount financial instruments. The discount rate for minimum lease liabilities and receivables is 15.87 %.

30. Capital commitments

The group's capital commitments for the unexecuted parts of contracts until December 31, 2018 amounted to L.E 3 206 Million (against L.E. 53 Million for the year ended December 31, 2017).

31. Contingencies

In addition to the amounts included in the consolidated statement of financial position as of December 31, 2018, the company has the following contingent liabilities:

In thousands of Egyptian Pounds	31 December 2018	31 December 2017
Letters of guarantee issued by banks on behalf of the Group	913 002	721 310
Letters of credit	1 357 440	1 416 929

- Letters of guarantee, which were issued by banks on behalf of the company and for the benefits of others include letters of guarantee, have been issued against restricted cash and cash equivalent at banks.

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 year ended December 31, 2018, fixed to mobile interconnection, audio text fees and sale of products and services in favor of Vodafone Egypt LE 1 621 048 K. Lease of company's premises and towers in favor of the group, transmission and international calls and telecommunication services amounted to L.E. 1 219 857 K and the balance due to Vodafone Egypt at December 31, 2018 amounted to LE L.E. 1 055 119 K.

33. TAX POSITION (Telecom Egypt Company)

33-1 Corporate tax

- Tax inspection was performed for the years until December 31, 2015 and all due taxes were settled.
- Tax inspection for the years 2016 and 2017 is in process.
- Tax return was submitted for the year 2017 and all taxes were paid during the legal dates.

33- 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.

33- 3 Salary Tax

- Tax inspection was performed for the years until 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.

33- 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 disputed items on the due dates and the provisions were formed to meet any tax liabilities that may arise.
- 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, 2009 was performed and due taxes were settled and the disputed item has been transferred to the internal committee .
- Tax inspection for the years from 2010 to 2014 was performed and the disputed items were settled except for the relative stamp on salaries and wages which have been transferred to the Appeal Committee.
- Tax inspection for the years 2015 and 2016 is in process.

33- 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.

34. Group entities

TE direct and indirect share in subsidiaries companies on December 31, 2018, which were included in the consolidated interim financial statements, is as follows:

<u>Company name:</u>	<u>Country of incorporation</u>	<u>Ownership interest</u>	
		<u>31/12/2018</u>	<u>31/12/2017</u>
Telecom Egypt France	France	100.00 %	100.00 %
WE Data **	Egypt	100.00 %	100.00 %
WE 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 (Eisce)*	Egypt	100.00 %	-
Middle East and North Africa Submarine Cable Company (MENA CABLE)	Egypt	100.00 %	-
Mena Company For Submarine Cable Company (MENA CABLE ITALY)	Italy	100.00 %	-
Centra Distribution	Egypt	99.99 %	99.99 %
Middle East Radio Communication (MERC)	Egypt	51.00 %	51.00 %

* During the year, the Group has acquired the rest of the shares of the Egyptian International Submarine Cables Company (EISCC) which represent 50% by an amount of USD 15 Million, and the group announced the acquisition of Middle East and North Africa Submarine Cable "MENA Cable" from Orascom Investment Holding "OIH" through its subsidiary Egyptian International Submarine Cable Company "EISCC". The total enterprise value of MENA Cable is USD 90 Million of which USD 40 Million represents the equity value and the remaining amount USD 50 Million represents its outstanding debt, the deal was financed by a loan granted by the company to the said subsidiary with an amount of USD 90 Million at annual interest rate LIBOR, in addition to profit margin which will be paid within one year from the date of obtaining the loan at most, the loan have been fully paid during the year.

**The trade name of the subsidiary has been changed from TE Data to WE Data during the year.

35. SIGNIFICANT CLAIMS AND LITIGATIONS

35-1 Dispute with Etisalat Misr regarding interconnection rates

A case was brought by Etisalat Misr against Telecom Egypt on 6th of June 2015 regarding the International Incoming Voice Services, TE external legal counsel stated that it's an account claim which it differs from the claim for which the plaintiff seeks to ask the other party to pay a certain amount. according to the preliminary ruling the court appoint an expert to calculate of Etisalat Misr entitlement from the company, On August 26, 2017 the expert issued a report include an estimate for Etisalat Misr entitlement from the company by an amount of US\$ 125 millions , according to the opinion of the company's management , this report was prepared on inaccurate assumptions, this report is considered only an opinion and shall not "restrict the court".

On October 21, 2017, Etisalat Misr request to amend the Claims to compel Telecom Egypt to pay the amount stated in the expert report, the company has submitted a memoranpdum of defense containing the legal defense against the said report , and has also requested leave to provide a memorandum to challenge the basis of challenges to the method used by the expert to reach its inaccurate findings along with the

supporting documents . On November 25, 2017 the company submitted the supporting documents and memo's to the court. The court has decided to postpone the hearing on January 30, 2018 for judgment.

The company's Board of Directors in it's meeting held on January 22, 2018 approved the frame agreement of settling all the said disputes between TE and Etisalat Misr, the agreements which are related to the frame settlement were signed between the dispute parties on January 22, 2018. According to this agreement the two parties completely finalized the differences between them regarding the international incoming Voice services.

Notes to the consolidated financial statements prepared in accordance with (IFRSs)

For the year ended December 31, 2018 (continued)

36. 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 financial year ended December 31,2018					
Description	Communications, marine cables and infrastructure	Internet	Outsourcing	All other	Total
	L.E. (000)	L.E. (000)	L.E. (000)	L.E. (000)	L.E. (000)
Revenue	15 409 099	6 656 409	633 688	253 599	22 952 795
Operating costs	(12 841 645)	(1 066 814)	(550 359)	(227 728)	(14 686 546)
Gross profit	2 567 454	5 589 595	83 329	25 871	8 266 249
Credit interest	33 923	38 582	3 944	15 766	92 215
Debit interest and Finance cost	(1 465 157)	(31 223)	-	(2 637)	(1 499 017)
Depreciation and amortization	(2 536 017)	(139 260)	(30 806)	(2 093)	(2 708 176)
share of profit of equity-accounted investees, net of tax	-	-	-	2 180 825	2 180 825
Non cash items					
Reversal/(Impairment loss) on financial assets	34 888	(31 223)	-	(58)	3 607
Impairment loss on available-for-sale investments	-	-	-	-	-
Provisions	74 151	20 059	7 523	350	102 083
Total assets	60 322 999	2 130 749	468 743	355 521	63 278 012
Total liabilities	29 544 966	1 312 893	221 155	474 690	31 553 704

For the financial year ended December 31,2017					
Description	Communications, marine cables and infrastructure	Internet	Outsourcing	All other	Total
	L.E. (000)	L.E. (000)	L.E. (000)	L.E. (000)	L.E. (000)
Revenue	12 807 837	5 157 842	475 080	126 523	18 567 282
Operating costs *	(9 885 697)	(1 187 216)	(385 114)	(133 047)	(11 591 074)
Gross profit *	2 922 140	3 970 626	89 966	(6 524)	6 976 208
Credit interest	39 465	36 249	1 469	8 490	85 673
Debit interest and Finance cost	(576 564)	-	-	(1 152)	(577 716)
Depreciation and amortization *	(1 930 119)	(146 318)	(19 253)	(505)	(2 096 195)
share of profit of equity-accounted investees, net of tax	-	-	-	2 359 291	2 359 291
Non cash items					
Impairment loss on financial assets	(37 533)	(3 299)	-	(461)	(41 293)
Impairment loss on available-for-sale investments	(3 705)	-	-	-	(3 705)
Provisions	(1 156 590)	(46 557)	(11 180)	(300)	(1 214 627)
Total assets *	49 869 021	1 675 243	371 322	210 343	52 125 929
Total liabilities *	20 763 474	1 164 002	175 398	406 827	22 509 701

* Restatement and reclassification were made to the comparative figures as shown in note no . (38 - 2).

37. Business Combination

37.1 Acquisition of non- controlling interest (NCI) in subsidiary- “Egyptian International Submarine Cables Company- EISCC”

According to the Board of Directors decision on September 30, 2018 which approved the acquisition of non-controlling interest (NCI) (New Kimit Media For Announcing and Advertising) which represent 50% from total share of The Egyptian International Submarine Cables Company (EISCC) by an amount of USD 15 Million which equivalent to amount L.E 267 455 K.

The net of assets and liabilities of the Egyptian International Submarine Cables Company and also the result of acquisition process are stated as follows:

	30/9/2018
	<u>LE(000)</u>
Net assets (L.E 250 K * 50%)	125
Consideration paid to NCI	(267 455)
The decrease in equity attributable to shareholders of the company	<u>(267 330)</u>

37-2 Acquisition on subsidiary- “Middle East and North Africa Submarine Cables Company-“MENA”

According to the Board of Directors decision on May 9, 2018 Telecom Egypt announces the conclusion of the acquisition of 100% of Middle East and North Africa Submarine cable “MENA Cable” through its subsidiary Egyptian International Submarine Cable Company “EISCC”. By an amount of USD 90 Million of which USD 40 Million represents the equity and USD 50 Million represent MENA Cable outstanding debt.

The company determined the primary study for consolidation related to the acquisition of “MENA” company using provisional value on July 31, 2018 till complete the study of PPA (Purchase Price Allocation) to determine the fair value for the acquired assets and liabilities including the intangible assets on the acquisition date. The recognition of the adjustments related to the provisional value for the assets and liabilities will be within 12 months according to Egyptian Accounting Standard no. (29) “Business Combination”.

The net of assets and liabilities of Middle East and North Africa Submarine Cable “MENA Cable” company as of acquisition date are shown as follows:

	31/7/2018
	<u>LE(000)</u>
<u>Assets</u>	
Property, plant and equipment	1 215 660
Project in progress	43 008
Intangible assets	733 004
Total assets	<u>1 991 672</u>
Total liabilities	<u>(1 267 789)</u>
Net assets	<u>723 883</u>
Company's share of net assets 100%	<u>723 883</u>

38. Comparative figures

- Restatement was made to some of the comparative figures of the consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income as a result of the reclassification made on property, plant and equipment item which led to the increase in its cost by an amount of L.E 856 253 K against decrease in projects in progress by the same amount, as a result of recording these property, plant and equipment since the beginning of providing the service in 2017, there is an increase in accumulated depreciation of property, plant and equipment by an amount of L.E 98 479 K against increase in depreciation expense for the year 2017, which included in operating costs by the same amount.

- Reclassification was made to some of the comparative figures of the consolidated statement of financial position and consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows to conform to the current presentation of the consolidated financial statements.

- The following is the effect of restatement and reclassification on the consolidated financial statements:

38.1 Effect on the consolidated statement of financial position

<u>Description</u>	<u>1/1/2017</u>		<u>1/1/2017</u>	
	<u>as previously reported</u>		<u>Reclassified</u>	
	<u>debit / (credit)</u>		<u>debit / (credit)</u>	
	<u>L.E.(000)</u>		<u>L.E.(000)</u>	
Trade and other receivables	6 356 556	342 510	6 699 066	
Reserves	(4 607 680)	(551)	(4 608 231)	
Retained earnings	(7 238 360)	551	(7 237 809)	
Trade and other payables	(6 677 436)	13 663	(6 663 773)	
Credit accounts due to associates	-	(356 173)	(356 173)	

	<u>31/12/2017</u>		<u>31/12/2017</u>	
	<u>as previously reported</u>		<u>Restated</u>	
	<u>debit / (credit)</u>		<u>debit / (credit)</u>	
	<u>LE(000)</u>		<u>LE(000)</u>	
Property, plant and equipment	21 158 697	(98 479)	21 060 218	
Deferred tax assets	396 877	-	397 437	
Trade and other receivables	6 389 696	-	6 737 251	
Retained earnings	(7 801 552)	98 479	(7 702 020)	
Reserves	(4 830 744)	-	(4 831 797)	
Deferred revenue	(363 307)	-	(363 876)	
Trade and other payables	(10 601 035)	-	(10 579 853)	
Deferred tax liabilities	(764 049)	-	(764 609)	
Credit accounts due to associates	-	-	(368 056)	
Provisions	(1 829 848)	-	(1 829 960)	

38.2 Effect on consolidated Statement of profit or loss and other comprehensive income

	<u>For the financial year ended</u>			<u>For the financial year ended</u>
	31/12/2017			31/12/2017
	<u>as previously reported</u>	<u>Restatement</u>	<u>Reclassification</u>	<u>Restated</u>
	<u>(debit) / credit</u>	<u>(debit) / credit</u>	<u>(debit) / credit</u>	<u>(debit) / credit</u>
	<u>LE(000)</u>	<u>LE(000)</u>	<u>LE(000)</u>	<u>LE(000)</u>
Operating costs	(11 492 595)	(98 479)	-	(11 591 074)
Impairment loss on trade and other receivables	-	-	(41 293)	(41 293)
Finance costs	(759 241)	-	41 293	(717 948)
Basic and diluted earnings per share (L.E/Share)	1.44	(.05)	-	1.39

38.3 Effect on consolidated statement of Cash Flows

	<u>For the financial year ended</u>		<u>For the financial year ended</u>
	31/12/2017		31/12/2017
	<u>as previously reported</u>	<u>Reclassification</u>	<u>Reclassified</u>
	<u>LE(000)</u>	<u>LE(000)</u>	<u>LE(000)</u>
<u>Cash flows from operating activities</u>			
Dividends paid to employees and Board of Directors	(641 148)	311 914	(329 234)
Cash paid to employees and Board of Directors	(3 555 207)	(311 914)	(3 867 121)

39. Laws were recently issued

On January 11, 2018, Comprehensive Health Insurance Law No. 2 for the year 2018 was issued and to be effective after spending six months starting from the next day of the law issuance date, and also the executive regulations of this law was issued on May 8, 2018, management of the company calculated and recorded the due contribution according to the recent explanation of the provisions of the law and its executive regulations.

40. Subsequent events

On February 18, 2019 Vodafone Egypt (equity-accounted investee) has proposed a dividends of EGP 12.2 Billion, of which Telecom Egypt's share is EGP 5.5 Billion. The dividends will be paid on two tranches, the first of which amounted to EGP 4.8 Billion and will be paid on March 2019, the remaining amount will be paid on June 2020, proposed dividends to be presented in the said company General Assembly for approval.

41. Significant accounting policy

The group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements, except if mentioned otherwise (see note no. 3).

- Certain comparative figures have been restated and reclassified to conform the current presentation of the consolidated financial statements (see note no. 38)

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) 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 financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(iii) Non-controlling interests

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

(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 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.

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 for 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.

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 expenditure**

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 recognized in profit or loss according to a straight-line method over the estimated useful life of fixed assets. The useful life for some fixed assets items have been modified during the year based on the technical department opinion and the Board of Directors decree in meeting held on July 5, 2018 effective from 1/1/2018 which led to decrease in the depreciation of the year ended December 31, 2018 by an amount of L.E 351 488 K, after applied the modified useful life from 1/1/2018.

The current year estimated useful lives for the fixed assets before and after modifying are as follows

	<u>Estimated useful life /year</u> <u>Before modifying</u>	<u>Estimated useful life /year</u> <u>After modifying</u>
Buildings and Infrastructure	5 - 50	5 - 50
Technical equipment and information technologies	3 - 20	3 - 15
Vehicles	5 - 10	7 - 15
Office furniture and fixtures	5 - 10	5 - 10
Tools and supplies	8	2 - 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 – initial recognition, subsequent measurement and derecognition

Financial assets

(i) Initial recognition and measurement

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

(ii) Classification and subsequent measurement

Financial assets – Classification: Policy applicable from 1 January 2018

On initial recognition, financial assets are classified as measured at: amortized cost; Fair Value through Other Comprehensive Income (FVOCI) – debt investment; FVOCI – equity investment; or Fair Value through Profit and Loss (FVTPL).

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets – Subsequent measurement and gains and losses: Policy applicable from 1 January 2018

The subsequent measurement of financial assets depends on their classification, as described below:

Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in consolidated statement of profit or loss. Any gain or loss on derecognition is recognized in consolidated statement of profit or loss.
Financial assets at FVOCI- Debt investments	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in consolidated statement of profit or loss. Other net gains and losses are recognized in consolidated statement of other comprehensive income. On derecognition, gains and losses accumulated in consolidated statement of other comprehensive income are reclassified to consolidated statement of profit or loss.
Financial assets at FVOCI - Equity investments at	These assets are subsequently measured at fair value. Dividends are recognized as income in consolidated statement of profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in consolidated statement of other comprehensive income and are never reclassified to consolidated statement of profit or loss.
Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in consolidated statement of profit or loss.

Financial assets – Classification: Policy applicable before 1 January 2018

The Group classified its financial assets into one of the following categories:

- loans and receivables;
- held to maturity;
- available for sale; and
- at FVTPL, and within this category as:
 - held for trading;
 - derivative hedging instruments; or
 - designated as at FVTPL.

Financial assets – Subsequent measurement, gains, and losses: Policy applicable before 1 January 2018

Financial assets at FVTPL	Measured at fair value and changes therein, including any interest or dividend income, were recognised in consolidated statement profit or loss.
Held-to-maturity financial assets	Measured at amortized cost using the effective interest method.
Loans and receivables	Measured at amortized cost using the effective interest method.
Available-for-sale financial assets	Measured at fair value and changes therein, other than impairment losses, interest income and foreign currency differences on debt instruments, were recognised in consolidated statement other comprehensive income and accumulated in the fair value reserve. When these assets were derecognized, the gain or loss accumulated in equity was reclassified to consolidated statement profit or loss.

(iii) Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

The rights to receive cash flows from the asset have expired; or the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:

- (i) the Group has transferred substantially all the risks and rewards of the asset, or
- (ii) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(iv) Impairment of financial assets

Policy applicable from 1 January 2018

The Group recognizes a loss allowance for expected credit losses (ECL) on debt instruments that are measured at amortized cost or at FVOCI, accounts receivable and financial guarantee contracts. No impairment loss is recognized for investments in equity instruments. The amount of expected credit losses reflects changes in credit risk since initial recognition of the respective financial instrument.

The Group applies the simplified approach to calculate impairment on accounts receivable and this always recognizes lifetime ECL on such exposures. ECL on these financial assets are estimated using a flow rate based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group applies the general approach to calculate impairment. Lifetime ECL is recognized when there has been a significant increase in credit risk since initial recognition and 12 month ECL is recognized when the credit risk on the financial instrument has not increased significantly since initial recognition.

The assessment of whether credit risk of the financial instrument has increased significantly since initial recognition is made through considering the change in risk of default occurring over the remaining life of the financial instrument.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the end of the reporting period with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available.

The Group considers the default in case of trade receivables occurs when a customer balance moves into the "Inactive" category based on its debt age analysis.

For all other financial assets, the Group considers the following as constituting an event of default as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- When there is a breach of financial covenants by the counterparty; or
- Information developed internally or obtained from external sources indicates that the debtor is unlikely to pay his dues.

The Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if; i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions

in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the percentage of the loss if there is a default) and the exposure at default. The assessment of the probability of default is based on historical data adjusted by forward-looking information.

The Group recognizes an impairment loss or reversals in the consolidated statement of profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVOCI, for which the loss allowance is recognized in consolidated statement of comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the consolidated statement of financial position.

Policy applicable before 1 January 2018

For financial assets not classified at fair value through profit or loss, the Group assesses at each reporting date whether there is any objective evidence that such financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has or have occurred after the initial recognition of the asset and a loss event has an impact on the estimated future cash flows of the financial asset or the Group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that debtors or a Group of debtors are experiencing significant financial difficulty, default or delinquency in principal payments, the probability that they will enter into bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(v) Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in consolidated statement of profit or loss. Interest income (recorded as finance income in the consolidated statement of profit or loss) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to general and administrative in the consolidated statement of profit or loss.

(vi) Financial assets classified as available for sale

For available for sale (AFS) investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as AFS, objective

evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and the duration or extent to which the fair value of an investment is less than its cost.

(vii) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than biological assets, investment property, inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment. For impairment testing, assets 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 CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, 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 or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, 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.

Financial liabilities

Recognition and measurement

Financial liabilities are classified, at initial recognition, as measured at amortized cost or financial liabilities at fair value through profit or loss. All financial liabilities other than financial liabilities at fair value through profit or loss are recognized initially at fair value net of directly attributable transaction costs. Financial liabilities at fair value through profit or loss are measured initially and subsequently at fair value, and any related transaction costs are recognized in consolidated statement of profit or loss as incurred.

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 manufacturing 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. 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.

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

Policy applicable from 1 January 2018

The Group is in the business of providing telecommunication services. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

(i) Service

Revenue from services comprises airtime usage, text messaging, data service (fixed, mobile and internet) and other telecom services. The Group offers services in fixed term contracts and short term arrangement. Revenue from service is recognized when obligation is performed or services are rendered. When services include multiple performance obligations, the Group allocates transaction price to each distinct performance obligation based on respective standalone selling price. The standalone selling price is the observable price for which the good or service is sold by the Group in similar circumstances to similar customers. If performance obligations are not distinct, revenue is recognized over the contract term. In arrangements, where Group is acting as agent, revenue from service is at net off amount transferred to third party. Revenue from additional consumption is recognized when services are rendered.

(ii) Sale of devices

Revenue from sale of devices is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the devices, the amount invoiced is recognized as revenue. Devices sales may be separate from or bundled with a service offering. The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated based on respective standalone selling price. When devices sale is bundled with service offering and identified as distinct performance obligation, the amount allocated to devices is recognized as revenue at the point in time when control of the asset is transferred to the customer. When devices sale is bundled with service offering and identified as combined performance obligation, revenue is recognized over contract term.

(iii) Installation and activation services

Revenue from sale of SIM is recognized at the point in time upon activation when end customer takes control of the SIM.

The Group provides installation services that are bundled together with the sale of devices to a customer. Contracts for bundled sales of devices and installation services are comprised of one performance obligations because the promises to transfer devices and provide installation services are not capable of being distinct. Accordingly, the Group recognizes revenue from bundled sales of devices and installation services over time, using an input method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Group.

(iv) Loyalty points program

Customer loyalty scheme give rise to a separate performance obligation because it generally provides a material right to the customer. The Group allocates a portion of the transaction price to the loyalty scheme liability based on relative standalone selling price of loyalty point and liability is recognized as revenue when points are redeemed or expired.

(v) Service offering to carrier (wholesale)

Interconnect revenue is recognized on the basis of the gross value of invoices raised on other operators for termination charges based on the airtime usage, text messaging and the provision of other mobile telecommunications services for the billing period as per the agreed rate.

Roaming revenue is recognized on the basis of the gross value of invoices raised on other roaming partners based on actual traffic delivered during the billing period.

Revenue from other wholesales service is recognized on the basis of gross value over contract term.

(vi) Determination of Transaction Price

In determining the transaction price, the Group considers the effects of variable consideration, the existence of significant financing components, non-cash consideration and consideration payable to the customer (if any).

Variable consideration

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Significant financing component

Generally, the Group receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less. If the Group receives long-term advances from customers, the transaction price for such contracts is

discounted, using the rate that would be reflected in a separate financing transaction between the Group and its customers at contract inception, to take into consideration the significant financing component.

Non-cash consideration

The fair value of such non-cash consideration received from the customer is included in the transaction price and measured when the Group obtains control of the devices.

Consideration payable to the customer

Consideration payable to the customer includes cash amount that the Group pays or expect to pay to the customers and is accounted for as reduction of transaction price.

When contract include contractual clause covering commercial discount or free offers, the Group defers these discounts or free offers over the contract term.

Policy applicable before 1 January 2018

Revenue comprises the fair value of the consideration received or receivable from the sale of goods and services in the ordinary course of the Group's activities. Revenue is stated net of trade discounts, incentives and volume rebates and after eliminating revenue within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group; and when specific criteria have been met for each of the Group's activities, as described below.

The Group's revenue comprises revenue from telecommunications services as summarized below:

- (i) **Revenues from linking voice services**, roaming and data with local and international telecom operators is recognized at the time rendering services on the basis of actual registration and in accordance with the agreed tariff. Revenue from interconnect fees is recognised at the time the service is performed. Connection fees are deferred and recognised over the period in which services are expected to be provided to the customer.
- (ii) **Revenue and related expenses associated** with the sale of devices is recognised when the devices are delivered and accepted by the customers. Revenues from post-paid plans are recognised as the entitlement to the fees accrues with unbilled revenue resulting from services already provided accrued at the end of each reporting period. Revenue from pre-paid plans and use of services above the entitlements for post-paid plans are recognised based upon usage. Revenue from the sale of prepaid top up cards is deferred until such time the customer uses the credit, or the credit period expires whichever is earlier.
- (iii) **Dividend and finance income**
Dividend income from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).
Finance income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life or shorter period, where appropriate, of the financial asset to that asset's net carrying amount on initial recognition.
- (vi) **Customer loyalty scheme**
The Group has a customer loyalty program that offers various rewards to retain customers that grants participating customers with credit point balances at the time of post-paid invoice collection or prepaid recharge. The credit point balances are then exchanged for various rewards. The allocated amount of the credit point balances is estimated using the fair value of the right to exchange them on receiving a discount for the Group's products or for products and services provided by third parties. The fair value is estimated using the historical weighted average value of the points redeemed. The allocated amount is deferred and recognized as revenues when the credit points are redeemed or expired.

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 and diluted 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 standards and amendments issued but not yet effective

Standards and amendments issued but not yet applicable to the Group's consolidated financial statements are listed below. This listing of standards and amendments issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. Following are standards and amendments issued but not yet effective:

IFRS 16 Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognizes a right of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

The Group has not finalised the testing and assessment of controls over its new IT systems; and the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

Other amendments

The following new or amended standards are not expected to have a significant impact on the Group's consolidated financial statements.

- a) IFRIC 23 Uncertainty over Tax Treatments.
- b) Prepayment Features with Negative Compensation (Amendments to IFRS 9).
- c) Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28).
- d) Plan Amendment, Curtailment or Settlement (Amendments to IAS 19).
- e) Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards.
- f) Amendments to References to Conceptual Framework in IFRS Standards.

t. 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.

u. 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.

v. 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.