

telecomegypt



Translation from Arabic

Telecom Egypt Company
(An Egyptian Joint Stock Company)
Condensed Consolidated Interim Financial Statements
For The Nine Months Ended September 30, 2019
And Limited Review Report

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(An Egyptian Joint Stock Company)
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For The Nine Months Ended September 30, 2019
And Limited Review Report

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Translation from Arabic

Limited Review Report on The Condensed Consolidated Interim Financial Statements To The Board of Directors of Telecom Egypt Company

Introduction

We have performed a limited review on the accompanying condensed consolidated statement of financial position of Telecom Egypt Company “an Egyptian joint stock company” as at September 30, 2019 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the nine months then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these condensed consolidated interim financial statements in accordance with Egyptian Accounting Standard number (30) “Interim Financial Reporting”. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our limited review.

Scope of Limited Review

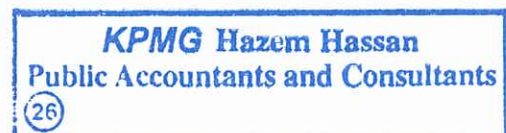
We conducted our limited review in accordance with Egyptian Standard on Review Engagements number (2410), "Limited Review of Interim Financial Statements Performed by the Independent Auditor of the Entity". A limited review of condensed consolidated interim financial statements consists of making inquiries,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

Conclusion

Based on our limited review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements do not present fairly, in all material respects, the consolidated financial position of the company as at September 30, 2019 and of its consolidated financial performance and its consolidated cash flows for the nine months then ended in accordance with Egyptian Accounting Standard number (30) “Interim Financial Reporting”.

KPMG Hazem Hassan
Public Accountants & Consultants

Cairo, November 13, 2019



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

	Note No.	30/9/2019 <u>L.E. (000)</u>	31/12/2018 <u>Restated</u> <u>L.E. (000)</u>
Assets			
<u>Non Current Assets</u>			
Fixed assets	(11)	25 297 950	21 534 490
Projects in progress	(12)	5 802 329	5 429 756
Investments in associates	(13)	10 252 327	13 452 011
Available-for-sale investments		79 811	79 811
Long-term balances (prepaid expense)		62 513	74 672
Other assets	(14)	10 411 688	10 753 357
Deferred tax assets	(24-1)	191 534	239 160
Total Non Current Assets		<u>52 098 152</u>	<u>51 563 257</u>
<u>Current Assets</u>			
Inventories	(15)	1 764 807	1 766 009
Trade and notes receivable	(16)	5 190 111	4 378 759
Debtors and other debit balances	(17)	6 475 026	5 200 654
Held-to-maturity investments- (treasury bills)		28 864	105 488
Cash and cash equivalents	(18)	1 346 556	892 775
Total Current Assets		<u>14 805 364</u>	<u>12 343 685</u>
Total Assets		<u>66 903 516</u>	<u>63 906 942</u>
<u>Equity</u>			
Capital	(22)	17 070 716	17 070 716
Reserves	(23)	4 762 106	4 695 606
Retained earnings		12 466 764	10 529 562
Foreign entities translation reserve		16 849	176 729
Equity attributable to shareholders of the company		<u>34 316 435</u>	<u>32 472 613</u>
Non - controlling interest		13 610	15 820
Total Equity		<u>34 330 045</u>	<u>32 488 433</u>
<u>Non Current Liabilities</u>			
Loans and credit facilities	(19)	5 229 443	550 168
Creditors and other credit balances	(20)	4 117 731	4 039 728
Deferred tax liabilities	(24-1)	1 242 737	1 244 893
Total non current Liabilities		<u>10 589 911</u>	<u>5 834 789</u>
<u>Current Liabilities</u>			
Loans and credit facilities installments due within one year	(19)	9 888 805	13 303 507
Creditors and other credit balances	(20)	10 472 491	10 484 565
Accrued credit accounts due to associates	(28)	846 352	1 055 119
Provisions	(21)	775 912	740 529
Total Current Liabilities		<u>21 983 560</u>	<u>25 583 720</u>
Total Liabilities		<u>32 573 471</u>	<u>31 418 509</u>
Total Equity and Liabilities		<u>66 903 516</u>	<u>63 906 942</u>

The accompanying notes on pages (7) to (29) are an integral part of these Condensed Consolidated Interim Financial Statements.

Senior Director Of Financial Affairs

Wael Hanafy

"Wael Hanafy"

Chief Financial Officer

M. Shamroukh

"Mohamed Shamroukh"

Managing Director
& Chief Executive Officer

Adel Hamed

"Adel Hamed"

Board of Directors approval

Chairman

Maged Osman

"Maged Osman"

Limited Review Report "attached"

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

	Note	<u>For the nine months ended</u>		<u>For the three months ended</u>	
		30/9/2019	30/9/2018	30/9/2019	30/9/2018
		<u>No.</u>	<u>Restated</u>	<u>Restated</u>	<u>Restated</u>
		<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>
Operating revenues	(3)	19 011 841	17 357 743	6 315 988	7 233 131
Operating costs	(4)	(12 303 825)	(10 512 832)	(4 620 269)	(4 565 141)
Gross Profit		6 708 016	6 844 911	1 695 719	2 667 990
Other operating income		316 755	286 356	144 638	97 126
Selling and distribution expenses	(5)	(2 095 929)	(1 839 772)	(652 446)	(728 800)
General and administrative expenses	(6)	(3 453 626)	(1 637 769)	(971 557)	(627 427)
Other operating expenses		(122 157)	(60 999)	(12 169)	(13 479)
Operating profit		1 353 059	3 592 727	204 185	1 395 410
Finance income	(7)	1 415 007	132 115	437 569	21 317
Finance cost	(7)	(1 010 786)	(1 007 225)	(343 385)	(333 962)
Net finance income (cost)	(7)	404 221	(875 110)	94 184	(312 645)
Share of profit of equity accounted investees	(8)	2 187 515	1 551 083	1 062 518	677 332
Net profit for the period before tax		3 944 795	4 268 700	1 360 887	1 760 097
Income tax expense		(674 807)	(276 851)	(55 791)	(90 535)
Deferred tax	(24-1)	(45 470)	(480 766)	(214 279)	(220 211)
Total income tax		(720 277)	(757 617)	(270 070)	(310 746)
Net profit for the period		3 224 518	3 511 083	1 090 817	1 449 351
Profit attributable to :					
Shareholders of the company		3 219 946	3 505 962	1 088 950	1 448 462
Non-controlling interest		4 572	5 121	1 867	889
Net profit for the period		3 224 518	3 511 083	1 090 817	1 449 351
Basic and diluted earning per share for the period (L.E. / Share)	(10)	1.89	2.05	0.64	0.85

The accompanying notes on pages (7) to (29) are an integral part of these Condensed Consolidated Interim Financial Statements.

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

	<u>For the nine months ended</u>		<u>For the three months ended</u>	
	<u>30/9/2019</u>	<u>30/9/2018</u>	<u>30/9/2019</u>	<u>30/9/2018</u>
		<u>Restated</u>		<u>Restated</u>
	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>
Net profit for the period	3 224 518	3 511 083	1 090 817	1 449 351
<u>Other Comprehensive Income items :</u>				
Translation differences of foreign entities	(159 880)	(3 885)	(47 998)	9 610
Total Comprehensive Income	<u>3 064 638</u>	<u>3 507 198</u>	<u>1 042 819</u>	<u>1 458 961</u>
Attributable to :				
Shareholders of the company	3 060 066	3 502 077	1 040 952	1 458 072
Non-controlling interest	4 572	5 121	1 867	889
Total Comprehensive Income	<u>3 064 638</u>	<u>3 507 198</u>	<u>1 042 819</u>	<u>1 458 961</u>

The accompanying notes on pages (7) to (29) are an integral part of these Condensed Consolidated Interim Financial Statements.

Telecom Egypt Company

(An Egyptian Joint Stock Company)

Condensed Consolidated Statement of Changes in Equity

For The Nine Months Ended September 30, 2019

	Capital	Legal reserve	Other reserves	Retained earnings	Foreign entities translation reserve	Total of equity attributable to shareholders 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)
Balance as of January 1, 2018 (Restated)	17 070 716	1 845 776	2 796 578	8 575 146	189 443	30 477 659	12 135	30 489 794
Comprehensive Income								
Net profit for the period (Restated)	-	-	-	3 505 962	-	3 505 962	5 121	3 511 083
Translation differences of foreign entities	-	-	-	-	(3 885)	(3 885)	-	(3 885)
Total Comprehensive Income (Restated)	-	-	-	3 505 962	(3 885)	3 502 077	5 121	3 507 198
Transactions with shareholders								
Transferred to legal reserve	-	53 252	-	(53 252)	-	-	-	-
Dividends for year 2017 (shareholders)	-	-	-	(426 768)	-	(426 768)	(3 002)	(429 770)
Dividends for year 2017 (Employees & Board of Directors)	-	-	-	(720 224)	-	(720 224)	(451)	(720 675)
Dividends in associates (Employees & Board of Directors)	-	-	-	(49 890)	-	(49 890)	-	(49 890)
Restatements on retained earnings in subsidiaries	-	-	-	(20 099)	-	(20 099)	-	(20 099)
Restatements on retained earnings in associates	-	-	-	4 495	-	4 495	-	4 495
Acquisition of non controlling interest in subsidiaries	-	-	-	(263 890)	(3 440)	(267 330)	-	(267 330)
Total transactions with shareholders	-	53 252	-	(1 529 628)	(3 440)	(1 479 816)	(3 453)	(1 483 269)
Balance as of September 30, 2018 (Restated)	17 070 716	1 899 028	2 796 578	10 551 480	182 118	32 499 920	13 803	32 513 723
Balance as of January 1, 2019 (Restated)	17 070 716	1 899 028	2 796 578	10 529 562	176 729	32 472 613	15 820	32 488 433
Comprehensive Income								
Net profit for the period	-	-	-	3 219 946	-	3 219 946	4 572	3 224 518
Translation differences of foreign entities	-	-	-	-	(159 880)	(159 880)	-	(159 880)
Total Comprehensive Income	-	-	-	3 219 946	(159 880)	3 060 066	4 572	3 064 638
Transactions with shareholders								
Transferred to legal reserve	-	66 500	-	(66 500)	-	-	-	-
Dividends for year 2018 (shareholders)	-	-	-	(426 768)	-	(426 768)	(5 917)	(432 685)
Dividends for year 2018 (Employees & Board of Directors)	-	-	-	(732 844)	-	(732 844)	(865)	(733 709)
Dividends in associates (Employees & Board of Directors)	-	-	-	(56 632)	-	(56 632)	-	(56 632)
Total transactions with shareholders	-	66 500	-	(1 282 744)	-	(1 216 244)	(6 782)	(1 223 026)
Balance as of September 30, 2019	17 070 716	1 965 528	2 796 578	12 466 764	16 849	34 316 435	13 610	34 330 045

The accompanying notes on page from (7) to (29) are an integral part of these Condensed Consolidated Interim Financial Statements.

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

	Note No.	For the nine months ended:	
		30/9/2019	30/9/2018
		L.E. (000)	L.E. (000)
Cash flows from operating activities:-			
Cash receipts from customers		15 810 607	14 320 993
Value added tax collected from customers		368 926	308 090
Stamp tax and fees collected from third party		31 973	29 511
Deposits returned from customers		2 413	815
Cash paid to suppliers		(4 795 568)	(3 481 410)
Payments of NTRA license fees		(522 496)	(604 230)
Dividends paid to employees and Board of Directors		(18 302)	(402 821)
Cash paid to employees and Board of Directors		(5 078 178)	(3 479 746)
Cash paid on behalf of employees to third party		(797 449)	(608 296)
Cash provided by operating activities		5 001 926	6 082 906
Interest paid		(690 627)	(647 090)
Payments to Tax Authority - income tax		(109 591)	(268 712)
Payments to Tax Authority - value added tax		(1 327 638)	(1 767 259)
Payments to Tax Authority - other taxes		(1 158 094)	(734 836)
Provisions Used		(3 637)	(784 389)
Cash paid to third parties for claims		-	(919 278)
Other payments		(351 776)	(98)
Net cash provided by operating activities		1 360 563	961 244
Cash flows from investing activities:-			
Payments for purchase of fixed assets, other assets and projects in progress		(6 538 955)	(5 127 588)
Payments for purchase of other assets		(722 779)	(780 178)
Proceeds from sales of fixed assets and other assets		42	46
Payments for acquisition of investments		-	(992 216)
Payments for retrieval of held-to-maturity investment - treasury bills		(34 358)	(116 258)
Interest received		45 155	33 260
Dividends collected from investments		5 067 193	453 705
Proceeds from sale available for sale investment		-	7
Proceeds from retrieval of held-to-maturity investment - treasury bills		108 957	113 580
Proceeds from securities (treasury bills - mutual fund)		10 377	10 455
Net cash used in investing activities		(2 064 368)	(6 405 187)
Cash flows from financing activities:-			
Payments for loans and other facilities		(5 907 824)	(33 593)
Proceeds from loans and other facilities		7 408 680	6 450 365
Dividends paid to Shareholders		(432 683)	(429 927)
Net cash provided by financing activities		1 068 173	5 986 845
Net change in cash and cash equivalents during the period		364 368	542 902
Translation differences of foreign entities		(15 321)	(3 824)
Cash and cash equivalents at the beginning of the period	(18)	873 555	506 936
Cash and cash equivalents at the end of the period	(18)	1 222 602	1 046 014

The accompanying notes on pages from (7) to (29) are an integral part of these Condensed Consolidated Interim Financial Statements.

Telecom Egypt Company
(An Egyptian Joint Stock Company)

Notes to the Condensed Consolidated Interim Financial Statements
For The Nine Months Ended September 30, 2019

1. BACKGROUND

1-1 Legal Entity

- Arab Republic of Egypt National Telecommunication Organization (ARENTO) was established according to Law No.153 of 1980. Effective from March 27, 1998 and according 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 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 the London market for securities.

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 Condensed Consolidated Interim Financial Statements

These Condensed Consolidated Interim Financial Statements were approved by the Board of Directors for issuance on November 13, 2019.

2. BASIS OF PREPERATION OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2-1 Statement of compliance

- These Condensed Consolidated Interim Financial Statements as of September 30, 2019 have been prepared in accordance with Egyptian Accounting Standard No.30 "Interim Financial Reporting" accordingly it is condensed comparative view to the annual consolidated financial statements for the company, and in the light of applicable Egyptian laws and regulations related to.
- These Condensed Consolidated Interim Financial Statements don't include all the required information needed for preparing the full annual financial statements and must be read with the consolidated annual financial statements of the company as of December 31, 2018

2-2 Basis of measurement

These Condensed Consolidated Interim 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 Standards.

For presentation purposes, the current and non-current classification has been used for the condensed consolidated balance sheet, while expenses are analyzed in the condensed consolidated income statement using a classification based on their function. The direct method has been used in preparing the condensed consolidated statement of cash flows.

2-3 Functional and presentation currency

These Condensed Consolidated Interim Financial Statements are presented in Egyptian pound (L.E.), All financial information presented in "L.E." has been rounded to the nearest thousand unless otherwise stated.

2-4 Use of estimates

The preparation of the Condensed Consolidated Interim Financial Statements in conformity with Egyptian Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting 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 these assumption represent the judgmental basis for the value of assets and liabilities that may not apparently available from other sources. The actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on going basis. Accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods.

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 condensed consolidated interim financial statements is included in the following notes:

- Impairment loss on non-financial and financial assets.
- Provisions and contingencies.
- Deferred tax assets and liabilities.
- 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 condensed consolidated interim 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.

2-6 Segment reporting

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

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

3. OPERATING REVENUES

	<u>For the nine months ended</u>		<u>For the three months ended</u>	
	<u>30/9/2019</u>	<u>30/9/2018</u>	<u>30/9/2019</u>	<u>30/9/2018</u>
	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Home and personal communications	7 656 554	5 849 598	2 716 635	2 085 146
Enterprise	2 560 064	2 362 971	959 128	1 150 906
Domestic wholesale	3 260 248	2 752 563	1 010 314	787 547
International carrier	3 380 753	3 346 757	1 111 017	1 110 755
International cables and networks	2 154 222	3 045 854	518 894	2 098 777
	<u>19 011 841</u>	<u>17 357 743</u>	<u>6 315 988</u>	<u>7 233 131</u>

Total operating revenues have increased by an amount of L.E. 1 654 098 K mainly due to the increase in home and personal communications revenues by an amount of L.E. 1 806 956 K due to the increase in revenues resulting from internet services, fixed line services and mobile phone services and the increase in domestic wholesale by an amount of L.E. 507 685 K due to the increase in access service revenue, infrastructure revenue and the increase in Enterprise revenues by an amount of L.E. 197 093 K, however the decrease in International cables and networks revenue by an amount of L.E. 891 632 K led to the limitation of this increase.

4. OPERATING COSTS

	<u>For the nine months ended</u>		<u>For the three months ended</u>	
	<u>30/9/2019</u>	<u>30/9/2018</u>	<u>30/9/2019</u>	<u>30/9/2018</u>
	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Interconnection cost	3 663 967	3 172 149	1 306 439	1 078 659
Depreciation and amortization	2 462 846	1 903 226	966 201	705 525
Salaries and wages	2 215 229	1 451 796	916 691	490 477
Company's social insurance contribution	234 184	174 194	77 383	62 802
Frequencies and licenses charges (NTRA)	675 944	599 688	208 045	230 560
Other operating costs	3 051 655	3 211 779	1 145 510	1 997 118
	<u>12 303 825</u>	<u>10 512 832</u>	<u>4 620 269</u>	<u>4 565 141</u>

Operating costs have increased by an amount of L.E. 1 790 993 K mainly due to the following: -

- The increase of interconnection cost by an amount of L.E. 491 818 K which is mainly due to the increase in cost of national roaming and international connection fees.
- The increase of salaries and wages and the equivalent cost by an amount of L.E. 823 423 K due to the annual increase by 10 % from the basic salary starting from January 2019.
- The increase in the depreciation and amortization item by an amount of L.E. 559 620 K due to the additions of the last year after the first nine months and the current period.
- The increase in Frequencies and licenses charges (National Telecom Regulatory Authority) by an amount of L.E. 76 256 K.
- The decrease in other operating costs item by an amount of L.E. 160 124 K is mainly due to the decrease in right of use (IRU) item by an amount of L.E. 961 925 K, however the increase in merchandise for sale cost by an amount of L.E. 260 976 K and the increase in organizations services costs item by an amount of L.E. 179 086 K and the increase in fuel and power item by an amount of L.E. 102 690 K and the increase in rents item by an amount of L.E. 55 387 K led to the limitation of this decrease.

5. SELLING AND DISTRIBUTION EXPENSES

	<u>For the nine months ended</u>		<u>For the three months ended</u>	
	<u>30/9/2019</u>	<u>30/9/2018</u>	<u>30/9/2019</u>	<u>30/9/2018</u>
	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Salaries and wages	849 038	736 116	285 677	243 952
Company's social insurance contribution	80 304	82 458	26 482	29 169
Depreciation and amortization	7 551	398	4 157	99
Advertising and marketing	668 605	697 338	181 032	382 738
Commissions	185 286	165 592	70 143	63 103
Other selling and distribution expenses	305 145	157 870	84 955	9 739
	<u>2 095 929</u>	<u>1 839 772</u>	<u>652 446</u>	<u>728 800</u>

The increase in selling and distribution expenses by an amount of L.E. 256 157 K mainly due to the increase of salaries and wages and equivalent cost by an amount of L.E. 110 768 K due to the annual increase by 10 % from the basic salary starting from January 2019, in addition to the increase of commissions item by an amount of L.E. 19 694 K, the increase of other selling and distribution expenses by an amount of L.E. 147 275 K mainly due to the increase of tax and duties item by an amount of L.E. 69 643 K, however the decrease in advertising and marketing item by an amount of L.E. 28 733 K led to the limitation of this increase.

6. GENERAL AND ADMINISTRATIVE EXPENSES

	Note No.	<u>For the nine months ended</u>		<u>For the three months ended</u>	
		<u>30/9/2019</u>	<u>30/9/2018</u>	<u>30/9/2019</u>	<u>30/9/2018</u>
		<u>L.E. (000)</u>	<u>Restated L.E. (000)</u>	<u>L.E. (000)</u>	<u>Restated L.E. (000)</u>
Salaries and wages		1 077 832	1 076 976	173 744	394 676
Company's social insurance contribution		124 133	103 748	40 845	37 427
End of service compensation- early retirement scheme	(9-1)	1 476 205	-	471 953	-
The company's contribution in loyalty and belonging fund	(9-2)	207 136	-	69 046	-
Depreciation and amortization*		71 439	57 772	21 070	18 813
Organizations services costs and consultants		151 713	147 398	70 398	81 284
Bad debt expense		3 886	169	578	130
Tax and duties		95 942	74 833	30 290	31 749
Other general and administration expenses		245 340	176 873	93 633	63 348
		<u>3 453 626</u>	<u>1 637 769</u>	<u>971 557</u>	<u>627 427</u>

The increase in general and administrative expenses by an amount of L.E. 1 815 857 K is mainly due to the increase in early retirement compensation by an amount of L.E. 1 476 205 K as a result of applying the optional early retirement scheme for employees according to the Board of Director decree dated March 24, 2019 (Note no. 9-1) in addition to the increase in the company's contribution in loyalty and belonging fund item by an amount of L.E. 207 136 K in addition to the increase in other general and administration expenses by an amount of L.E. 68 467 K and tax and duties item by an amount of L.E. 21 109 K.

* Restatement was made on comparative figures as shown in Note no. (30-2).

7. NET FINANCE INCOME (COST)

	<u>For the nine months ended</u>		<u>For the three months ended</u>	
	<u>30/9/2019</u>	<u>30/9/2018</u>	<u>30/9/2019</u>	<u>30/9/2018</u>
	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Total finance income	1 415 007	132 115	437 569	21 317
Total finance cost	(1 010 786)	(1 007 225)	(343 385)	(333 962)
Net finance income (cost)	404 221	(875 110)	94 184	(312 645)

The increase in net finance income by an amount of L.E. 1 279 331 K during the period is mainly due to the increase in translation profits of foreign currencies balances and transactions by an amount of L.E. 1 284 277 K and the decrease in finance costs of credit contracts by an amount of L.E. 72 618 K, however the increase in finance expenses and interests by an amount of L.E. 128 414 K led to limitation of this increase.

8. SHARE OF PROFIT OF EQUITY ACCOUNTED INVESTEEES

	<u>For the nine months ended</u>		<u>For the three months ended</u>	
	<u>30/9/2019</u>	<u>30/9/2018</u>	<u>30/9/2019</u>	<u>30/9/2018</u>
	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Vodafone Egypt	2 187 510	1 551 078	1 062 518	677 332
Egypt trust	5	5	-	-
	2 187 515	1 551 083	1 062 518	677 332

9. EMPLOYEES' BENEFITS

9-1 Early retirement scheme (Telecom Egypt)

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

First: The important conditions of the optional early retirement

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

Second: The important benefits of the optional early retirement

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

- Enjoying the benefit of telecommunication services for employees for three years or until the age of sixty whichever is the earliest.

The company's manpower planning committee has considered the applications for early retirement submitted by employees to enroll in the system to determine the extent to which those applications meet the conditions and whether the company needs the applicant employee or not, the said committee has completed the study of all the applications submitted by the employees of the company, and based on its recommendations and after obtaining all the necessary approvals, administrative orders have been issued for the end of the service of employees whose meet the requirements of the above scheme. Currently, the said committee has prepared the study of all the applications submitted to it by the employees of the company, issuing its recommendations and preparing the final reports of the results of its works in order to determine all the liabilities that the company will bear as a result of the application of the optional early retirement scheme, the company's liabilities as a result of implementation of this scheme amounted to L.E. 1 476 205 K (Note no. 6).

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

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

The employees share in loyalty & belonging fund according to constant subscription are based on the same employees' basic salary where the end of service benefit calculated. The company's share represents annual defined contribution and the company had contributed by an amount of L.E 207 136 K for the period ended in September 30, 2019 against (Nil for the same period of 2018) stated in the general and administrative expenses as shown in (Note no. 6).

10. BASIC AND DILUTED EARNING PER SHARE FOR THE PERIOD

- The profit share of the period is calculated as follows:

	<u>For the nine months ended</u>		<u>For the three months ended</u>	
	<u>30/9/2019</u>	<u>30/9/2018</u> <u>Restated</u>	<u>30/9/2019</u>	<u>30/9/2018</u> <u>Restated</u>
<u>The holding company owners' equity :</u>				
Net profit for the period (LE in thousand)*	3 219 946	3 505 962	1 088 950	1 448 462
Number of shares available during the period (share)	1 707 071 600	1 707 071 600	1707 071 600	1707 071 600
Basic and diluted earning per share for the period (LE / share)	1.89	2.05	0.64	0.85

* Restatement was made on comparative figures as shown in Note no. (30-2).

11. FIXED ASSETS

Description	30/9/2019	30/9/2018	30/9/2019	30/9/2018	30/9/2019	30/9/2018	31/12/2018
	Cost	Cost	Accumulated depreciation	Accumulated depreciation	Net	Net	Net
	<u>L.E.(000)</u>	<u>Restated L.E.(000)</u>	<u>L.E.(000)</u>	<u>Restated L.E.(000)</u>	<u>L.E.(000)</u>	<u>Restated L.E.(000)</u>	<u>Restated L.E.(000)</u>
Land	2 350 037	2 346 505	-	-	2 350 037	2 346 505	2 350 350
Buildings & Infrastructure*	30 622 794	26 277 326	16 270 882	15 201 920	14 351 912	11 075 406	11 932 458
Centrals & information technologies equipment	30 860 703	27 845 172	22 612 342	21 565 003	8 248 361	6 280 169	6 948 105
Vehicles	175 848	148 040	112 661	109 949	63 187	38 091	37 592
Furniture	788 520	668 394	570 574	491 025	217 946	177 369	190 374
Tools & supplies	144 703	137 194	92 900	80 841	51 803	56 353	59 675
Decoration & fixtures	137 910	132 269	123 206	117 097	14 704	15 172	15 936
Fixtures on trunk radio network	315	315	315	315	-	-	-
Total	65 080 830	57 555 215	39 782 880	37 566 150	25 297 950	19 989 065	21 534 490

- The increase in net carrying value of fixed assets mainly due to the additions during the period by an amount of L.E. 6 028 055 K, however the depreciation of the period by an amount of L.E. 2 024 514 K led to limitation of this increase.

- The cost of fixed assets as of September 30, 2019 includes an amount of L.E. 23 382 Million fully depreciated fixed assets and still in use.

* Restatement was made to comparative figures for cost and accumulated depreciation at September 30, 2018 as shown in Note No. (30-1).

12. PROJECTS IN PROGRESS

	30/9/2019 <u>L.E. (000)</u>	31/12/2018 <u>L.E. (000)</u>
Land	21 025	21 025
Buildings and Infrastructure	1 581 236	2 616 751
Centrals and information technologies equipment	3 469 651	2 222 125
Tools and supplies	34 864	24 083
Vehicles	-	493
Furniture	10 257	2 108
Other Assets (cables)	17 534	70 776
Advance payments - Fixed assets	688 253	492 886
	5 822 820	5 450 247
Less:		
Impairment loss on projects in progress	20 491	20 491
	5 802 329	5 429 756

The balance of projects in progress is represented in the part that has been executed from commitments and capital contracts, and advanced payment at September 30, 2019.

13. INVESTMENTS IN ASSOCIATES

	30/9/2019		31/12/2018	
	Ownership %	amount L.E. (000)	Ownership %	amount L.E. (000)
- Vodafone Egypt Telecommunication company*	44.95	10 252 175	44.95	13 451 864
- Wataneya for Telecommunication**	50.00	125	50.00	125
- International Telecommunication Consortium Limited. (ITCL)**	50.00	54	50.00	54
- Egypt Trust**	35.71	7 652	35.71	7 647
- Consortium Algerien de Telecommunications (CAT)**	33.00	133	33.00	133
		<u>10 260 139</u>		<u>13 459 823</u>
Less:				
Impairment loss on investment in associates		7 812		7 812
		<u>10 252 327</u>		<u>13 452 011</u>

* The investments in Vodafone Egypt on September 30, 2019 represents the ownership of 107 869 799 shares with a percentage of 44.95% from the total shares of Vodafone Egypt.

The financial year of Vodafone Egypt ends on March 31 of each year and the equity method was applied in recognizing the investment in Vodafone Egypt during preparing the Condensed Consolidated Interim Financial Statements as of September 30, 2019 by using the consolidated financial statements of Vodafone Egypt for the financial year ended in March 31, 2019 which presents the 12 months from April 1, 2018 till March 31, 2019, deduct the movements of the period from April 1, 2018 till December 31, 2018 from the interim financial data of Vodafone Egypt as of December 31, 2018 and add the movement from April 1, 2019 till September 30, 2019 from the interim financial data of Vodafone Egypt as of September 30, 2019 to determine the share of financial period from January 1 to September 30, 2019 of business results.

** The impairment loss on investments value for Egypt Trust, Wataneya for Telecommunication, Consortium Algerian Telecommunications (CAT) and International Telecommunication Consortium Limited (ITCL) is 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.

14. OTHER ASSETS

	30/9/2019	31/12/2018
	L.E. (000)	L.E. (000)
Cost		
Fourth generation network license	8 633 330	8 633 330
Submarine Cables (right of way)	2 465 948	2 407 087
Right of Use (ROU)	709 879	720 332
License (internet service - programs)	184 263	79 379
Land (possession-usufruct)	440 684	440 684
	<u>12 434 104</u>	<u>12 280 812</u>
Less:		
Accumulated amortization and impairment	2 022 416	1 527 455
Net other assets	<u>10 411 688</u>	<u>10 753 357</u>

- The decrease in net carrying value of other assets mainly due to the amortization of the period by an amount of L.E 517 322 K.
- Other assets cost includes at September 30, 2019 an amount of L.E 175 Million, other assets fully amortized and still in use in operating.

15. INVENTORIES

	30/9/2019	31/12/2018
	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Spare parts	955 145	754 080
Computers	12 107	8 333
Project cables and supplies	255 825	482 239
Material supplies , Merchandise for sale and Letters of credit	541 730	521 357
	<u>1 764 807</u>	<u>1 766 009</u>

The value of inventories was written down by L.E. 18 950 K (against LE 19 215 K as at December 31, 2018) for obsolete and slow-moving items directly from the cost of each type of inventory related to.

16. TRADE AND NOTES RECEIVABLE

	30/9/2019	31/12/2018
	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Trade Receivables - National	4 743 949	3 797 603
Trade Receivables - International	2 494 164	2 653 385
	<u>7 238 113</u>	<u>6 450 988</u>
Less:		
Impairment loss on trade receivables	2 048 113	2 072 734
	<u>5 190 000</u>	<u>4 378 254</u>
Add:		
Notes receivable	111	505
	<u>5 190 111</u>	<u>4 378 759</u>

Trade and notes receivable balance have increased by an amount of L.E. 811 352 K is mainly due to the increase in Trade Receivables –National due to the increase in revenues related to enterprise and domestic wholesale during the period against to the current period.

17. DEBTORS AND OTHER DEBIT BALANCES

	30/9/2019	31/12/2018
	<u>L.E.(000)</u>	<u>L.E.(000)</u>
Accrued revenues	34 037	26 364
Deposits with others	257 895	254 891
Suppliers – debit balances	1 422 935	439 761
Tax Authority - withholding tax	485 052	224 581
Tax Authority - value added tax	1 895 122	1 910 067
Due from ministries, organizations, companies and agents	993 965	1 129 171
Tax Authority - income tax	79 947	45 963
Temporary debts due from employees	613 000	714 919
Other debit balances	848 165	610 981
	<u>6 630 118</u>	<u>5 356 698</u>
Less:		
Impairment loss on debtors and other debit balances	155 092	156 044
	<u>6 475 026</u>	<u>5 200 654</u>

Debtors and other debit net balances have increased by an amount of L.E. 1 274 372 K mainly due to the increase in suppliers – debit balances by an amount of L.E. 983 174 K and Tax Authority- withholding tax by an amount of L.E. 260 471 K and other debit balances item by an amount of L.E. 237 184 K, however the decrease in due from ministries, organizations, companies and agents by an amount of L.E. 135 206 K, and Temporary debts due from employees by an amount of L.E. 101 919 K led to limitation of this increase.

18. CASH AND CASH EQUIVALENTS

	Note	30/9/2019	31/12/2018	30/9/2018
	No.	L.E. (000)	L.E. (000)	L.E. (000)
Banks - time deposits (less than 3 months)		169 851	376 656	308 443
Banks - current accounts		913 164	255 027	300 247
Cash on hand		21 943	10 832	225 358
Treasury bills (less than 3 months)		133 751	135 063	57 768
Money market funds (less than 3 months)		107 847	115 197	171 054
Cash and cash equivalents		1 346 556	892 775	1 062 870
Less:				
Restricted cash and cash equivalents at banks	(26)	123 954	19 220	16 856
Cash and cash equivalents as per statement of cash flows		1 222 602	873 555	1 046 014

- The increase in cash and cash equivalents due to the increase in proceeds from customers during the period.

19. LOANS AND CREDIT FACILITIES

- The increase in the balance of loans and credit facilities by an amount of L.E. 1 264 573 K mainly resulting from the company obtaining a foreign loan by the balance of USD 382 947 K at September 30, 2019 equivalent to an amount of L.E. 6 234 383 K however the payments of loans and credit facilities with local and foreign currencies amounted to L.E. 4 969 810 K, led to the limitation of this increase where loans and credit facilities with local and foreign currencies in September 30, 2019 amounted to L.E. 15 118 248 K (against LE 13 853 675 K at December 31, 2018).

20. CREDITORS AND OTHER CREDIT BALANCES

	Note	30/9/2019	31/12/2018
	No.	L.E. (000)	L.E. (000)
Suppliers and notes payable		1 304 069	1 168 049
Tax Authority-Income Tax		404 823	271 892
Tax Authority (taxes other than income tax)		659 074	613 059
Deposits from others		466 846	458 930
Assets creditors		6 848 390	8 114 940
Liabilities of early retirement scheme	(9-1)	618 790	-
Dividends payable		3 481	3 442
Accrued expenses		849 581	879 443
Trade receivables - credit balances		666 685	404 313
Credit balances organizations and companies		230 418	467 877
Deferred revenue		1 267 126	843 284
National Telecommunication Regulatory Authority (NTRA)		554 230	384 843
Other credit balances		716 709	914 221
		14 590 222	14 524 293
Less balances due within more than one year:			
Assets creditors		3 795 663	3 667 798
Deferred revenue		322 068	371 930
Creditors and non current liabilities balances		4 117 731	4 039 728
Creditors and current liabilities balances		10 472 491	10 484 565
Total Creditors and other balances		14 590 222	14 524 293

Creditors and other credit balances have increased by an amount of L.E. 65 929 K mainly due to the increase in liabilities of early retirement scheme by an amount of L.E. 618 790 K as a result of applying the optional early retirement scheme for employees, deferred revenue item by an amount of L.E. 423 842 K, trade receivables - credit balances item by an amount of L.E. 262 372 K, National Telecommunication Regulatory Authority (NTRA) item by an amount of L.E. 169 387 K, suppliers and notes payable by an amount of L.E. 136 020 K and Tax Authority - income tax item by an amount of L.E. 132 931 K and, however the decrease in assets creditors item by an amount of L.E. 1 266 550 K and Credit balances organization and companies by an amount of L.E. 237 459 K led to the limitation of this increase.

21. PROVISIONS

	30/9/2019	31/12/2018	30/9/2018
	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>
Balance at the beginning of the period /year	740 529	1 829 960	1 829 848
Reclassification during the period/year	-	811	861
Charged to income statement for the period / year	39 031	102 083	11 365
Provision used during the period / year	(3 637)	(1 192 320)	(1 185 148)
Translation differences	(11)	(5)	-
Balance at the end of the period / year	<u>775 912</u>	<u>740 529</u>	<u>656 926</u>

* The provisions charged to income statement during the period included in other expenses to meet contingent taxes liabilities.

22. 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% after floating 20% of company's shares in public offering during December 2005.

23. RESERVES

	30/9/2019	31/12/2018
	<u>L.E.(000)</u>	<u>L.E.(000)</u>
Legal reserve	1 965 528	1 899 028
Other reserves	2 796 578	2 796 578
	<u>4 762 106</u>	<u>4 695 606</u>

The increase in the legal reserve balance as a result of retaining an amount of L.E. 66 500 K from the profit of 2018 in accordance with the company's article of association.

24. DEFERRED TAX

24-1 Recognized deferred tax assets and liabilities

	30/9/2019		31/12/2018	
	Assets	(Liabilities)	Assets	(Liabilities)
	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>
Total deferred tax asset / (liability)	191 534	(1 242 737)	239 160	(1 244 893)
Net deferred tax liability	-	<u>(1 051 203)</u>	-	<u>(1 005 733)</u>
Deferred tax charged to income statement for the period / year	-	<u>(45 470)</u>	-	<u>(646 992)</u>

24-2 Unrecognized deferred tax assets

	30/9/2019	31/12/2018
	<u>L.E.(000)</u>	<u>L.E.(000)</u>
Unrecognized deferred tax assets	<u>528 376</u>	<u>554 303</u>

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

25. CAPITAL COMMITMENTS

The group's capital commitments for the unexecuted parts of contracts up to September 30, 2019 amounted to L.E 1 263 Million (against L.E. 3 206 Million up to December 31, 2018).

26. CONTINGENT LIABILITIES

In addition to the amounts included in the condensed consolidated statement of financial statements as of September 30, 2019, the company has the following contingent liabilities:

	30/9/2019	31/12/2018
	<u>L.E. (000)</u>	<u>L.E. (000)</u>
- Letters of guarantee issued by banks on behalf of the company*	1 046 548	913 002
- Letters of credit	2 306 724	1 357 440

*Includes letters of guarantee which were issued by banks at September 30, 2019 against restricted cash and cash equivalents at banks (Note no.18).

27. TAX POSITION (Telecom Egypt Company)

27-1 Corporate tax

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

27- 2 Value added Tax /Sales

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

27- 3 Salary Tax

- Tax inspection was performed for the years till December 31 ,2014, and the Company was notified with tax differences and all due taxes were settled and the company objected on disputed item and follow up the matter.
- Tax inspection for the year 2015 is in process.

27- 4 Stamp Tax

- Tax inspection for the period from March 27, 1998 to December 31, 2000 was performed for certain sectors and the company was notified with assessment basis, the company objected and apealed on the disputed items on the due dates and the provisions were formed to meet any tax liabilities that may arise.
- Tax inspection for the period from January 1, 2001 till July 31, 2006 was performed for certain sectors of the company and taxes due were settled. Tax inspection for the remaining sectors is currently being undertaken for the same period.
- Tax inspection for period from August 1, 2006 to December 31, 2009 was performed and due taxes were settled and the disputed item has been transferred to the internal committe .
- Tax inspection for the years from 2010 to 2014 was performed and the disputed items were settled except for the relative stamp on salaries and wages which have been transfered to the Appeal Committee.
- Tax inspection for the years 2015 and 2016 is in process.

27- 5 Real Estate Tax

- All taxes are paid according to the tax forms received by the company. The company's Legal Department follows up the disputes according to the real estate tax law.
- Tax returns were submitted according to the new real estate tax law no. 196 for the year 2008 on the due dates.

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

28. RELATED PARTY TRANSACTIONS

There are transactions between the group and its associates. The related transactions during the period and balances on the condensed consolidated interim financial statements date are stated as follows:-

Nature of transactions during the period	Transactions volume during the period stated in the statement of income		Movement during the period		Balance as of	
	LE 000	LE 000	Debit LE 000	Credit LE 000	30/9/2019 Debit (Credit) LE 000	31/12/2018 Debit (Credit) LE 000
Debit balances due from associates						
- Consortium Algerien de Telecommunications (CAT)*/**	-	-	-	-	453 902	453 902
- International Telecommunication Consortium Limited (ITCL)*/**	-	-	-	-	66	66
					453 908	453 908
Credit balances due to associates						
- Vodafone Egypt Telecommunications Company	1 355 372					
Outgoing calls and voice services to the associate company			3 610 902	3 404 640	(843 370)	(1 049 632)
Incoming and international calls, transmission & lease of company premises and towers to the associates company	956 921					
Telecommunications services	3 172		90 695	88 190	(2 982)	(5 487)
			3 701 597	3 492 830	(846 352)	(1 055 119)

*The Balance represented in the value of the finance provided by Telecom Egypt to Consortium Algerien de Telecommunication Company (CAT) where Telecom Egypt participates directly and indirectly by 50%, accordingly, impairment has been made for the full balance, the mentioned 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). In the light of these circumstances, there is high probability that will not be able to collect the finance given to Consortium Algerien de Telecommunication Company.

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

29. GROUP ENTITIES

Company's direct and indirect share in subsidiaries companies on September 30, 2019 which were included in the condensed consolidated interim financial statements is as follows:

<u>Company name:</u>	<u>Country of incorporation</u>	<u>Ownership interest</u>	
		<u>30/9/2019</u>	<u>31/12/2018</u>
Telecom Egypt France	France	100.00 %	100.00 %
WE Data	Egypt	100.00 %	100.00 %
T.E Data Jordan	Jordan	100.00 %	100.00 %
TE Investment Holding	Egypt	100.00 %	100.00 %
The Egyptian Telecommunication Company for Information Systems (Xceed)	Egypt	100.00 %	100.00 %
Xceed Customer Care Maroc	Morocco	100.00 %	100.00 %
Centra Technologies	Egypt	100.00 %	100.00 %
Centra Industries	Egypt	100.00 %	100.00 %
Telecom Egypt Globe	Singapore	100.00 %	100.00 %
Egyptian international submarine cables company (Eiscc)*	Egypt	100.00 %	100.00 %
Middle East and North Africa Submarine Cable Company (MENA CABLE)	Egypt	100.00 %	100.00 %
Mena Company For Submarine Cable Company (MENA CABLE ITALY)	Italy	100.00 %	100.00 %
Centra Distribution	Egypt	100.00 %	100.00 %
Middle East Radio Communication (MERC)	Egypt	51.00 %	51.00 %

*During year 2018, Telecom Egypt Group has acquired the rest of the shares of the Egyptian International Submarine Cables Company (EISCC) which represent 50% by an amount of USD 15 Million the necessary legal procedures which related to this acquisition of that company were finalized and Telecom Egypt announced the acquisition of Middle East and North Africa Submarine Cable "MENA Cable" from Orascom Investment Holding "OIH" through its subsidiary Egyptian International Submarine Cable Company "EISCC". The total enterprise value of MENA Cable is USD 90 Million of which USD 40 Million represents the equity value and the remaining amount USD 50 Million represents its outstanding debt, the deal was financed by a loan granted by the company to the said subsidiary with an amount of USD 90 Million at annual interest rate libor, in addition to profit margin which will be paid within one year from the date of obtaining the loan at most and the loan was completely paid during 2018.

30. COMPARATIVE FIGUERS

- Restatement was made to some of the comparative figures of the condensed consolidated statement of financial position and condensed consolidated statement of income and condensed consolidated statement of comprehensive income due to modify in fixed assets item as a result of applying EAS no 49 " Lease " instead of EAS no 20 "Accounting regulations and standards related to financial lease" which led to the increase in both of the cost of fixed assets costs by an amount of L.E. 385 K and accumulated depreciation by an amount of L.E. 289 K also retained earnings by an amount of L.E. 96 K and increase in the depreciation expense by an amount of L.E. 19 K at 31/12/2018 included L.E. 14 K related to the period from 1/1/2018 till 30/9/2018.

- The following is the effect of restatement on the condensed consolidated interim financial statements:

30-1 Effect on the condensed consolidated statement of financial position:

	31/12/2018 as previously reported	<u>Restatement</u>	31/12/2018 Reclassified
	<u>debit / (credit)</u> <u>L.E.(000)</u>	<u>debit / (credit)</u> <u>L.E.(000)</u>	<u>debit / (credit)</u> <u>L.E.(000)</u>
Fixed assets	21 534 394	96	21 534 490
Retained earnings	(10 529 466)	(96)	(10 529 562)

30-2 Effect on the condensed consolidated statement of income:

	<u>For the Nine months ended</u> 30/9/2018		<u>For the Nine months ended</u> 30/9/2018		<u>For the Three months ended</u> 30/9/2018		<u>For the Three months ended</u> 30/9/2018	
	<u>as previously reported</u>	<u>Restatement</u>	<u>Restated</u>	<u>Restated</u>	<u>as previously reported</u>	<u>Restatement</u>	<u>Restated</u>	<u>Restated</u>
	<u>(debit) / credit</u>	<u>(debit) / credit</u>	<u>(debit) / credit</u>	<u>(debit) / credit</u>	<u>(debit) / credit</u>	<u>(debit) / credit</u>	<u>(debit) / credit</u>	<u>(debit) / credit</u>
	<u>LE(000)</u>	<u>LE(000)</u>	<u>LE(000)</u>	<u>LE(000)</u>	<u>LE(000)</u>	<u>LE(000)</u>	<u>LE(000)</u>	<u>LE(000)</u>
General and administrative expenses	(1 637 755)	(14)	(1 637 769)	(1 637 769)	(627 423)	(4)	(627 427)	(627 427)

31- BUSINESS COMBINATION

31-1 Acquisition of non- controlling interest (NCI) in subsidiary- "Egyptian International Submarine Cables Company- EISCC"

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

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

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

31-2 Acquisition on subsidiary- “Middle East and North Africa Submarine Cables Company-“MENA Cables”

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

During the second half of 2018 the company determined the primary study for consolidation related to the acquisition of “MENA Cables” company to measure the fair value of the net assets acquired at the acquisition date using provisional value till the complete of the study of PPA (Purchase Price Allocation) to determine the fair value for the acquired assets and liabilities including the intangible assets on the acquisition date. The recognition of the adjustments related to the provisional value for the assets and liabilities will be within one year according to Egyptian Accounting Standard no. (29) “Business Combination”.

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

	<u>LE(000)</u>
<u>Assets</u>	
Fixed assets	1 215 660
Intangible assets	465 770
Project in progress	43 008
Other assets	267 234
Total assets	<u>1 991 672</u>
Total liabilities	<u>(1 267 789)</u>
Net assets	<u>723 883</u>
Company's share of net assets 100%	<u>723 883</u>

32- SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in the preparation of the condensed consolidated interim financial statements as of September 30, 2019 is the same as the accounting policies applied in the preparation of the annual Consolidated financial statements as of December 31, 2018, these accounting policies have been applied consistently to all periods presented in these condensed Consolidated interim financial.

Restatement were made to some of comparative figures of the condensed consolidated interim financial statements (Note no. 30).

33- New issues and amendments issued to the Egyptian Accounting Standards:

On 18 March 2019, the Minister of Investment and International Cooperation amended some of the Egyptian Accounting Standards issued by the Minister of Investment Decree No. 110 of 2015, which include some new accounting standards and amendments to some existing standards as follows:

New or Amended Standards	Summary of the Most Significant Amendments	Potential impact on the Financial Statements	Adoption date
New Egyptian Accounting Standard No. (47) "Financial instruments"	<p>1. The new Egyptian Accounting Standard No. (47) "Financial Instruments" replaces the corresponding topics in Egyptian Accounting Standard (26) Financial Instruments: Recognition and Measurement. Accordingly, the Egyptian Accounting Standard No. (26) Was amended and reissued after the withdrawal of the paragraphs related to new EAS (47) and define the scope of the amended Standard (26) to work only with limited cases of hedge accounting according to the Entity's choice.</p> <p>2. In accordance with the requirements of the Standard, financial assets are classified based on subsequently measured at their amortized cost, at fair value through other comprehensive income or at fair value through profit or loss, in accordance with the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial asset.</p> <p>3. The realized loss model in the measurement of impairment of financial assets is replaced by the expected credit loss</p>	Management is currently assessing the potential impact on the financial statements when applying the amendment to the standard.	Standard No. 47 is effective for financial periods beginning on or after 1 January 2020 and early adoption is permitted, on the condition of applying the Egyptian Accounting Standards No. (1), (25), (26) and (40) amended 2019 together at the same Date.

New or Amended Standards	Summary of the Most Significant Amendments	Potential impact on the Financial Statements	Adoption date
	<p>models, which requires the measurement of impairment of all financial assets measured at amortized cost and financial instruments measured at fair value through other comprehensive income from the initial recognition regardless of the existence of an index of the loss event</p> <p>4. Pursuant to the requirements of this standard, the following criteria have been amended:</p> <ul style="list-style-type: none"> - Egyptian Accounting Standard No. (1) "Presentation of Financial Statements", amended 2019 - Egyptian Accounting Standard No. (4) "Statement of Cash Flows" - Egyptian Accounting Standard No. (25) "Financial Instruments: Presentation" - Egyptian Accounting Standard No. (26) "Financial Instruments: Recognition and Measurement" Egyptian Accounting Standard No. (40) "Financial Instruments: Disclosures" 		<p>These amendments shall be effective from the date of application of the standard 47.</p>
<p>New Accounting Egyptian Standard No. (48) "Revenue from contracts with customers"</p>	<p>1. The new Egyptian Accounting Standard No. 48, Revenue from Contracts with Customers, replaces and cancels the following criteria:</p> <ul style="list-style-type: none"> (A) Egyptian Accounting Standard No. (8) "Construction Contracts", amended 2015; (B) Egyptian Accounting Standard No. 11, "Revenue", amended 2015; <p>2. The control model was used to recognize revenue instead of the benefit and risk model.</p> <p>3. The incremental costs of obtaining a contract with a customer are recognized as an</p>	<p>Management is currently assessing the potential impact on the financial statements when applying the amendment to the standard.</p>	<p>Standard No. 48 is effective for financial periods beginning on or after 1 January 2020 and early adoption is permitted</p>

New or Amended Standards	Summary of the Most Significant Amendments	Potential impact on the Financial Statements	Adoption date
	<p>asset if the entity expects to recover those costs and the recognition of the costs of fulfilling the contract as an asset when specific conditions are met.</p> <p>4. The standard requires that the contract has commercial substance in order for revenue to be recognized.</p> <p>5. Expanding disclosure and presentation requirements.</p>		
<p>New Egyptian Accounting Standard (49) "Leases"</p>	<p>1. The new Egyptian Accounting Standard No. (49) "Leases" replaces the Egyptian Accounting Standard No. (20) "Accounting Standards and Standards for Financial Leasing Operations 2015 and cancels it.</p> <p>2. The Standard introduces a single accounting model for the lessor and the lessee, the lessee recognizes the right of use of the leased asset within the assets of the company and recognizes an obligation that represents the present value of the unpaid lease payments within the company's obligations, taking into account that the lease contracts are not classified as operating lease or a finance lease.</p> <p>3. For the lessor, the lessor shall classify each contract of its lease contracts either as an operating lease or as a finance lease.</p> <p>4. For the finance lease, the lessor must recognize the assets held under a finance lease in the statement of financial position and present them as a due amounts equal to the net investment in the lease contract.</p>	<p>The management of the group has applied the accounting treatment stated in the Egyptian Accounting standard No.(49) leases contracts for up to the date of issuance of the standard as shown in note No(30)</p> <p>The group's management is currently assessing the potential impact on the financial statements when the standard is applied to the remaining lease contracts in which the group's is a party.</p>	<p>Standard No. (49) Applies to financial periods beginning on or after 1 January 2020 and early adoption is permitted if the Egyptian Accounting standard No. (48) "Revenue from contracts with customers" 2019 in the same time.</p> <p>Except as of the effective date above, Standard No. 49 (2019) applies to leases that were subject to the Financial Leasing Law No. 95 of 1995 and its amendments which were treated in accordance with Egyptian Accounting Standard No. 20, "Accounting Standards and Standards Related to Finance Lease Operations" The finance lease contracts which are arise subject to the Law of Organizing Finance Lease and Factoring Activities No. 176 of 2018, from the beginning of the annual report period, in which law No. 95 of 1995 was canceled And issuing law No. 176 of 2018</p>

New or Amended Standards	Summary of the Most Significant Amendments	Potential impact on the Financial Statements	Adoption date
	<p>5. For operating lease, the lessor should recognize the lease payments from operating leases as income either on a straight-line basis or on another regular basis.</p>		
<p>Amended Egyptian Accounting Standard No. (38) "Employees Benefits"</p>	<p>A number of paragraphs were added and amended to amend the accounting rules for the modification, reduction and settlement of the employee benefits scheme</p>	<p>Management is currently assessing the potential impact on the financial statements when applying the amendment to the standard.</p>	<p>Standard No. (38) is effective for financial periods beginning on or after 1 January 2020 and early adoption is permitted</p>
<p>Amended Egyptian Accounting Standard No. (42) "Consolidated financial statements"</p>	<p>Some of the paragraphs were added related to the exception of investment entities from the consolidation. This amendment resulted in an amendment to some standards related to the subject of investment entities. The following is the amended standards</p> <ul style="list-style-type: none"> - Egyptian Accounting Standard No. (15) "Disclosure of Related Parties" - Egyptian Accounting Standard No. 17 "Separate Financial Statements" 	<p>Management is currently assessing the potential impact on the financial statements when applying the amendment to the standard.</p>	<p>Standard No. 42 is effective for financial periods beginning on or after 1 January 2020 and early adoption is permitted</p> <p>The new or amended paragraphs are also applied to the standards that have been amended with respect to investment entities on the effective date of the Egyptian Accounting Standard No. 42 "Consolidated Financial Statements", and amended 2019.</p>

New or Amended Standards	Summary of the Most Significant Amendments	Potential impact on the Financial Statements	Adoption date
	<ul style="list-style-type: none"> - Egyptian Accounting Standard No. (18) "Investments in Associates" - Egyptian Accounting Standard No. (24) "Income Tax" - Egyptian Accounting Standard No. (29) "Business Combinations" - Egyptian Accounting Standard No. (30) "interim Financial Statements" - Egyptian Accounting Standard No. (44) - " Disclosure of Interests in Other Entities " 		
<p>Issuance of an Egyptian Accounting Interpretation No. (1) "Arrangements for Privileges of Public Services"</p>	<p>This interpretation provides guidance on the accounting by operators of public service concession arrangements from a public entity to a private entity for the construction, operation and maintenance of public utility infrastructure such as roads, bridges, tunnels, hospitals, airports, water distribution facilities, power supplies and communications networks. ..., etc.</p> <p>This interpretation gives the option of continuing to apply the prior treatment of existing public service concession arrangements prior to 1 January 2019 to entities that had recognized and measured the assets of these arrangements as fixed assets in accordance with EAS 10 Fixed Assets and Depreciation until their expiry.</p>	<p>Management is currently assessing the potential impact on the financial statements when applying the amendment to the standard.</p>	<p>Interpretation No. (1) Applies to financial periods beginning on or after 1 January 2019.</p>
<p>Egyptian Accounting Standard No. (22) "Earnings per share"</p>	<p>The scope of adoption of the Standard has been amended to be binding on the separate, consolidated or individual financial statements issued to all entities.</p>	<p>Management is currently assessing the potential impact on the financial statements when applying the amendment to the standard.</p>	<p>Amendment applies to financial periods beginning on or after 1 January 2019.</p>
<p>Egyptian Accounting Standard No. (34)</p>	<p>- The use of the fair value model option for all properties is derecognized in subsequent measurement of its real estate</p>	<p>Management is currently assessing the potential impact on the financial statements when</p>	<p>Amendment applies to financial periods beginning on or after 1 January 2019.</p>

New or Amended Standards	Summary of the Most Significant Amendments	Potential impact on the Financial Statements	Adoption date
Investment Property	investments and the obligation only to the cost model, with only real estate investment funds required to use the fair value model on subsequent measurement of all its real estate assets. Based on this amendment, both: - EAS 32 "Non-current Assets Held for Sale and Discontinued Operations". - Egyptian Accounting Standard No. (31) "Impairment of Assets"	applying the amendment to the standard.	
Amended Egyptian Accounting Standard No. (4) "Statement of Cash flows"	An entity is required to provide disclosures that enable users of the financial statements to assess changes in liabilities arising from financing activities, including both changes resulting from cash flows or non-cash changes.	Management is currently assessing the potential impact on the financial statements when applying the amendment to the standard.	Amendment applies to financial periods beginning on or after 1 January 2019