



Translation from Arabic

Telecom Egypt Company
(An Egyptian Joint Stock Company)
Consolidated Financial Statements
For the Financial Year Ended December 31, 2016
& Auditor's Report





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AUDITOR'S REPORT TO THE SHAREHOLDERS OF TELECOM EGYPT COMPANY

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Telecom Egypt Company S.A.E, which comprise the consolidated statement of financial position as at December 31, 2016 and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Telecom Egypt Company as of December 31, 2016, and of its consolidated financial performance and cash flows for the financial year then ended in accordance with the Egyptian Accounting Standards and the Egyptian laws and regulations relating to the preparation of these consolidated financial statements.

Emphasis of Matter

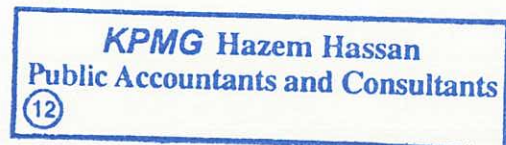
Without qualifying our opinion, we draw attention to note no. (35-1) of the notes to the consolidated financial statements, which describes the dispute between the company and Orange Egypt Company (previously named Mobinil) in regards to the interconnection rates. Several resolutions were issued by the National Telecommunication Regulatory Authority (NTRA) determining the interconnection rates based on the complaint filed by the company. As a result, Orange filed lawsuits for ceasing the implementation of the said resolutions. In addition, to the lawsuits and arbitral, litigations filed by or against the company and Orange, several rulings were issued but were appealed before the relevant authorities. These litigations and appeals are still under deliberation before the court and the arbitral tribunals and the final ruling has not been issued yet.

According to the opinion of the company's legal consultant, the company has the right to apply the interconnection rates used between Mobile Operators, and that the company's position is based on the relevant agreements and laws, and there are several arbitral and judicial stages to finalize this dispute. It is difficult, in the meantime to determine the outcome of the above mentioned lawsuits and arbitral litigations till the final ruling of the judicial and arbitral bodies is issued.



KPMG Hazem Hassan
Public Accountants & Consultants

Cairo, March 12, 2017





Telecom Egypt Company
(An Egyptian Joint Stock Company)
Consolidated Statement of Financial Position As of:

<u>Assets</u>	Note	31/12/2016	31/12/2015
	No.	L.E. (000)	L.E. (000)
<u>Non current Assets</u>			
Fixed assets	(13)	14 386 396	11 839 332
Projects in progress	(14)	7 418 288	2 077 482
Investments in associates	(15-1)	9 452 591	10 462 026
Available-for-sale investments	(15-2)	81 273	98 639
Other assets	(17)	1 242 932	933 047
Deferred tax assets	(28-1)	418 502	350 763
Total non current Assets		32 999 982	25 761 289
<u>Current Assets</u>			
Inventories	(18)	662 097	556 880
Trade and notes receivables	(19)	4 739 351	4 611 579
Debtors and other debit balances	(20)	1 829 478	1 412 071
Held-to-maturity investments-treasury bills		144 428	173 338
Cash and cash equivalents	(21)	1 112 286	2 413 451
Total Current Assets		8 487 640	9 167 319
Total Assets		41 487 622	34 928 608
<u>Equity</u>			
Capital	(26)	17 070 716	17 070 716
Reserves	(27)	4 446 323	6 380 134
Retained earnings		8 056 342	5 508 940
Foreign entities translation reserve		161 357	4 310
Total Equity attributable to the owners of the holding company		29 734 738	28 964 100
Non - controlling interest		10 696	10 330
Total Equity		29 745 434	28 974 430
<u>Non current Liabilities</u>			
Loans and credit facilities	(22)	626 235	326 914
Creditors and other credit balances	(23)	114 226	182
Deferred tax liabilities	(28-1)	638 295	357 630
Total non current Liabilities		1 378 756	684 726
<u>Current Liabilities</u>			
Loans and facilities installments due within one year	(22)	2 715 554	62 476
Creditors and other credit balances	(23)	6 545 767	4 189 290
Provisions	(24)	1 102 111	1 017 686
Total Current Liabilities		10 363 432	5 269 452
Total liabilities		11 742 188	5 954 178
Total equity and liabilities		41 487 622	34 928 608

The attached notes on pages (8) to (44) are an integral part of these consolidated financial statements.

Financial Director

Shaher Shokry

"Shaher Shokry"

Vice President,
For Financial affairs

M. Shamroukh

"Mohamed Shamroukh"

Managing Director
& Chief Executive Officer

Tamer Gadalla

"Tamer Gadalla"

Board of Directors approval

Chairman

M. Osman

"Maged Osman"

Auditor's Report "attached"



Telecom Egypt Company
(An Egyptian Joint Stock Company)
Consolidated Income Statement

	Note No.	<u>For the financial year ended:</u>	
		31/12/2016 <u>L.E.(000)</u>	31/12/2015 <u>Reclassified</u> <u>L.E.(000)</u>
Operating revenues	(3)	14 133 081	12 184 202
Operating costs	(4)	(7 832 165)	(7 120 126)
Gross Profit		6 300 916	5 064 076
Other income	(5)	353 136	192 295
Selling and distribution expenses	(6)	(1 530 780)	(1 397 657)
General and administrative expenses	(7)	(2 579 400)	(1 819 805)
Other expenses	(8)	(628 330)	(502 151)
Operating profit		1 915 542	1 536 758
Finance income	(9)	1 043 417	347 417
Finance cost	(9)	(350 180)	(47 231)
Finance income		693 237	300 186
Share of profit of equity accounted investees	(10)	668 390	1 118 169
Profit before tax		3 277 169	2 955 113
Income tax		(391 646)	(500 830)
Deferred tax	(28-1)	(212 926)	545 180
Total income tax		(604 572)	44 350
profit for the year		2 672 597	2 999 463
<u>Profit attributable to :</u>			
Owners of the holding company		2 670 277	2 997 413
Non-controlling interest		2 320	2 050
Profit for the year		2 672 597	2 999 463
Basic earnings per share (LE \ Share)	(12)	1.20	1.40

The attached notes on pages (8) to (44) are an integral part of these consolidated financial statements.



Telecom Egypt Company
(An Egyptian Joint Stock Company)
Consolidated Statement of Comprehensive Income

	<u>For the financial year ended:</u>	
	<u>31/12/2016</u>	<u>31/12/2015</u>
	<u>L.E.(000)</u>	<u>L.E.(000)</u>
Profit for the year after income tax	2 672 597	2 999 463
<u>Other Comprehensive Income items :</u>		
Translation differences of foreign entities	157 047	1 290
Total Comprehensive Income	<u>2 829 644</u>	<u>3 000 753</u>
Attributable to :		
Owners of the company	2 827 324	2 998 703
Non-controlling interest	2 320	2 050
Total Comprehensive Income	<u>2 829 644</u>	<u>3 000 753</u>

The attached notes on pages (8) to (44) are an integral part of these Consolidated Financial Statements.



Telecom Egypt Company
(An Egyptian Joint Stock Company)
Consolidated Statement of Changes in Equity
For The Financial year Ended December 31, 2016

Capital	Legal reserve	Other reserves	Retained earnings	Foreign entities translation reserve	Total of equity attributable to owners of the company	Non-controlling interest	Total
L.E.(000)	L.E.(000)	L.E.(000)	L.E.(000)	L.E.(000)	L.E.(000)	L.E.(000)	L.E.(000)
17 070 716	1 553 184	4 796 578	3 334 061	3 009	26 757 548	16 623	26 774 171
Comprehensive Income							
Profit for the year	-	-	2 997 413	-	2 997 413	2 050	2 999 463
Translation differences of foreign entities	-	-	-	1 290	1 290	-	1 290
Total Comprehensive Income	-	-	2 997 413	1 290	2 998 703	2 050	3 000 753
Transactions with owners of the company :							
Transferred to legal reserve	29 236	-	(29 236)	-	-	-	-
Dividends for year 2014 (shareholders)	-	-	(341 414)	-	(341 414)	(1 430)	(342 844)
Dividends for year 2014 (Employees & Board of Directors)	-	-	(444 074)	-	(444 074)	(230)	(444 304)
Dividends in associates (Employees & Board of Directors)	-	-	(4 497)	-	(4 497)	-	(4 497)
acquisition of non-controlling interest Subsidiaries	-	1 136	(3 313)	11	(2 166)	(6 683)	(8 849)
Total transactions with owners of the company	30 372	-	(822 534)	11	(792 151)	(8 343)	(800 494)
Balance as of December 31,2015	1 583 556	4 796 578	5 508 940	4 310	28 964 100	10 330	28 974 430
Balance as of January 1,2016	1 583 556	4 796 578	5 508 940	4 310	28 964 100	10 330	28 974 430
Comprehensive Income							
Profit for the year	-	-	2 670 277	-	2 670 277	2 320	2 672 597
Translation differences of foreign entities	-	-	-	157 047	157 047	-	157 047
Total Comprehensive Income	-	-	2 670 277	157 047	2 827 324	2 320	2 829 644
Transactions with owners of the company :							
Transferred to retained earnings from general reserve	-	(2 000 000)	2 000 000	-	-	-	-
Transferred to legal reserve	66 189	-	(66 189)	-	-	-	-
Dividends for year 2015 (shareholders)	-	-	(1 280 304)	-	(1 280 304)	(1 702)	(1 282 006)
Dividends for year 2015 (Employees & Board of Directors)	-	-	(608 735)	-	(608 735)	(245)	(608 980)
Dividends of Subsidiaries (Employees & Board of Directors)	-	-	(167 647)	-	(167 647)	-	(167 647)
Acquisition of non controlling interest in subsidiaries	-	-	-	-	-	(7)	(7)
Total transactions with owners of the company	66 189	(2 000 000)	(122 875)	-	(2 056 686)	(1 954)	(2 058 640)
Balance as of December 31, 2016	1 649 745	2 796 578	8 056 342	161 357	29 734 738	10 696	29 745 434

The attached notes on page from (8) to (44) are an integral part of these Consolidated Financial Statements.



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Telecom Egypt Company
(An Egyptian Joint Stock Company)
Consolidated Statement of Cash Flows

	Note No.	For the Financial year ended:	
		31/12/2016	31/12/2015
		<u>L.E. (000)</u>	<u>Reclassified L.E. (000)</u>
Cash flows from operating activities			
Cash receipts from customers		12 280 316	8 730 173
Sales tax collected from customers		269 287	224 444
Stamp tax and fees collected (from third party)		30 763	31 375
Deposits returned from (payment to) customers		5 767	(1 951)
Cash paid to suppliers		(1 433 458)	(1 218 543)
Payments of NTRA license fees		(314 301)	(409 869)
Dividends paid to employees and board of directors		(601 901)	(527 887)
Cash paid to employees		(3 530 015)	(2 920 565)
Cash paid on behalf of employees to third party		(726 043)	(538 604)
Cash provided by operating activities		5 980 415	3 368 573
Interest paid		(8 007)	(9 037)
Payments to Tax Authority - income tax		(318 920)	(709 356)
Payments to Tax Authority - sales tax		(825 561)	(561 945)
Payments to Tax Authority - other taxes		(500 252)	(468 784)
Other proceeds (payments)		86 723	(22 567)
Net cash provided by operating activities		4 414 398	1 596 884
Cash flows from investing activities			
Payments for purchase of fixed assets, other assets and projects in progress		(3 311 721)	(2 609 234)
Payments for purchase of other assets - Fourth generation network license		(5 293 798)	-
Proceeds from sale of fixed assets and other assets		846	350
Acquisition of investments		(7)	(8 849)
Payments for purchase of held-to-maturity investment -treasury bills		(363 906)	(514 377)
Interest received		48 160	34 849
Dividends collected from investments		1 437 968	32 516
Proceeds from sale of held-to-maturity investment -treasury bills		395 075	1 424 522
Proceeds from sale of financial investments available for sale		11 183	-
Proceeds from securities (treasury bills - mutual fund)		70 737	181 768
Net cash used in investing activities		(7 005 463)	(1 458 455)
Cash flows from financing activities			
Payment for loans and other facilities		(69 202)	(78 222)
proceeds form loans and other facilities		2 581 548	-
Dividends paid to shareholders		(1 281 920)	(357 410)
Net cash provided by (used in) financing activities		1 230 426	(435 632)
Net change in cash and cash equivalents during the year		(1 360 639)	(297 203)
Translation differences of foreign entities		57 792	2 249
Cash and cash equivalents at the beginning of the year	(21)	2 404 010	2 698 964
Cash and cash equivalents at the end of the year	(21)	1 101 163	2 404 010

The attached notes on pages (8) to (44) are an integral part of these consolidated financial statements.



Telecom Egypt Company
(An Egyptian Joint Stock Company)

Notes to the Consolidated Financial Statements
For the Financial Year Ended December 31, 2016

1. BACKGROUND

1-1 Legal Entity

- Arab Republic of Egypt National Telecommunication Organization (ARENTO) was established pursuant to Law No.153 of 1980. Effective from March 27, 1998 and pursuant to law No.19 of 1998, the legal form of (ARENTO) was amended after the revaluation of its assets on March 26, 1998 to become "Telecom Egypt Company" (TE).
- 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 Financial Statements of the Company for the year ended Dec 31, 2014 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.
- The company is subject to the provisions of the Companies Law No. 159 of 1981 and Capital Market law No. 95 of 1992.
- 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.

1-2 Purpose of the company

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.
- Investment properties for serving its purposes and executing its projects.

1-3 Issuance of the consolidated financial statements

These Consolidated Financial Statements were approved by the Board of Directors on March 12, 2017.

2. BASIS OF PREPERATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2-1 Statement of compliance

These Consolidated Financial Statements as of December 31, 2016, have been prepared in accordance with Egyptian Accounting Standards and in the light of applicable Egyptian laws and regulations.



2-2 Basis of measurement

These Consolidated Financial Statements have been prepared under the historical cost basis, except for certain financial investments, which are evaluated at fair value in according to the Egyptian Accounting Standard. For presentational purposes, the current/non-current classification has been used for the consolidated balance sheet, while expenses are analyzed in the consolidated income statement using a classification based on their function. The direct method has been used in preparing the consolidated statement of cash flows.

2-3 Functional and presentation currency

These Consolidated Financial Statements are presented in Egyptian pound (L.E.), which is the Group's functional currency. All financial information presented in "L.E." has been rounded to the nearest thousand unless otherwise stated.

2-4 Use of estimates and assumptions

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

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

Information about significant areas of 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 loss on non-financial and financial assets.
- Provisions and contingencies.
- Deferred tax assets.
- Operational useful life of fixed assets.

2-5 Fair value measurement

The fair value of financial instruments is determined based on the market value of the financial instrument or similar financial instruments at the date of the financial statements without deducting any estimated future selling costs. The financial assets values are determined with the current purchase prices; however, the financial liabilities values are determined with the current prices that could settle these liabilities.

In case there is no active market to determine the fair value of the financial instruments, the fair value is estimated using different valuation techniques taking into consideration the prices of the latest transactions, and use the current fair value of the similar financial instruments as guideline – the discounted cash flows technique or any other valuation methods that results reliable values.

When the discounted cash flows is used as a valuation technique, the future cash flows are estimated based on the management best estimate. The discount rate used is determined in line with the market rate at the date of the financial statements for the similar financial instruments in nature and conditions.



Notes to the consolidated financial statements
For the financial year ended December 31, 2016 (continued)

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3. OPERATING REVENUES

	<u>For the financial year ended:</u>	
	<u>31/12/2016</u>	<u>31/12/2015</u>
	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Home	4 240 392	3 567 580
Enterprise	2 395 323	1 905 466
Domestic wholesale	3 167 866	2 926 575
International carriers	3 203 377	2 977 380
International cables and networks	1 126 123	807 201
Total Operating Revenues	<u>14 133 081</u>	<u>12 184 202</u>

4. OPERATING COSTS

	Note No.	<u>For the financial year ended:</u>	
		<u>31/12/2016</u>	<u>31/12/2015</u>
		<u>L.E. (000)</u>	<u>Reclassified L.E. (000)</u>
Interconnection cost		2 587 412	2 404 539
Fuel		326 232	270 377
Spare parts		55 210	82 825
Maintenance		234 958	310 461
Leased circuits & satellite subscriptions		188 772	137 786
Depreciation and Amortization		1 454 978	1 516 094
Other operating costs*	(4-1)	2 984 603	2 398 044
		<u>7 832 165</u>	<u>7 120 126</u>

*Reclassification was made to the comparative figures as shown in note no. (37-1).



Notes to the consolidated financial statements
For the financial year ended December 31, 2016 (continued)

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4-1 OTHER OPERATING COSTS

	<u>For the financial year ended:</u>	
	<u>31/12/2016</u>	<u>31/12/2015</u>
	<u>L.E. (000)</u>	<u>Reclassified L.E. (000)</u>
Salaries and wages*	1 411 390	1 255 603
Company's social insurance contribution	145 108	129 635
Employees vacations allowance	4 066	5 600
Electricity and water	51 571	36 875
Other supplies	30 610	26 893
Transportation cost	75 981	62 486
Company's call costs	63 026	68 741
Cost of merchandise available for sale	178 941	164 205
Right of use (IRU) outside Egypt	196 036	57 922
Rent	18 478	13 347
Frequencies and license charges (NTRA)	472 995	380 892
Other duties (GARBLT) *	55 637	22 673
organizations services cost*	115 707	3 000
Others *	165 057	170 172
	<u>2 984 603</u>	<u>2 398 044</u>

*Reclassification was made to the comparative figures as shown in note no. (37-1).

5. OTHER INCOME

	<u>For the financial year ended</u>	
	<u>31/12/2016</u>	<u>31/12/2015</u>
	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Deferred revenues (year 2016)	2 438	8 922
Fines and earned delay interest on company's receivables	73 980	112 817
Sundry revenues	276 718	70 556
	<u>353 136</u>	<u>192 295</u>

6. SELLING AND DISTRIBUTION EXPENSES

	<u>For the financial year ended:</u>	
	<u>31/12/2016</u>	<u>31/12/2015</u>
	<u>L.E. (000)</u>	<u>Reclassified L.E. (000)</u>
Salaries & wages*	936 787	845 887
Company's social insurance contribution	100 754	90 602
Employees vacations allowance	2 885	3 827
Depreciation and Amortization	7 081	8 601
Discount allowed	183 063	198 373
Advertising and marketing*	118 135	136 650
Tax and duties	13 963	14 554
Organizations services cost*	50 605	2 284
Rent	19 062	19 631
Others*	98 445	77 248
	<u>1 530 780</u>	<u>1 397 657</u>

*Reclassification was made to the comparative figures as shown in note no. (37-1).



Notes to the consolidated financial statements
For the financial year ended December 31, 2016 (continued)

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7. GENERAL AND ADMINISTRATIVE EXPENSES

	Note No.	For the financial year ended:	
		31/12/2016	31/12/2015
		L.E. (000)	Reclassified L.E. (000)
Salaries and wages*		1 304 374	1 088 986
Company's social insurance contributions		119 312	104 433
End of service compensation - early retirement program	(11-1)	42 675	1 843
The company's contribution in loyalty and belonging fund	(11-2)	555 749	188 636
Employees vacations allowance		6 164	6 416
Depreciation & Amortization		72 826	64 429
Organizations services cost*		95 692	88 797
Bad debts		14 509	22 237
Tax and duties*		212 206	148 620
Bank charges		7 089	6 185
Others*		148 804	99 223
		2 579 400	1 819 805

*Reclassification was made to the comparative figures as shown in note no. (37-1).

8. OTHER EXPENSES

	Note No.	For the financial year ended:	
		31/12/2016	31/12/2015
		L.E. (000)	L.E. (000)
Provisions	(24)	502 194	444 623
Capital losses		86 257	3 165
Donations		19 899	49 765
Others		19 980	4 598
		628 330	502 151

9. NET FINANCE INCOME

	Note No.	For the financial year ended:	
		31/12/2016	31/12/2015
		LE (000)	LE (000)
Finance income			
Interest income		36 934	38 062
Net translation gain of foreign currencies balances and transactions		888 451	124 942
Treasury bills income		91 529	160 032
Income from money market funds		14 017	16 164
Dividends from available for sale investment		8 717	8 217
Gain on sale of available for sale investments		3 769	-
Total finance income		1 043 417	347 417
Finance costs			
Interest expense		(8 961)	(7 977)
Impairment loss on financial assets	(25)	(312 568)	(38 879)
Finance costs of credit investments contracts		(18 785)	-
Impairment loss on available-for-sale investments	(25)	(9 866)	(375)
Total finance cost		(350 180)	(47 231)
Net finance income		693 237	300 186



10. SHARE OF PROFIT OF EQUITY ACCOUNTED INVESTEE

	<u>For the financial year ended:</u>	
	<u>31/12/2016</u>	<u>31/12/2015</u>
	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Vodafone Egypt Telecommunication company	668 710	1 118 333
Egypt Trust	(320)	(164)
	<u>668 390</u>	<u>1 118 169</u>

11. EMPLOYEES' BENEFITS

11-1 Early retirement scheme (Telecom Egypt Company)

The Company has an early retirement scheme whereby 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. Compensations relating to early retirement amounted to L.E. 42 675 K for the financial year ending December 31, 2016 (against LE 1 843 K for the year 2015) are included in general and administrative expenses note no (7) and now the company doesn't apply any early retirement scheme.

11-2 End of service benefits (the company's contribution in loyalty and belonging fund)

The employees are granted an end of service benefits through a Loyalty and belonging Fund established in January 2004. Employees' benefit are based on the employees' basic salary in January 1, 2005 increasing at a compound rate of 5%. The subscription for employees hired after January 1, 2005, is calculated according to a subscription schedule for new hires and increasing at a compound rate of 5% starting from the next year from the hiring date.

The employees share in loyalty & belonging fund according to constant subscription are based on the same employees' basic salary where the end of service benefit calculated. According to the Board of Directors' decree held on December 21, 2016 which is approved the proposal to be the Company's contribution in loyalty and belonging fund for the year ended December 31, 2016 amounted to L.E. 555 749 K (against L.E. 188 636 K for the year 2015). The Company's contribution is included in general and administrative expenses as shown in note no (7).



Notes to the consolidated financial statements
For the financial year ended December 31, 2016 (continued)

Translation from Arabic

12. BASIC EARNINGS PER SHARE

Basic EPS is determined as follows:-

The holding company owner's equity :-

Net profit for the year (L.E.(000))

Less:

Employees' share in dividends (L.E.(000))*

Board of Directors share (L.E.(000))*

Net profit for the year before distribution (L.E.(000))

Number of the available shares during the year (share)

Basic earnings per share for the year (LE/ share)

For the financial year ended:	
31/12/2016	31/12/2015
2 670 277	2 997 413
607 937	599 824
5 548	8 910
2 056 792	2 388 679
1 707 071 600	1 707 071 600
1.20	1.40

* Employees and Board of Directors profit share are according to Board of Directors proposal to be presented in The Company and its Subsidiaries General Assembly to be approved.



Notes to the consolidated financial statements
For the financial year ended December 31, 2016 (continued)

Translation from Arabic

13- FIXED ASSETS

	Land L.E. (000)	Buildings & Infrastructure L.E. (000)	Technical equipment & information technologies L.E. (000)	Vehicles L.E. (000)	Furniture L.E. (000)	Tools & supplies L.E. (000)	Decoration & fixtures L.E. (000)	Fixtures on trunk radio network L.E. (000)	Total L.E. (000)
Cost as at 1/1/2015	2,375,092	19,977,330	21,025,820	130,354	428,103	84,444	113,293	315	44,134,751
Classification	(1,670)	1,253	(30,196)	-	(2,737)	-	-	-	(33,350)
Additions during the year	601	1,503,337	703,213	4,435	6,858	52,938	9,478	-	2,280,860
Disposals during the year	-	(3,901)	(13,157)	(4,860)	(1,135)	(8,843)	(6,039)	-	(37,935)
Translation differences of foreign entities	-	-	(252)	4	-	221	76	-	49
Cost as at 31/12/2015	2,374,023	21,478,019	21,685,428	129,933	431,089	128,760	116,808	315	46,344,375
Reclassification	-	-	(3)	1	38,591	(38,593)	(1)	-	(5)
Additions during the year	555	2,176,481	1,808,336	23,275	7,473	52,121	3,061	-	4,071,302
Disposals during the year	(3,006)	(781,230)	(697,347)	(7,728)	(1,461)	(10,118)	(1,152)	-	(1,502,042)
Translation differences of foreign entities	-	-	59,338	-	-	4,515	858	-	64,711
Cost as at 31/12/2016	2,371,572	22,873,270	22,855,752	145,481	475,692	136,685	119,574	315	48,978,341
Accumulated depreciation as at 1/1/2015	-	13,408,850	19,067,074	108,224	340,073	59,785	80,706	315	33,065,027
Reclassification	-	(417)	(30,553)	-	(1,487)	-	(893)	-	(33,350)
Depreciation for the year	-	831,009	618,317	6,940	4,487	31,442	13,080	-	1,505,275
Accumulated depreciation for disposals	-	(801)	(13,149)	(4,694)	(1,136)	(8,496)	(4,083)	-	(32,359)
Translation differences of foreign entities	-	-	273	5	-	135	37	-	450
Accumulated depreciation as at 31/12/2015	-	14,238,641	19,641,962	110,475	341,937	82,866	88,847	315	34,505,043
Reclassification	-	-	(1)	(5)	1	1	(1)	-	(5)
Depreciation for the year	-	628,079	770,464	4,791	5,395	37,443	11,775	-	1,457,947
Accumulated depreciation for disposals	-	(687,825)	(684,102)	(7,457)	(1,461)	(9,810)	(851)	-	(1,391,506)
Translation differences of foreign entities	-	-	18,373	-	-	1,821	272	-	20,466
Accumulated depreciation as at 31/12/2016	-	14,178,895	19,746,696	107,804	345,872	112,321	100,042	315	34,591,945
Net carrying amounts as at 31/12/2016	2,371,572	8,694,375	3,109,056	37,677	129,820	24,364	19,532	-	14,386,396
Net carrying amounts as at 31/12/2015	2,374,023	7,239,378	2,043,466	19,458	89,152	45,894	27,961	-	11,839,332

- Cost of fixed assets includes an amount of L.E. 22,866 Million fully depreciated assets and still in use.

- Useful life of some fixed assets items were amended during the period according to the technical report approved by the company's management according to Board of Directors decree which dated 8/5/2016, which starting from 1/1/2016 Note no (38-4).

Depreciation for the year is charged to income statement as follows:

	For the financial year ended	
	31/12/2016	31/12/2015
	L.E. (000)	L.E. (000)
Operating costs	1,378,126	1,432,301
Selling and Distribution expenses	7,038	8,573
General and administrative expenses	72,783	64,401
	1,457,947	1,505,275



Notes to the consolidated financial statements
For the financial year ended December 31, 2016 (continued)

Translation from Arabic

14. PROJECTS IN PROGRESS

	Note	31/12/2016	31/12/2015
	<u>No.</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Land		15 576	14 420
Buildings and Infrastructure		536 324	731 589
Other Assets (fourth generation network license 4G)*		5 293 798	-
Centrals and information technologies equipment**		895 722	704 950
Furniture		250	8 881
Other Assets (cables)		407 681	501 665
Advance payments		289 428	120 137
		<u>7 438 779</u>	<u>2 081 642</u>
Less:			
Impairment loss on projects in progress**	(25)	<u>(20 491)</u>	<u>(4 160)</u>
		<u>7 418 288</u>	<u>2 077 482</u>

* This item is represented in the amount paid for obtain Fourth generation network license ,TE obtained license to provide 4G license from the National Telecommunication Regulatroy Authority (NTRA), under the terms of the granted license, Telecom Egypt can establish, operate and manage a full-fledged mobile operation to service the Egyptian market, effective from August 31, 2016.

The summary of the license agreement as follows:

1. 4G spectrum of 2×5 MHZ in the frequency band 1800 MHZ and 2×10 MHZ in frequency band 700 MHZ for the period which is extended to 15 years from the signature date of license.
2. The value of the license is equivalent to EGP 7 080 Million, of which equivalent to EGP 5 200 Million is to be paid up front by 50% paid in Egyptian pound and 50% paid in US dollar.
3. The remaining portion will be paid in equal installments over the next Four years, 50% paid in Egyptian pound, 50% paid in US dollar.
4. The initial license term is for a period of 15 years from the signature date of license.
5. Telecom Egypt has conditional right to renew the license for another Five years, with renewal fee up to EGP 2 000 million, to be paid at year 15 from the date of license.
6. Specified annual fixed fees in license in addition to percentage of annual revenue which is specified in the license.
7. The amount of the license includes EGP 93 798 K which is represented in the finance cost of credit facilities which granted to the company to finance part of the licence, and the company is currently completing the equipment and necessary intial ifrasturcure for operating the Fourth generation network license.

** Centrals and information technologies equipment item is presented net of impairment loss on the value of the item Note no.(25)



Notes to the consolidated financial statements
For the financial year ended December 31, 2016 (continued)

Translation from Arabic

15. LONG TERM INVESTMENTS

15-1 Investments in associates

	Note no.	31/12/2016		31/12/2015	
		Ownership		Ownership	
		%	LE(000)	%	LE(000)
- Vodafone Egypt Telecommunication company *		44.95	9 452 142	44.95	10 461 257
- Wataneya for Telecommunication **		50.00	125	50.00	125
- International Telecommunication Consortium Limited (ITCL) **		50.00	54	50.00	54
- Egypt Trust**		35.71	7 500	35.71	7 500
- Consortium Algerian de Telecommunications (CAT) **		33.00	133	33.00	133
- Sofisat		25.00	-	25.00	-
			9 459 954		10 469 069
Add:					
Payments for investments purchase					
- Egypt Trust***		35.71	449		769
Less					
- Impairment loss on investments in associates	(25)		(7 812)		(7 812)
			9 452 591		10 462 026

* The investments in Vodafone Egypt on December 31, 2016 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, 2016 by using the Consolidated Financial Statements of Vodafone Egypt for the financial year ended March 31, 2016 that were authorized by the Company's management which presents the 12 months from the 1st of April 2015 till March 31, 2016, less the movements for the period from the 1st of April 2015 till December 31, 2015 extracted from the Financial Statements for Vodafone Egypt as of December 31, 2015. plus, the movements for the period from the 1st of April 2016 till December 31, 2016 extracted from the Financial Statements for Vodafone Egypt as of December 31, 2016, to determine the share of financial period from January 1 to December 31, 2016 of business results.

** The impairment loss on investments for Egypt Trust, Wataneya 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.

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



Notes to the consolidated financial statements
For the financial year ended December 31, 2016 (continued)

Translation from Arabic

15-2 Available-for-sale investments

	Note	31/12/2016	31/12/2015
	<u>No.</u>	<u>LE (000)</u>	<u>LE (000)</u>
- Participations in foreign satellite companies and organizations*		26 683	26 683
- Investments in other companies		87 205	94 705
		<u>113 888</u>	<u>121 388</u>
Less:			
Impairment loss on available-for-sale investments	(25)	32 615	22 749
		<u>81 273</u>	<u>98 639</u>

* 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 pro - rata - with their shares, accordingly telecom Egypt contribution in Arab Sat capital remains as the same at 1.5937%.

16. DEBIT BALANCES – LONG TERM

Long-term debit balances in December 31, 2016 amounting to L.E. 453 902 K represented in the value of the finance provided by Telecom Egypt to Consortium Algerian de Telecommunication Company (CAT) where Telecom Egypt participates directly and indirectly by 50%, this company suffers from financial difficulties and sustains material losses. The Extra-Ordinary General Assembly of CAT held on July 1, 2009 approved the dissolution and liquidation of CAT, so the fully impairment was formed for this balance (Note no 25). 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.



Translation from Arabic

Notes to the Consolidated financial statements
For the financial year ended December 31, 2016 (continued)

17- OTHER ASSETS

	Right of way (ALITAR) L.E. (000)	Right of way (FLAG) L.E. (000)	Right of way (SMW) L.E. (000)	Right of way (IMEVE) L.E. (000)	Right of way (EIG) L.E. (000)	Right of way (FALCON) L.E. (000)	International Circuits (ROU) L.E. (000)	Licenses Internet services L.E. (000)	Licenses and programs L.E. (000)	land (Possession) L.E. (000)	land (Usufruct) L.E. (000)	Total L.E. (000)
Cost as at 1/1/2015	67 853	172 269	206 771	138 910	209 883	48 432	148 026	21 497	69 092	440 683	1	1 523 417
Additions during the year	-	10 023	-	-	185	-	3 063	-	-	-	-	13 271
Disposals during the year	-	(11 197)	(30 865)	(7 051)	(13 597)	-	(3 148)	-	-	-	-	(65 838)
Foreign currency translation differences	-	-	-	-	-	-	124	86	-	-	-	210
Cost at 31/12/2015	67 853	171 095	175 906	131 879	196 471	48 432	148 065	21 583	69 092	440 683	1	1 471 060
Additions during the year	-	262 395	162 154	2 198	-	-	-	-	56 382	-	-	483 129
Disposals during the year	(1 206)	(21 450)	(31 064)	(63 929)	(26 199)	-	-	-	-	-	-	(143 848)
Foreign currency translation differences	-	-	-	-	-	-	4 500	1 550	-	-	-	6 050
Cost at 31/12/2016	66 647	412 040	306 996	70 148	170 272	48 432	152 565	23 133	56 382	440 683	1	1 747 299
Accumulated amortization and impairment as at 1/1/2015	55 715	109 829	58 462	32 862	34 354	8 880	116 582	20 767	40 304	-	-	477 755
Amortization for the year	3 642	5 750	12 954	9 560	14 341	3 229	5 481	104	28 788	-	-	83 849
Accumulated amortization for disposals	-	(78)	(13 715)	(3 383)	(3 323)	-	(3 148)	-	-	-	-	(23 047)
Foreign currency translation differences	-	-	-	-	-	-	26	30	-	-	-	56
Accumulated amortization and impairment as at 31/12/2015	59 357	115 501	57 701	39 039	45 372	12 109	118 941	20 901	69 092	-	-	538 013
Reclassification	-	-	1	-	-	-	-	(1)	-	-	-	-
Amortization for the year	3 597	10 857	12 602	8 605	13 269	3 229	5 878	106	18 795	-	-	76 938
Accumulated amortization for disposals	(1 116)	-	(8 995)	(25 564)	(8 267)	-	-	-	-	-	-	(43 942)
Foreign currency translation differences	-	-	-	-	-	-	1 794	656	-	-	-	2 450
Accumulated amortization and impairment as at 31/12/2016	61 838	126 358	61 309	22 080	50 374	15 338	126 613	21 662	18 795	-	-	504 367
Net carrying amounts as at 31/12/2016	4 809	285 682	245 687	48 068	119 898	33 094	25 952	1 471	37 587	440 683	1	1 242 932
Net carrying amounts as at 31/12/2015	8 496	55 594	118 205	92 840	151 099	36 323	29 124	682	-	440 683	1	933 047

- Accumulated amortization and impairment at December 31, 2016 include an amount of L.E. 79 825 K is represented in impairment of right of use of international circuits (ROU) and internet service license by one of subsidiary - Note no (25)

- Other assets costs include L.E. 169 Million of fully depreciated and still in use

Depreciation for the year is charged to income statement as follows:

	For the financial year ended 31/12/2016 L.E. (000)	31/12/2015 L.E. (000)
Operating costs	76 852	83 793
Selling and distribution expenses	43	28
General and administrative expenses	43	28
	76 938	83 849



Notes to the consolidated financial statements
For the financial year ended December 31, 2016 (continued)

Translation from Arabic

18. INVENTORIES

	31/12/2016	31/12/2015
	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Spare parts	445 918	390 707
Material supplies	978	1 012
Computers and Pc's components	7 652	6 132
Merchandise for sale-telecommunication equipment and computers	42 196	49 143
Others – cables and supplies	76 737	78 794
	<u>573 481</u>	<u>525 788</u>
Add:		
Letters of credit	88 616	31 092
	<u>662 097</u>	<u>556 880</u>

Inventory's value was written down by L.E. 25 466 K (against L.E. 28 128 K at December 31, 2015) for obsolete and slow moving items deducted directly from the cost of each type of inventory.

19. TRADE AND NOTES RECEIVABLES

	Note	31/12/2016	31/12/2015
	<u>No.</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Trade Receivables - National		4 131 189	4 581 254
Trade Receivables - International		3 266 250	2 421 243
		<u>7 397 439</u>	<u>7 002 497</u>
Less:			
Impairment loss on trade receivables	(25)	2 658 088	2 391 151
		<u>4 739 351</u>	<u>4 611 346</u>
Add:			
Notes Receivables		-	233
		<u>4 739 351</u>	<u>4 611 579</u>



Notes to the consolidated financial statements
For the financial year ended December 31, 2016 (continued)

Translation from Arabic

20. DEBTORS AND OTHER DEBIT BALANCES

	Note No.	31/12/2016 L.E. (000)	31/12/2015 L.E. (000)
Suppliers – debit balances		130 382	47 204
Deposits with others		171 758	30 650
Customs Authority - deposits		3 043	3 043
Accrued revenues		42 885	29 858
Tax Authority – withholding tax		160 319	162 976
Due from organizations and companies		193 740	119 128
Due from Ministries		154 195	177 051
Temporary debts due from employees		288 956	282 428
Debts and restricted amounts at banks		3 661	2 173
payments on the account of income tax		27 796	104 636
Other debit balances		838 328	651 801
		<u>2 015 063</u>	<u>1 610 948</u>
Less:			
Impairment loss on debtors and other debit balances	(25)	185 585	198 877
		<u>1 829 478</u>	<u>1 412 071</u>

21. CASH AND CASH EQUIVALENTS

	Note No.	31/12/2016 LE(000)	31/12/2015 LE(000)
Banks - time deposits (less than 3 months)		726 419	1 862 855
Banks - current accounts		142 575	(20 322)
Cash on hand		83 720	50 845
Treasury bills (less than 3 months)		55 998	102 170
Money market funds (less than 3 months)		103 574	417 903
Cash and cash equivalents		<u>1 112 286</u>	<u>2 413 451</u>
Less:			
Restricted time deposits	(30)	11 123	9 441
Cash and cash equivalents as per cash flows statement		<u>1 101 163</u>	<u>2 404 010</u>



Notes to the consolidated financial statements
For the financial year ended December 31, 2016 (continued)

Translation from Arabic

22. LOANS AND CREDIT FACILITIES

Description	Loan Currency	Long term loan	Long term loan	Balance	Balance	Annual	Repayment schedule
		installments due within one year	installments due within more than one year	as of 31/12/2016	as of 31/12/2015	interest rate	
		<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>%</u>	
Governmental Loans	U.S.\$	89 189	20 510	109 699	84 548	4 %	Annual installments ending on 24/1/2018
Foreign loans	EURO	38 420	605 725	644 145	299 115		0,75 - 5,5% Semi-annual installments ending on 30/6/2036
Total loans		127 609	626 235	753 844	383 663		
Foreign suppliers' facilities	EURO	1 547	-	1 547	675	5.50%	
Subsidiary's local facility	LE	4 850	-	4 850	5 052	Corridor rate + 0.1%	
Bank facilities	LE	2 521 031	-	2 521 031	-	Variable interest rate	
Bank facilities	U.S.\$	60 517	-	60 517	-	Variable interest rate	
Total facilities		2 587 945		2 587 945	5 727		
Total loans & facilities		2 715 554	626 235	3 341 789	389 390		

- Foreign suppliers' facilities in Euro amounting to L.E. 1 547 K equivalent to Euro 79 K are against letters of guarantee issued by National Bank of Egypt in favor of Siemens as a guarantee for this facility, there are no other guarantees for the remaining loans and facilities.



23. CREDITORS AND OTHER CREDIT BALANCES

	31/12/2016	31/12/2015
	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Suppliers and notes payables	522 242	330 006
Tax Authority-Income Tax	384 819	472 807
Tax Authority (taxes other than income tax)	222 763	247 983
Deposits from others	648 274	610 842
Fixed assets creditors	2 495 289	1 064 461
Dividends creditors	3 043	22 559
Accrued expenses	482 954	349 583
Customers - credit balances	181 798	334 223
Credit balances - organizations and companies	829 019	124 277
Prepaid revenues	193 524	134 722
National Telecommunication Regulatory Authority (NTRA)	347 642	166 356
Social Insurance Authority	42 899	40 838
Accrued interest	6 608	3 175
Deferred revenues	-	2 438
Credit balance for social, cultural and sportive activities	-	610
Other credit balances	299 119	284 592
	<u>6 659 993</u>	<u>4 189 472</u>
Less:		
Credit balances - organizations and companies due within more than one year	114 226	182
	<u>6 545 767</u>	<u>4 189 290</u>



Notes to the consolidated financial statements
For the financial year ended December 31, 2016 (continued)

Translation from Arabic

24. PROVISIONS

Provision for liabilities, claims and others

Balance as of 1/1/2016	Reclassification	Charged to income statement	Used during the year	Translation differences	Balance as of 31/12/2016
<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>
1 017 686	(14 311)	502 194	(403 508)	50	1 102 111
1 017 686	(14 311)	502 194	(403 508)	50	1 102 111

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

25. IMPAIRMENT LOSS ON ASSETS

Note No.	Balance as of 1/1/2016	Reclassification	Used during the year	Formed / (Reversal) during the year	Translation differences	Balance as of 31/12/2016
	<u>LE (000)</u>	<u>LE (000)</u>	<u>LE (000)</u>	<u>LE (000)</u>	<u>LE (000)</u>	<u>LE (000)</u>
(14)	4 160	-	-	16 331	-	20 491
(15-1)	7 812	-	-	-	-	7 812
(15-2)	22 749	-	-	9 866	-	32 615
(16)	453 902	-	-	-	-	453 902
(17)	79 825	-	-	-	-	79 825
(18)	28 128	-	-	(2 662)	-	25 466
(19)	2 391 151	-	(43 569)	301 125	9 381	2 658 088
(20)	198 877	20 958	(45 824)	11 443	131	185 585
	3 186 604	20 958	(89 393)	336 103	9 512	3 463 784



Notes to the consolidated financial statements
For the financial year ended December 31, 2016 (continued)

Translation from Arabic

26. CAPITAL

- The company's issued and fully paid-up capital is L.E. 17 070 716 K, represented in 1 707 071 600 shares at a par value of L.E. 10 each
- The Egyptian Government owns 80% of the company's shares after floating 20% of company's shares in public offering during December 2005.

27. RESERVES

	31/12/2016	31/12/2015
	L.E. (000)	L.E. (000)
Legal reserve	1 649 745	1 583 556
General reserve*	2 771 654	4 771 654
Revaluation reserve available-for-sale investments	6 814	6 814
Capital reserve	18 110	18 110
	4 446 323	6 380 134

* General reserve amounting to L.E. 2 771 654 K as at December 31, 2016 represents the dividends transferred to the general reserve for years 1999/2000 till 2006 after deducting L.E. 916 530 K which represents the net adjustments on the fixed assets for land item during the years from 2005 to 2014, and transfer an amount of L.E. 2 000 000 K from general reserve to retained earnings "according to Ordinary General Assembly decree which was held on March 30, 2016.

28. DEFERRED TAX

28-1 Recognized Deferred tax assets and liabilities

	31/12/2016		31/12/2015	
	Assets	Liabilities	Assets	Liabilities
	L.E. (000)	L.E. (000)	L.E. (000)	L.E. (000)
Fixed assets	9 950	-	16 159	-
Other assets	-	24 010	-	8 328
Write down of inventories	5 016	-	5 993	-
Impairment loss on trade receivables, debtors and other debit balances	165 260	-	204 135	-
Provisions	201 769	-	88 783	-
Accrued liabilities	34 287	-	35 693	-
Net gain of translation of foreign currencies balance	-	294 543	-	-
Re-evaluation of available for sale financial investments losses	2 220	-	-	-
Undistributed profit in subsidiaries and associated	-	319 742	-	349 302
Total deferred tax asset \ liabilities	418 502	638 295	350 763	357 630
Net deferred tax liabilities	-	219 793	-	6 867
Deferred tax charged to the consolidated income statement	(212 926)		545 180	



Notes to the consolidated financial statements
For the financial year ended December 31, 2016 (continued)

Translation from Arabic

28-2 Unrecognized deferred tax assets

	31/12/2016	31/12/2015
	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Impairment loss on trade receivables	441 085	341 788
Impairment loss on debtors & other debit balances	134 478	137 446
Provision for liabilities and claims	28 477	90 314
Fixed assets	-	51 377
Other	5 324	6 390
	<u>609 364</u>	<u>627 315</u>

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.

29. CAPITAL COMMITMENTS

The company's capital commitments for the unexecuted parts of contracts until December 31, 2016 amounted to L.E. 2 956 Million (against L.E. 124 Million as at December 31, 2015) includes The installments of payments of 4G license by an amount of L.E. 2 920 Million. in addition to investees' share in capital haven't been claimed yet by an amount of L.E. 1 million. These commitments are expected to be settled in the subsequent period except for the uncalled installments of investees' share in capital, which shall be settled when required by the Board of Directors of those investees companies.

30. CONTINGENT LIABILITIES

In addition to the amounts included in the consolidated statement of financial position as of December 31, 2016, the company has the following contingent liabilities:

	31/12/2016	31/12/2015
	<u>L.E. (000)</u>	<u>L.E. (000)</u>
- Letters of guarantee issued by banks on behalf of the company*	688 021	184 687
- Letters of credit	373 301	305 718

* Letters of guarantee which were issued by banks on behalf of the company and for the benefits of others as at December 31,2016 including letters of guarantee have been issued against cash margin (restricted cash and cash equivalent) (Note no.21)



31. TAX POSITION (Telecom Egypt)

31-1 Corporate tax

- Tax inspection was performed for the years till December 31, 2014 and all due taxes were settled, and there is not any disputes except one dispute related to exempt distributions from subsidiaries and the Internal Committee work on it.
- Tax inspection for the year 2015 is in process.

31- 2 Sales Tax

- Tax inspection was performed for the years till December 31, 2010 and all due taxes were settled.
- Tax inspection for the years 2011 and 2012 was performed and the company was informed by the inspection differences and the company objected during the legal period and the differences are being discussed with the Appeals Committee.
- Tax inspection for the year 2013 , 2014 and 2015 is in process.

31- 3 Salary Tax

- Tax inspection was performed for the years till December 31 ,2013, and the Company was notified and all due taxes were settled.
- Tax inspection for the year 2014 and 2015 is in process.

31- 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, the company objected on the disputed items on the due dates and the related provisions were formed to meet the disputed tax liabilities.
- Tax inspection for the 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 during the same period.
- Tax inspection for period from August 1, 2006 to December 31, 2009 and due taxes were settled and the disputed item has been forwarded to the Internal Committee.
- Tax inspection for the years 2010 and 2014 was performed and the disputed items were resolved with the exception of the relative stamp on salaries and wages which have been forwarded to the Appeal Committee..

31- 5 Real estate taxes

- All taxes are paid according to the addition notices received by the company. The company's Legal Affairs 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

31- 6 Value added taxes

- On September 7, 2016, Value added tax law no. 67 for the year 2016 was issued and to be effective starting from September 8,2016.

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



Notes to the Consolidated financial statements
For the financial year ended December 31, 2016 (continued)

Translation from Arabic

32. RELATED PARTY TRANSACTIONS

There are transactions between Telecom Egypt and its associates. Transactions during the year and balances on the financial statements date are stated as follows:

Nature of transaction during the year	Amount of transactions during the year recorded in the income statement L.E. 000	Transaction volume during the year		Balance as of 31/12/2016		Balance as of 31/12/2015	
		Debit L.E. 000	Credit L.E. 000	Debit/(Credit) L.E. 000	Debit/(Credit) L.E. 000	Debit/(Credit) L.E. 000	Debit/(Credit) L.E. 000
Balances included in trade receivables							
Vodafone Egypt Telecommunications Company	1 296 078	3 147 815	3 614 633	(341 218)			125 600
Outgoing calls and voice services to the associates company							
Incoming and international calls, transmission claims & lease of company premises and towers to the associates company	1 123 206						
Debit balances included in debit balances - long term (Note no.16)		3 147 815	3 614 633	(341 218)			125 600
Consortium Algerian Telecommunications (CAT)*	-	-	-	453 902			453 902
Debit balances included in debtors and other debit balances		-	-	453 902			453 902
International Telecommunication Consortium Limited (ITCL)*	-	-	-				66
Credit balances included in creditors and other credit balances		-	-	66			66
Vodafone Egypt Telecommunications Company	15 539	26 441	31 562	(10 163)			(5 042)
Telecommunication services							

*The balance is fully impaired due to company's inability to recover this amount in foreseeable future.



33. GROUP ENTITIES

Parent company's direct and indirect share in subsidiaries companies on December 31, 2016 which were included in the consolidated financial statements are as follows:

<u>Company name</u>	<u>Country of incorporation</u>	<u>Ownership interest</u>	
		<u>31/12/2016</u>	<u>31/12/2015</u>
Telecom Egypt France	France	100.00 %	100.00 %
T.E Data	Egypt	100.00 %	100.00 %
T.E Data Jordan	Jordan	100.00 %	100.00 %
TE Investment Holding	Egypt	100.00 %	100.00 %
The Egyptian Telecommunication Company for Information Systems (Xceed)	Egypt	100.00 %	100.00 %
Xceed Customer Care Maroc	Morocco	100.00 %	100.00 %
Centra Technologies	Egypt	100.00 %	100.00 %
Centra Industries	Egypt	100.00 %	99.89 %
Centra Distribution	Egypt	99.99 %	99.99 %
Middle East Radio Communication (MERC)	Egypt	51.00 %	51.00 %
Telecom Egypt Globe	Singapore	100.00 %	-

34. FINANCIAL INSTRUMENTS

34-1 Credit risk

The carrying amount of financial assets represents the maximum credit risk exposure. The maximum exposure to credit risk at the consolidated statement of financial position date as follows :-

<u>Description</u>	<u>Note No.</u>	<u>31/12/2016 L.E. (000)</u>	<u>31/12/2015 L.E. (000)</u>
Trade and notes receivables	(19)	4 739 351	4 611 579
Debtors and other debit balances	(20)	1 829 478	1 412 071
Available-for-sale investments	(15-2)	81 273	98 639
Held-to-maturity investment -treasury bills		144 428	173 338
Cash and cash equivalents	(21)	1 028 566	2 362 606
		<u>7 823 096</u>	<u>8 658 233</u>



Notes to the Consolidated financial statements
For the financial year ended December 31, 2016 (continued)

Translation from Arabic

34-2 Liquidity risk

The following are the expected maturities of financial liabilities at the Financial position date:

Description	Carrying Amount <u>L.E. (000)</u>	One year or less <u>L.E. (000)</u>	From 1-2 years <u>L.E. (000)</u>	From 3-5 years <u>L.E. (000)</u>	More than 5 years <u>L.E. (000)</u>
<u>December 31, 2016</u>					
Creditors and other credit balances	6 659 993	6 545 767	114 226	-	-
Loans and credit facilities	3 341 789	2 715 554	79 144	96 051	451 040
	<u>10 001 782</u>	<u>9 261 321</u>	<u>193 370</u>	<u>96 051</u>	<u>451 040</u>
<u>December 31, 2015</u>					
Creditors and other credit balances	4 189 472	4 189 290	182	-	-
Loans and credit facilities	389 390	62 476	70 781	42 519	213 614
	<u>4 578 862</u>	<u>4 251 766</u>	<u>70 963</u>	<u>42 519</u>	<u>213 614</u>



Translation from Arabic

Notes to the Consolidated financial statements
For the financial year ended December 31, 2016 (continued)

34- FINANCIAL INSTRUMENTS (CONTINUED)
34-3 Currency risk exposure:

Description	U.S. Dollars (000)	Sterling Pound (000)	Euro (000)	Canadian Dollar (000)	Swedish Krona (000)	Moroccan Dirham (000)	Jordanian Dinar (000)	Total L.E. (000)
December 31, 2016								
Trade receivables	165 649	-	25	2 076	-	13 926	17	3 160 447
Accrued interest for deposits	2	-	11	-	-	-	-	253
Other debit balances	703	-	1 256	367	-	15 978	299	79 266
Cash & cash equivalents	17 674	286	18 880	-	-	1 132	2 415	773 364
Total assets in currency	184 028	286	20 172	2 443	-	31 036	2 731	4 013 330
Creditors & other credit balances	103 511	5	18 568	-	8 196	7 386	151	2 338 198
Foreign loans & facilities	5 904	-	32 945	-	-	-	-	755 391
Total liabilities in currency	109 415	5	51 513	-	8 196	7 386	151	3 093 589
Risk surplus (deficit)	74 613	281	(31 341)	2 443	(8 196)	23 650	2 580	919 741
Equivalent in Egyptian Pound	1 398 994	6 446	(613 283)	33 822	(16 744)	42 199	68 307	919 741
December 31, 2015								
Trade receivables	186 034	-	1 894	3 055	-	13 353	33	1 501 203
Accrued interest for deposits	134	-	37	-	-	-	-	1 365
Other debit balances	631	-	692	174	-	7 857	81	19 083
Cash & cash equivalents	165 030	300	49 250	1 010	-	3 099	2 829	1 755 531
Total assets in currency	351 829	300	51 873	4 239	-	24 309	2 943	3 277 182
Creditors & other credit balances	68 257	5	2 983	-	8 196	3 887	488	576 001
Foreign loans & facilities	10 798	-	35 103	-	-	-	-	384 340
Total liabilities in currency	79 055	5	38 086	-	8 196	3 887	488	960 341
Risk surplus (deficit)	272 774	295	13 787	4 239	(8 196)	20 422	2 455	2 316 841
Equivalent in Egyptian Pound	2 135 848	3 416	117 745	23 844	(7 503)	16 542	26 949	2 316 841

* Central Bank of Egypt decided in its meeting held on November 3, 2016 to float exchange rate of foreign currencies to give flexibility to banks which are operating in Egypt for the pricing of purchase and sale of foreign currencies.

Exchange rates for currencies against Egyptian pound:

	Average exchange rate during: 2016	2015	Closing exchange rate as at: 31/12/2016	31/12/2015	Average exchange rate during: 2016	2015	Closing exchange rate as at: 31/12/2016	31/12/2015
U.S. Dollar	LE	LE	LE	LE	LE	LE	LE	LE
Sterling Pound	10.0888	7.6989	18.7500	7.8301	1.1644	0.9155	2.0429	0.9155
Euro	13.4676	11.7502	22.9390	11.5800	1.4900	0.8000	1.7843	0.8100
Canadian Dollar	11.0386	8.5577	19.5687	8.5403	21.3400	10.5497	26.4756	10.9772
	11.3100	5.9000	13.8444	5.6250				



34-4 Sensitivity analysis

A 10% strengthening of the foreign currencies against the EGP as of December 31, 2016 would have increased profit by an amount of L.E 91 974 K (L.E. 231 684 K as of December 31, 2015). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for 2015.

And a 10% weakening of the foreign currencies against L.E. at December 31, 2016 would have had the equal but opposite effect on the foreign currencies to the amounts shown above.

34-5 Interest rate risk

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

Description	Note No.	31/12/2016	31/12/2015
		L.E. (000)	L.E. (000)
<u>Financial instruments with variable interest rate</u>			
Financial assets – deposits	(21)	726 419	1 862 855
Financial liabilities (loans-credit facilities)	(22)	3 341 789	389 390
		4 068 208	2 252 245

34-6 Fair values for 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.

35. CLAIMS AND LITIGATIONS

35-1 Interconnection dispute with Orange Egypt (previously named Mobinil)

On September 2009, Orange Egypt had filed an Arbitration Case requesting the application of the interconnection rates mentioned in the signed agreements with TE, and objecting the application of NTRA above mentioned decisions, claiming that TE made a contractual violations by complaining at NTRA, also request damages for not entering into services level agreements related to the transmission leased line and International gateway service, also te had filed the Arbitration Case against Orange Egypt, that's where Te's management believes that Orange Egypt charged TE with rates exceeds the rates where Orange Egypt and other operator charging each other.

On March 29, 2015, The Tribunal in Orange Egypt Case rejected Orange Egypt's request to apply the interconnection rates stated in the interconnection agreement, also the Tribunal submit its interpretation to the Egyptian law and the principles that should be followed by both parties to agree on the interconnection rates. Also the Tribunal rejected a part of TE's claims for the previous period years 2008, the Tribunal depute an expert to review Orange egypt claims whether from the principle or the amount claimed, and these claims still pending before Tribunal.

The company's legal advisor believes that the company has the right to apply the interconnection rates same as other mobile operators, and this opinion in the light of NTRA decisions that still in effect, the provisions Telecommunication law and Competition law.



The amount in dispute as per the company's record between TE and Orange Egypt in relation to the said dispute for the period from September 3, 2008 to the end of December 2016 is approximately an amount of L.E 639 237 K.

35-2 Interconnection dispute with Vodafone Egypt Company (VFE)

The Ordinary General Assembly dated March 30, 2016 approved the frame agreement of settling all the current disputes between te and VFE and the same frame was approved by the Ordinary General Assembly of VFE dated April 13, 2016. Subject to such settlement, TE and VFE settled all disputes raised between both of them, till December 31, 2015.

35-3 Dispute with one of the investees

The company has filed an arbitration case against an investee, in which TE owns 25%, claiming compensations for breach of obligations stipulated in an agreement concluded between the company, and the investee and requesting the termination of the said agreement. The investee has filed as well another arbitration case against TE claiming compensation for breaching of obligations stipulated in the same agreement.

On August 31, 2015, The Tribunal rejected TE claims for compensations, it also decided that it has jurisdiction over the investee claims and decided to terminate the contract and awarded compensation to the investees. The company started to take the necessary legal actions to cease the implementation of such award according to acceptable law princibals, as per the external advisor recommended to the company.

And the company's Board of Directors meeting held on January 20, 2016 and March 29, 2016 approved the frame agreement of settling all the current disputes between TE and the investee, the agreements which are related to the frame settlement were signed between the dispute parties on May 31, 2016.

The company has made the impairment loss on financial assets to cover any anticipated future loss, may arise as a result of the above cases.



36 - Segment reporting

As of the group activity level, the group of company defined the main operating activity segments and its prepared according to service provided. The information presented after the elimination of inter-segment transaction. The main operating activities segments for the group represented as follows:

Description	Communications, marine cables and infrastructure	Internet	Outsourcing	All other	Total
	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Operating revenues	10 211 421	3 631 662	195 627	94 371	14 133 081
Operating costs	(6 826 660)	(792 132)	(113 632)	(99 741)	(7 832 165)
Gross profit	3 384 761	2 839 530	81 995	(5 370)	6 300 916
Credit interest	31 262	4 755	654	263	36 934
Debit interest and Finance cost	(26 965)	-	-	(781)	(27 746)
Depreciation and amortization	(1 411 055)	(112 747)	(10 896)	(187)	(1 534 885)
The company's share of profit in associates companies	-	-	-	668 390	668 390
Non cash items					
Impairment loss on financial assets	(279 787)	(32 781)	-	-	(312 568)
Total assets	39 686 134	1 445 397	203 511	152 580	41 487 622
Total liabilities	10 769 941	781 283	81 138	109 826	11 742 188

37- COMPARATIVE FIGURES

- Reclassifications were made to comparative figures for some of the consolidated income statement and consolidated statement of cash flows items to conform to the current presentation of consolidated financial statements.
- The following is the effect of reclassification and representation on the consolidated financial statements.

37-1 Consolidated income statement

Description	For the financial year ended 31/12/2015 as previously presented	Reclassification (debit)/credit	For the financial year ended 31/12/2015 Current presentation
	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>
	Operating cost	(7 035 421)	(84 705)
Selling and distribution expenses	(1 356 696)	(40 961)	(1 397 657)
General and administrative expenses	(1 945 471)	125 666	(1 819 805)

37-2 Consolidated statement of Cash Flows

Description	For the year ended 31/12/2015 as previously presented	Reclassification (debit)/credit	For the year ended 31/12/2015 Current presentation
	<u>LE(000)</u>	<u>LE(000)</u>	<u>LE(000)</u>
	Cash paid for suppliers	(1 125 443)	(93 100)
Other (payments) \ proceeds	(116 110)	93 543	(22 567)
Cash paid to employees	(2 920 122)	(443)	(2 920 565)



38- SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the Consolidated Financial Statements on December 31, 2016, taking into consideration the new issues and amendments issued to the Egyptian Accounting Standards (EAS) and effective on January 1, 2016 (Note no. 39)

Certain comparative figures have been reclassified to conform to the current presentation of the Consolidated Financial Statements (note no.37).

38-1 Basic of consolidation

38-1-1 Subsidiaries

- Subsidiaries consolidated financial statements includes all controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable. The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases.

38-1-2 Non-controlling interests

- NCI are measured at their proportionate share of the acquirer's identifiable net assets at the acquisition date. A changes in the group's interest in a subsidiary that do not result in a loss of control are accounted in as equity transactions.

38-1-3 Loss of control

- When the Group losses 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.

38-1-4 Investments in associates (equity accounted investees)

Associates are those entities in which the Group has significant influence but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

- Investments in associates are accounted for using the equity method (equity accounted investees) and are recognized initially at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses, if any. The Consolidated Financial Statements include the Group's share of income, and expenses of equity accounted investee, after adjustments to align accounting policies with those of the Group, from the date that significant influence commences to the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.



38-1-5 Transactions eliminated for consolidation

Intra-group balances and transactions, and any unrealized gains or losses and income or expenses arising from Intra-group transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealized gains arising from transactions with equity accounted investees are eliminated to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

38-2 Foreign currency translations

Transactions in foreign currencies are translated into the respective functional currencies of the Group entities at the exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the reporting date to the functional currencies at the exchange rate at that date. Non-monetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rate at that date of the transaction. Foreign currency differences arising on retranslation are recognized in consolidated income statement.

38-3 Foreign operation

The financial statements of the Group entities are translated into the presentation currency as follows:

- Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated at exchange rate at the reporting date.
- Income and expenses are translated at the average exchange rate for the year.
- Foreign currency differences are recognised in change in shareholders' equity statement, and presented in the foreign currency translation reserve (translation reserve). However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests;
- For consolidated cash flows preparation purposes, cash flows from foreign operations are translated at the average exchange rates for the year.

38-4 Fixed assets and depreciation

(A) Recognition and measurement

- Items of property, plant and equipment are measured at cost or deemed cost less accumulated depreciation and accumulated impairment losses note no. (38-12)
- The cost of fixed assets include 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 fixed assets have different useful lives, their depreciation is accounted for as separate items.

Gains and losses on disposal of an item of fixed assets are determined by comparing the proceeds from disposal with the carrying amount of the assets and they are recognized in consolidated income statement.

(B) Subsequent costs

The cost of replacing part of an item of property, fixed assets is recognized 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 derecognized. The costs of the day-to-day servicing of fixed assets are recognized in consolidated income statements as incurred.



(C) Depreciation

Depreciation is recognized in profit or loss according to a straight-line method over the estimated useful life of fixed assets. During the year, the useful lives of some fixed assets were amended according to the technical view and Board of Directors' decree on May 5, 2016 starting from January 1, 2016.

The estimated useful lives before and after amendments are as follows:

	Estimated useful life <u>Before amendments /year</u>	Estimated useful life <u>After amendments/year</u>
Buildings and Infrastructure	10 – 50	5 – 50
Technical equipment and information technologies	5 - 20	1 - 20
Vehicles	5 - 10	5 - 15
Furniture	3 – 16.67	1.5 – 16.67
Tools and supplies	1 - 8	4 - 8
Decoration and fixtures	5	5
Fixtures on trunk radio network	8	8

38-5 Other assets

Other assets are non-monetary intangible assets which the company can be controlled and capable of generate future economic benefits.

Other 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 other assets from the date that they are available for use.

38-5-1 Licenses

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

38-5-2 Right of way and right of use

The Group recognizes an intangible asset arising from a right of way and right of use of other assets when it has the right for usage of the assets. An intangible asset is measured initially at cost upon initial recognition. Subsequent to initial recognition the intangible asset is measured at cost, less accumulated amortization 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.

38-5-3 Other intangible assets

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

38-6 Projects in Progress

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

38-7 Available - for - sale investments

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



investment is derecognized, the cumulative gain or loss in equity is transferred to the consolidated income statement.

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

38-8 Financial asset at fair value through profit or loss (Held for trading investments)

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

38-9 Investments held –to- maturity (Treasury bills)

Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses.

38-10 Inventories

- Inventories are measure at the lower of cost or net realizable value at the date of balance sheet.
- Cost is determined using the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location condition.
- Work in progress is valued at cost at the latest production process reached.
- Finished goods are valued at the manufacturing cost.

38-11 Trade receivables, debtors and other debit balances

Trade receivables, debtors and other debit balances are included as current assets unless they are contractually due over more than 12 months after the financial position date in which case they are classified as non-current assets. These assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method, less any impairment losses.

38-12 Impairment loss on assets

(A) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in the consolidated income statement. Any cumulative loss in respect of an available-for-sale financial asset recognized previously in equity is transferred to the consolidated income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost and financial assets that are debt securities, the reversal is recognized in the consolidated income statement. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in equity.



(B) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognized in the consolidated income statement.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

38-13 Provisions

The provisions is recognized as a result of a past event where the company has a legal or constructive obligation and it is probable that an outflow of economic benefits will be required to settle the obligation, and the obligation can be reasonably estimated.

Provisions are reviewed at the consolidated balance sheet date and amended when necessary to reflect the best current estimate.

38-14 Cash and cash equivalents

Cash and cash equivalents comprise cash balances, banks current accounts, time deposits, market money fund bills and treasury bills which do not exceed three months and banks overdrafts that are repayable on demand and form an integral part of the Group's cash management preparing are included as a component of cash equivalents for the purpose of preparing the statement of cash flows. The consolidated statement of cash flows is prepared and presented according to direct method.

38-15 Grants

Grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant and are then recognised in income statement as other income on a systematic basis over the useful life of the asset.

38-16 Creditors and other credit balances

Creditors and other credit balances are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, creditors and credit accounts are stated at amortized cost using the effective interest rate.

38-17 Revenue recognition

Revenue represent in the service value & the goods sold value & investments income and interest income, revenue is recognized according to:

- Services: telecommunications services revenue is achieved when we deliver or provide service to the client when there is adequate emphasis to recover for them.
- Sale of goods: revenue from sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer and when there is adequate emphasis to recover for them.
- Investments: The Dividend income is recognized after the date of acquisition and according to dividends declaration by General Assembly of the investee, within the company's share in the investee. The income from deposit interest and returns of securities according to accrual basis with considering the targeted rate of return from the asset.



38-18 Expenses

All operating expenses, including general and administrative expenses and selling and distribution expenses are recognized the consolidated income statement in accordance with the accrual basis in the financial period when incurred.

38-18-1 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.

38-18-2 Net financing (costs) /income

Financing costs comprise interest payable on borrowings, impairment losses recognized on financial assets, change in the fair value of financial assets at fair value through profit and loss and foreign exchange loss.

Finance 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 and loss and foreign exchange gain.

38-19 Employees benefits

The Group contributes inside Egypt the social insurance under the Authority for the benefit of its personnel in pursuance to the Social Insurance Authority law No. 79 of 1975 and its amendments. These contributions are recorded in the "Wages and Salaries account" in addition to the early retirement scheme applied from September 1, 2001 (Note no. 11).

38-20 Capital lease agreements

The accrued lease payments, repair and maintenance expenses of leased assets under the capital leasing agreements are recognized according to the regulations of capital lease law no. 95 of 1995 as an expense in the consolidated income statement for the year according to the accrual basis.

At the end of the lease agreement, if the company exercises its right to purchase the leased assets, these assets are recorded as fixed assets and their costs are determined at the amount of the purchase bargain option stated in the lease agreement and depreciated over the remaining estimated useful lives.

38-21 Earnings per share

The company presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the net profit or loss for the year attributable to ordinary shareholders of the company excluding the share of both the employees and the Board of Directors in profits by the weighted average number of ordinary shares outstanding during the period.

38-22 Reserves

- Legal Reserve: According to the company's Article of Associations requirements, 5% of the net profit is set aside to form a legal reserve. The transfer to legal reserve ceases once the reserve reaches 50% of the company's paid up capital.
- Other reserves: the General Assembly may form other reserves based on the Board of Directors' recommendation.



38-23 Income tax

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

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the consolidated balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is measured based on the method expected to measure the values of assets and liabilities using tax rates enacted at the balance sheet date.

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

38-24 Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

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

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

The Group risk management policies are established to identify and 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's activities.

The Group, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

38-24-1 Credit risk

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

This risk is mainly resulting from the Group's trade and other debtors.

Trade receivable & other debtors

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

Most of Group's revenue is represented in sales transaction with many customers with close values for each customer, hence, there is no concentration of credit risk on specific customers.

Cash and cash equivalents

Credit risk relating to cash and cash equivalents - except cash on hand - 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, whenever possible, the Group conducts transactions and deposits funds with financial institutions with high investment grade.



38-24-2 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's 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's reputation.

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

38-24-3 Market risk

Market risk is the risk that changes in market prices, such as foreign currency exchange rates, interest rates and equity prices will affect the 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.

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

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.

Other market prices risk

This risk arises from changes in the price of available-for-sale investments held by the Group, the Group's management monitors the equity instruments in the investments' portfolio according to the market and objective valuation of the financial statements related to these shares. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Board of Directors. The primary goal of the Group's investment strategy is to maximize investment returns and the management consults external advisors in this regard.

38-24-4 Capital management

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

38-25 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 segments of activities as a group as follows:

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



39. New Issues and Amendments issued to the Egyptian Accounting Standards (EAS) and effective on 1/1/2016

During the year 2015, a modified version of the Egyptian Accounting Standards (EAS) was issued including some of the new accounting standards and the amendments to some existing standards provided that they shall come into force for the financial periods that start after January 1, 2016, while taking into consideration that the early adoption of these standards is not permissible.

In the following table, we shall review the most prominent amendments on the Egyptian Accounting Standards (EAS) that may have a significant impact on the consolidated financial statements of the company:

New or Amended Standards	Summary of the Most Significant Amendments	Possible Impact on the Financial Statements
<p>EAS (1) Presentation of Financial Statements</p>	<p><u>Financial Position Statement</u></p> <ul style="list-style-type: none"> The Standard does not require to present the working capital presentation. The reference financial statements that was included in 2006 Standards was excluded; which presented the working capital presentation. A statement shall be added to the statement of financial position including balances of the beginning of the first presented comparative period in case of retrospective implementation or change in an accounting policy or reclassification carried out by the entity. <p><u>Income Statement (Profit or Loss)/Statement of Comprehensive Income</u></p> <p>The entity shall disclose all recognized income and expense captions during the financial period in two separate statements; one of them presents the profit or loss components (<i>Income Statement</i>) and the other one starts with the profit or loss and presents the other comprehensive income items (<i>Statement of Comprehensive Income</i>).</p>	<p>All the presented financial statements have been re-presenting, disclosures and their accompanying notes including the comparative figures to be in conformity with the amendments to the Standard.</p> <p>Added a new statement, <i>Statement of Comprehensive Income</i>, for the current and comparative period was added.</p>
<p>EAS (10) Property, Plant and Equipment (PPE)</p>	<p>The option of using the revaluation model in the subsequent measurement of PPE has been canceled. The financial shall disclose a reconciliation of the carrying amount – movement of the PPE and its depreciations- in the notes accompanying the financial statements at the beginning and the end of the current period and the comparable period.</p>	<p>The amendment is not applicable retroactively, the book value and accumulated depreciation on the date of application of the amended standard is to be used.</p> <p>The comparative figures related to the PPE in the notes accompanying the financial statements have been represented to be in conformity with the required amendments on the standard.</p>



New or Amended Standards	Summary of the Most Significant Amendments	Possible Impact on the Financial Statements
<u>EAS (14)</u> Borrowing Costs	Elimination of the previous benchmark treatment that recognized the borrowing cost directly attributable to the acquisition, construction or production of a qualifying asset in the Income Statement without being capitalized on the asset.	The Standard were applied to the borrowing costs attributable to the qualifying assets, where the start date of capitalization falls within or after 1/1/2016.
<u>EAS (23)</u> Intangible Assets	The option of using the revaluation model in the subsequent measurement of intangible assets has been canceled.	The amendment is not applicable retroactively, the book value and accumulated amortization on the date of application of the amended standard is to be used
<u>EAS (40)</u> Financial Instruments: Disclosures	<ul style="list-style-type: none">• A new Egyptian Accounting Standard No.(40) "<i>Financial Instruments: Disclosures</i>" was issued including all the disclosures required for the financial instruments. Accordingly, EAS (25) was amended by separating the disclosures from it. The name of the Standard became "<i>Financial Instruments: Presentation</i>" instead of "Financial Instruments: Presentation and Disclosure"	Retroactive amendment to all the comparative figures of the presented disclosures were carried out.
<u>Egyptian Standard No. (45)</u> Fair Value Measurement	<ul style="list-style-type: none">• The new Egyptian Accounting Standard No. (45) "<i>Fair Value Measurement</i>" was issued and shall be applied when another Standard requires or allows measurement or disclosure to be made at fair value. This Standard aims the following:<ul style="list-style-type: none">(a) Defining the fair value(b) Laying down a framework to measure the fair value in one Standard and(c) Identifying the disclosure required for the fair value measurements.	Proactive application of the standard was carried out on the preparation of the financial statements starting from year 2016 including the disclosures required by the standard.