

telecomegypt



*Translation from Arabic*

**Telecom Egypt Company**  
**(An Egyptian Joint Stock Company)**  
**Condensed Consolidated Interim Financial Statements**  
**For The Nine Months Ended September 30, 2018**  
**And Limited Review Report**

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### **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, 2018 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***

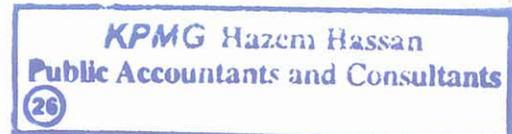
We conducted our limited review in accordance with Egyptian Standard on Review Engagements number (2410), "Limited Review of Interim Financial Statements Performed by the Independent Auditor of the Entity". A limited review of condensed consolidated interim financial statements consists of making inquiries, 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, 2018 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".

Cairo, November 14, 2018

**KPMG Hazem Hassan  
Public Accountants & Consultants**



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

	Note No.	30/9/2018 L.E. (000)	31/12/2017 Restated L.E. (000)	1/1/2017 Reclassified L.E. (000)
<b>Assets</b>				
<b>Non Current Assets</b>				
Fixed assets	(11)	19 988 963	18 253 401	14 238 001
Projects in progress	(12)	3 403 392	2 911 397	7 418 288
Investments in associates	(13)	12 802 492	11 746 262	9 452 591
Available-for-sale investments		78 561	77 568	81 273
Other assets	(14)	10 273 009	10 341 724	1 391 327
Deferred tax assets	(24-1)	204 617	396 877	418 502
<b>Total non current Assets</b>		<b>46 751 034</b>	<b>43 727 229</b>	<b>32 999 982</b>
<b>Current Assets</b>				
Inventories	(15)	1 404 590	1 183 773	662 097
Trade and notes receivable	(16)	6 908 467	4 371 697	5 084 681
Debtors and other debit balances	(17)	4 038 078	2 712 079	1 903 341
Held-to-maturity investments-treasury bills		126 288	113 320	144 428
Cash and cash equivalents	(18)	1 062 870	524 209	1 035 999
<b>Total Current Assets</b>		<b>13 540 293</b>	<b>8 905 078</b>	<b>8 830 546</b>
<b>Total Assets</b>		<b>60 291 327</b>	<b>52 632 307</b>	<b>41 830 528</b>
<b>Equity</b>				
Capital	(22)	17 070 716	17 070 716	17 070 716
Reserves	(23)	4 695 606	4 642 354	4 446 874
Retained earnings		10 551 378	8 575 030	8 055 791
Foreign entities translation reserve		182 118	189 443	161 357
<b>Equity attributable to shareholders of the company</b>		<b>32 499 818</b>	<b>30 477 543</b>	<b>29 734 738</b>
<b>Non - controlling interest</b>		<b>13 803</b>	<b>12 135</b>	<b>10 696</b>
<b>Total Equity</b>		<b>32 513 621</b>	<b>30 489 678</b>	<b>29 745 434</b>
<b>Non Current Liabilities</b>				
Loans and credit facilities	(19)	578 768	614 472	626 235
Creditors and other credit balances	(20)	1 427 489	1 310 082	114 226
Deferred tax liabilities	(24-1)	1 044 124	755 618	638 295
<b>Total non current Liabilities</b>		<b>3 050 381</b>	<b>2 680 172</b>	<b>1 378 756</b>
<b>Current Liabilities</b>				
Loans and credit facilities installments due within one year	(19)	13 114 964	6 678 793	2 715 554
Creditors and other credit balances	(20)	10 449 147	10 585 760	6 532 500
Credit accounts to associates	(28)	506 288	368 056	356 173
Provisions	(21)	656 926	1 829 848	1 102 111
<b>Total Current Liabilities</b>		<b>24 727 325</b>	<b>19 462 457</b>	<b>10 706 338</b>
<b>Total Liabilities</b>		<b>27 777 706</b>	<b>22 142 629</b>	<b>12 085 094</b>
<b>Total Equity and Liabilities</b>		<b>60 291 327</b>	<b>52 632 307</b>	<b>41 830 528</b>

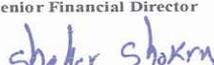
The accompanying notes on pages (7) to (24) are an integral part of these Condensed Consolidated Interim Financial Statements.

Financial Director



"Wael Hanafy"

Senior Financial Director



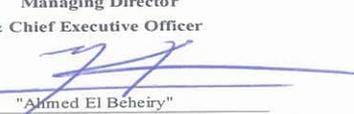
"Shafer Shokry"

Chief Financial Officer



"Mohamed Shamroukh"

Managing Director  
& Chief Executive Officer



"Ahmed El Beheiry"

Board of Directors approval

Chairman



"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>	
		30/9/2018	30/9/2017	30/9/2018	30/9/2017
		<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)	17 357 743	13 125 369	7 233 131	4 388 911
Operating costs	(4)	(10 512 832)	(7 995 315)	(4 565 141)	(2 871 619)
<b>Gross Profit</b>		<b>6 844 911</b>	<b>5 130 054</b>	<b>2 667 990</b>	<b>1 517 292</b>
Other income		286 356	145 147	97 126	26 069
Selling and distribution expenses	(5)	(1 839 772)	(1 095 302)	(728 800)	(395 197)
General and administrative expenses	(6)	(1 637 755)	(1 429 063)	(627 423)	(474 092)
Other expenses		(60 999)	(134 675)	(13 479)	(38 271)
<b>Operating profit</b>		<b>3 592 741</b>	<b>2 616 161</b>	<b>1 395 414</b>	<b>635 801</b>
Finance income		132 115	94 865	21 317	26 920
Finance cost		(1 007 225)	(335 157)	(333 962)	(150 523)
<b>Net finance cost</b>	(7)	<b>(875 110)</b>	<b>(240 292)</b>	<b>(312 645)</b>	<b>(123 603)</b>
Share of profit of equity accounted investees	(8)	1 551 083	1 776 699	677 332	601 823
<b>Net profit before tax</b>		<b>4 268 714</b>	<b>4 152 568</b>	<b>1 760 101</b>	<b>1 114 021</b>
Income tax expense		(276 851)	(623 534)	(90 535)	(105 654)
Deferred tax	(24-1)	(480 766)	(43 933)	(220 211)	(44 370)
<b>Total income tax</b>		<b>(757 617)</b>	<b>(667 467)</b>	<b>(310 746)</b>	<b>(150 024)</b>
<b>Net profit for the period</b>		<b>3 511 097</b>	<b>3 485 101</b>	<b>1 449 355</b>	<b>963 997</b>
<b>Profit attributable to :</b>					
Shareholders of the company		3 505 976	3 482 598	1 448 466	963 008
Non-controlling interest		5 121	2 503	889	989
<b>Net profit for the period</b>		<b>3 511 097</b>	<b>3 485 101</b>	<b>1 449 355</b>	<b>963 997</b>
Basic and diluted earning per share for the period (L.E. / Share)	(10)	<b>2.05</b>	<b>2.04</b>	<b>0.85</b>	<b>0.56</b>

The accompanying notes on pages (7) to (24) 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>30/9/2018</u>	<u>30/9/2017</u>	<u>30/9/2018</u>	<u>30/9/2017</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	3 511 097	3 485 101	1 449 355	963 997
<b><u>Other Comprehensive Income items :</u></b>				
Translation differences of foreign entities	( 3 885)	13 587	9 610	160
<b>Total Comprehensive Income</b>	<b><u>3 507 212</u></b>	<b><u>3 498 688</u></b>	<b><u>1 458 965</u></b>	<b><u>964 157</u></b>
<b>Attributable to :</b>				
Shareholders of the company	3 502 091	3 496 185	1 458 076	963 168
Non-controlling interest	5 121	2 503	889	989
<b>Total Comprehensive Income</b>	<b><u>3 507 212</u></b>	<b><u>3 498 688</u></b>	<b><u>1 458 965</u></b>	<b><u>964 157</u></b>

The accompanying notes on pages (7) to (24) 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, 2018**

	Capital	Legal reserve	Other reserves	Retained earnings	Foreign entities translation reserve	Total of equity attributable to shareholders of the company	Non-controlling interest	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>	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>
<b>Balance as of January 1, 2017 ( Reclassified )</b>	17 070 716	1 650 296	2 796 578	8 055 791	161 357	29 734 738	10 696	29 745 434
<b>Comprehensive Income</b>								
Net profit for the period ( Restated )	-	-	-	3 482 598	-	3 482 598	2 503	3 485 101
Translation differences of foreign entities	-	-	-	-	13 587	13 587	-	13 587
<b>Total Comprehensive Income (Restated)</b>	-	-	-	3 482 598	13 587	3 496 185	2 503	3 498 688
<b>Transactions with shareholders</b>								
Transferred to legal reserve	-	194 983	-	( 194 983 )	-	-	-	-
Dividends for year 2016 (shareholders)	-	-	-	( 1 707 071 )	-	( 1 707 071 )	( 1 921 )	( 1 708 992 )
Dividends for year 2016 (Employees & Board of Directors)	-	-	-	( 613 499 )	-	( 613 499 )	( 278 )	( 613 777 )
Dividends in associates (Employees & Board of Directors)	-	-	-	( 3 147 )	-	( 3 147 )	-	( 3 147 )
<b>Total transactions with shareholders</b>	-	194 983	-	( 2 518 700 )	-	( 2 323 717 )	( 2 199 )	( 2 325 916 )
<b>Balance as of September 30, 2017 ( Restated )</b>	17 070 716	1 845 279	2 796 578	9 019 689	174 944	30 907 206	11 000	30 918 206
<b>Balance as of January 1, 2018 ( Restated )</b>	17 070 716	1 845 776	2 796 578	8 575 030	189 443	30 477 543	12 135	30 489 678
<b>Comprehensive Income</b>								
Net profit for the period	-	-	-	3 505 976	-	3 505 976	5 121	3 511 097
Translation differences of foreign entities	-	-	-	-	( 3 885 )	( 3 885 )	-	( 3 885 )
<b>Total Comprehensive Income</b>	-	-	-	3 505 976	( 3 885 )	3 502 091	5 121	3 507 212
<b>Transactions with shareholders</b>								
Transferred to legal reserve	-	53 252	-	( 53 252 )	-	-	-	-
Acquisition of non controlling interest in subsidiaries	-	-	-	-	-	-	-	-
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 Subsidiaries	-	-	-	( 263 890 )	( 3 440 )	( 267 330 )	-	( 267 330 )
<b>Total transactions with shareholders</b>	-	53 252	-	( 1 529 628 )	( 3 440 )	( 1 479 816 )	( 3 453 )	( 1 483 269 )
<b>Balance as of September 30, 2018</b>	17 070 716	1 899 028	2 796 578	10 551 378	182 118	32 499 818	13 803	32 513 621

The accompanying notes on page from (7) to (24) 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.	<u>For the Nine months ended:</u>	
		30/9/2018	30/9/2017
		<u>L.E. (000)</u>	<u>Reclassified L.E. (000)</u>
<b><u>Cash flows from operating activities:-</u></b>			
Cash receipts from customers		14 320 993	11 197 370
Value added tax collected from customers		308 090	264 069
Stamp tax and fees collected (from third party)		29 511	27 118
Deposits collected from / ( paid to ) customers		815	198
Cash paid to suppliers		(3 481 410)	(1 793 519)
Payments of NTRA license fees		( 604 230)	( 381 095)
Dividends paid to employees and Board of Directors		( 402 821)	( 329 170)
Cash paid to employees and board of directors		(3 479 746)	(2 698 865)
Cash paid on behalf of employees to third party		( 608 296)	( 503 283)
<b>Cash provided by operating activities</b>		<b>6 082 906</b>	<b>5 782 823</b>
Interest paid		( 647 090)	( 84 857)
Payments to Tax Authority - income tax		( 268 712)	( 263 998)
Payments to Tax Authority - value added tax		(1 767 259)	(1 206 836)
Payments to Tax Authority - other taxes		( 734 836)	( 523 578)
Cash paid to third parties for claims		( 919 278)	-
Cash paid on liabilities long- term		( 784 389)	-
Other payments		( 98)	( 140 201)
<b>Net cash provided by operating activities</b>		<b>961 244</b>	<b>3 563 353</b>
<b><u>Cash flows from investing activities:-</u></b>			
Payments for purchase of fixed assets, projects in progress and other assets		(5 127 588)	(4 023 526)
Payments for purchase of other assets		( 780 178)	(1 419 828)
Proceeds from sales of fixed assets and other assets		46	140
Payments for acquisition of investments		( 992 216)	-
Payments for retrieval of held-to-maturity investment - treasury bills		( 116 258)	( 109 516)
Interest received		33 260	52 326
Dividends collected from investments		453 705	37 753
Proceeds from sale available for sale investment		7	-
Proceeds from retrieval of held-to-maturity investment - treasury bills		113 580	142 519
Proceeds from income of securities (treasury bills - mutual fund)		10 455	13 260
<b>Net cash used in investing activities</b>		<b>(6 405 187)</b>	<b>(5 306 872)</b>
<b><u>Cash flows from financing activities:-</u></b>			
Payments for loans and other facilities		( 33 593)	( 108 674)
Proceeds from loans and other facilities		6 450 365	3 044 995
Dividends paid to Shareholders		( 429 927)	(1 708 896)
<b>Net cash provided by financing activities</b>		<b>5 986 845</b>	<b>1 227 425</b>
<b>Net change in cash and cash equivalents during the period</b>		<b>542 902</b>	<b>( 516 094)</b>
Translation differences of foreign entities		( 3 824)	( 4 670)
Cash and cash equivalents at the beginning of the period	(18)	506 936	1 101 163
<b>Cash and cash equivalents at the end of the period</b>	<b>(18)</b>	<b>1 046 014</b>	<b>580 399</b>

The accompanying notes on pages from (7) to (24) 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, 2018**

**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 14, 2018.

**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, 2018 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, 2017

**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 if the revision affects both current 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.
- Deferred tax assets and liabilities.
- Provisions and contingencies.
- 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

	For the nine months ended		For the three months ended	
	30/9/2018	30/9/2017	30/9/2018	30/9/2017
		Reclassified		Reclassified
	L.E. (000)	L.E. (000)	L.E. (000)	L.E. (000)
Home and personal communications*	5 849 598	4 008 199	2 085 146	1 418 006
Enterprise*	2 362 971	1 723 856	1 150 906	537 176
Domestic wholesale*	2 752 563	2 448 992	787 547	775 599
International carrier	3 346 757	3 794 708	1 110 755	1 283 010
International cables and networks	3 045 854	1 149 614	2 098 777	375 120
	<u>17 357 743</u>	<u>13 125 369</u>	<u>7 233 131</u>	<u>4 388 911</u>

Total operating revenues have increased by an amount of L.E.4 232 374 K mainly due to the increase in home and personal communications revenues by an amount of L.E. 1 841 399 K due to the increase in revenues resulting from internet services, subscription of fixed line and rendering mobile phone services, in addition to the increase in International cables and networks by an amount of L.E. 1 896 240 K due to the increase in the right of use of circles by IRU system outside Egypt and the increase in Enterprise revenue by an amount of L.E 639 115 K due to the increase in Access Service revenue and the increase in domestic wholesale revenue by an amount of L.E. 303 571 K, however the decrease in International carrier revenue by an amount of L.E 447 951 K led to the limitation of this increase.

\* Reclassification was made on comparative figures as shown in Note no (31-2).

### 4. OPERATING COSTS

	For the nine months ended		For the three months ended	
	30/9/2018	30/9/2017	30/9/2018	30/9/2017
		Restated		Restated
	L.E. (000)	L.E. (000)	L.E. (000)	L.E. (000)
Interconnection cost	3 172 149	3 112 907	1 078 659	1 082 304
Depreciation and amortization*	1 903 226	1 257 731	705 525	478 109
Salaries and wages	1 451 796	1 311 169	490 477	453 487
Company's social insurance contribution	174 194	144 359	62 802	48 515
Frequencies and licenses charges ( NTRA )	599 688	483 159	230 560	165 632
Other operating cost*	3 211 779	1 685 990	1 997 118	643 572
	<u>10 512 832</u>	<u>7 995 315</u>	<u>4 565 141</u>	<u>2 871 619</u>

Operating costs have increased by an amount of L.E.2 517 517 K mainly due to the following: -

- The increase of interconnection cost by an amount of L.E. 59 242 K which is mainly due to the increase in cost of national roaming fees, however the decrease in cost of international connection fees led to limitation of this increase.
- The increase in the depreciation and amortization item by an amount of L.E 645 495 K due to the additions of the last year after the nine months and the current period.
- The increase in other operating cost item by an amount of L.E. 1 525 789 K is mainly due to the increase in right of using circles with IRU system outside Egypt item by an amount of L.E.1 229 316 K and salaries and wages and equivalents item by an amount of L.E 170 462 K, in addition to the increase in frequencies and licenses charges ( NTRA ) by an amount of L.E 116 529 K.

\* Restatement and reclassification were made on comparative figures as shown in Note no (31-2).

## 5. SELLING AND DISTRIBUTION EXPENSES

	<u>For the nine months ended</u>		<u>For the three months ended</u>	
	<u>30/9/2018</u>	<u>30/9/2017</u>	<u>30/9/2018</u>	<u>30/9/2017</u>
	<u>L.E. (000)</u>	<u>Reclassified L.E. (000)</u>	<u>L.E. (000)</u>	<u>Reclassified L.E. (000)</u>
Salaries and wages	736 116	719 485	243 952	236 598
Company's social insurance contribution	82 458	75 490	29 169	25 370
Advertising and marketing	697 338	75 472	382 738	55 701
Selling and distribution commissions	165 592	95 304	63 103	30 589
Other selling and distribution expenses	158 268	129 551	9 838	46 939
	<u>1 839 772</u>	<u>1 095 302</u>	<u>728 800</u>	<u>395 197</u>

The increase in selling and distribution expenses by an amount of L.E 744 470 K mainly due to the increase in advertising and marketing item by an amount of L.E 621 866 K and the increase in selling and distribution commissions item by an amount of L.E 70 288 K and other selling and distribution expenses by an amount of L.E 28 717 K mainly due to the increase in in Tax and duties item by an amount of L.E 59 481 K.

- Reclassification was made on comparative figures as shown in Note no (31-2).

## 6. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>For the nine months ended</u>		<u>For the three months ended</u>	
	<u>30/9/2018</u>	<u>30/9/2017</u>	<u>30/9/2018</u>	<u>30/9/2017</u>
	<u>L.E. (000)</u>	<u>Reclassified L.E. (000)</u>	<u>L.E. (000)</u>	<u>Reclassified L.E. (000)</u>
Salaries and wages	1 076 976	936 565	394 676	326 598
Company's social insurance contribution	103 748	89 102	37 427	29 999
Depreciation and amortization	57 758	56 736	18 809	18 896
Organization services cost and consultants	147 398	151 399	81 284	35 078
Tax and duties*	74 833	76 015	31 749	20 049
Other general and administration expenses*	177 042	119 246	63 478	43 472
	<u>1 637 755</u>	<u>1 429 063</u>	<u>627 423</u>	<u>474 092</u>

The increase in general and administrative expenses by an amount of L.E. 208 692 K is mainly due to increase in salaries and wages and equivalent item by an amount of L.E 155 057 K due to the annual increase by 10 % from the basic salary starting from January 2018.

\* Reclassification was made on comparative figures as shown in Note no (31-2).

**7. NET FINANCE COST**

	<u>For the nine months ended</u>		<u>For the three months ended</u>	
	<u>30/9/2018</u>	<u>30/9/2017</u>	<u>30/9/2018</u>	<u>30/9/2017</u>
	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Total finance income	132 115	94 865	21 317	26 920
Total finance cost	(1 007 225)	( 335 157)	( 333 962)	( 150 523)
<b>Net finance cost</b>	<b>( 875 110)</b>	<b>( 240 292)</b>	<b>( 312 645)</b>	<b>( 123 603)</b>

The increase in net finance cost by an amount of L.E 634 818 K during the period is mainly due to the increase in debit interest of loans and credit facilities by an amount of L.E 534 607 K, also the finance cost of deferred payment contracts by an amount of L.E 178 136 K, however the decrease in translation loss of foreign currencies balances and transactions by an amount of L.E 108 749 K achieving translation gain by an amount of L.E 22 096 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>30/9/2018</u>	<u>30/9/2017</u>	<u>30/9/2018</u>	<u>30/9/2017</u>
	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Vodafone Egypt	1 551 078	1 776 705	677 332	601 823
Egypt trust	5	( 6)	-	-
	<u>1 551 083</u>	<u>1 776 699</u>	<u>677 332</u>	<u>601 823</u>

**9. EMPLOYEES' BENEFITS**

**9-1 Early retirement scheme (Telecom Egypt)**

The Company had an early retirement scheme where employees who wishes to retire, prior to the legal retirement age, are entitled to receive a compensation amounting to 75% of their latest basic salary for the remaining service period up to the retirement age with a maximum of 10 years for men and 15 years for women – by the date of 30/3/2016, internal instructions no. 9 were issued related to apply the optional early retirement for employees during the period from 3/4/2016 until 31/5/2016 the employees who wishes to retire prior to the legal retirement age are entitled to receive a compensation amounting to 125% of their latest basic salary for the remaining service period up to the retirement age with a maximum of 15 years.

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

The employees are granted an end of service benefits through a Loyalty & belonging Fund established in January 2004. Employees' benefit are based on the employees' basic salary in January 1, 2012 increasing annually at a compound rate of 5%. The subscription for employees hired after January 1, 2012, is calculated according to a subscription schedule for new hires (starting of hiring date 1/1/2012) and increasing at a compound rate of 5% annually starting from the next year from the hiring date with the same conditions of annual raise of employees.

The employees share in loyalty & belonging fund according to constant subscription are based on the same employees' basic salary where the end of service benefit calculated. The company's share represents annual defined contribution.

## 10. BASIC AND DILUTED EARNING PER SHARE FOR THE PERIOD

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

	For the nine months ended		For the three months ended	
	30/9/2018	Restated 30/9/2017	30/9/2018	Restated 30/9/2017
<b>The holding company owners' equity :</b>				
Net profit for the period (LE 000)	3 505 976	3 482 598	1 448 466	963 008
Number of shares available during the period (share)	1707 071 600	1707 071 600	1707 071 600	1707 071 600
Basic and diluted earning per share for the period (LE / share)	2.05	2.04	0.85	0.56

## 11. FIXED ASSETS

Description	30/9/2017	30/9/2018	30/9/2017	30/9/2018	30/9/2017	30/9/2018	31/12/2017
	Cost	Cost	Accumulated depreciation	Accumulated depreciation	Net	Net	Net
	Restated L.E.(000)	L.E.(000)	Restated L.E.(000)	L.E.(000)	Restated L.E.(000)	L.E.(000)	Restated L.E.(000)
Land*	2 371 593	2 346 505	-	-	2 371 593	2 346 505	2 346 458
Buildings & Infrastructure *	24 790 262	26 276 941	14 729 365	15 201 637	10 060 897	11 075 304	10 145 030
Centrals & information technologies equipment*	23 506 657	27 845 172	20 290 803	21 365 003	3 215 854	6 280 169	5 465 693
Vehicles*	144 683	148 040	110 248	109 949	34 435	38 091	35 254
Furniture*	583 302	668 394	435 605	491 025	147 697	177 369	188 117
Tools & supplies*	116 974	137 194	72 170	80 841	44 804	56 353	58 353
Decoration & fixtures	125 336	132 269	110 011	117 097	15 325	15 172	14 496
Fixtures on trunk radio network	315	315	315	315	-	-	-
<b>Total</b>	<b>51 639 122</b>	<b>57 554 830</b>	<b>35 748 517</b>	<b>37 565 867</b>	<b>15 890 605</b>	<b>19 988 963</b>	<b>18 253 401</b>

- The increase in net carrying value of fixed assets mainly due to the additions during the period by an amount of L.E.3 300 876 K, however the depreciation of the period by an amount of L.E.1 514 891 K led to limitation of this increase.
- The cost of fixed assets as of September 30, 2018 includes an amount of L.E. 23 903 Million fully depreciated fixed assets and still in use.
- The useful life for some fixed assets items have been modified during the period based on the technical department opinion and the Board of Directors decree in meeting held on July 5, 2018 effective from 1/1/2018 which led to decrease in the depreciation of the period ended September 30, 2018 by an amount of L.E 260 199 K and that after applying the modified useful life from 1/1/2018.

\* Restatement and reclassification were made on comparative figures as shown in Note no (31-1).

## 12. PROJECTS IN PROGRESS

	30/9/2018	30/9/2017	31/12/2017
	<u>L.E. (000)</u>	<u>Reclassified L.E. (000)</u>	<u>Reclassified L.E. (000)</u>
Land	19 594	15 651	16 503
Buildings and Infrastructure	1 732 349	805 222	494 046
Centrals and information technologies equipment*	966 184	716 198	1 689 740
Furniture	-	44	-
Other Assets (cables)	2 728	39 473	29 767
Advance payments - Fixed assets	703 028	588 839	699 300
Tools and supplies	-	-	2 532
	<u>3 423 883</u>	<u>2 165 427</u>	<u>2 931 888</u>
<b>Less:</b>			
Impairment loss on projects in progress	20 491	20 491	20 491
	<u>3 403 392</u>	<u>2 144 936</u>	<u>2 911 397</u>

The balance of projects in progress is represented in the part that have been executed from commitments and capital contracts, and advanced payment until September 30, 2018.

\* Reclassification was made on comparative figures as shown in Note no (31-1).

## 13. INVESTMENTS IN ASSOCIATES

	30/9/2018		31/12/2017	
	Ownership	amount	Ownership	amount
	%	<u>L.E. (000)</u>	%	<u>L.E. (000)</u>
- Vodafone Egypt Telecommunication company*	44.95	12 802 398	44.95	11 746 173
- Wataneya for Telecommunication**	50.00	125	50.00	125
- International Telecommunication Consortium Limited. (ITCL)**	50.00	54	50.00	54
- Egypt Trust**	35.71	7 594	35.71	7 589
- Consortium Algerien de Telecommunications (CAT)**	33.00	133	33.00	133
		<u>12 810 304</u>		<u>11 754 074</u>
<b>Less:</b>				
Impairment loss on investment in associates		7 812		7 812
		<u>12 802 492</u>		<u>11 746 262</u>

\* The investments in Vodafone Egypt on September 30, 2018 represents the ownership of 107 869 799 shares with a percentage of 44.95% from the total shares of Vodafone Egypt.

The financial year of Vodafone Egypt ends on March 31 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, 2018 by using the consolidated financial statements of Vodafone Egypt for the financial year ended in March 31, 2018 which presents the 12 months from the 1st of April 2017 till March 31, 2018, deduct the movements of the period from April 1, 2017 till December 31, 2017 from the interim financial data of Vodafone Egypt as of December 31, 2017 and add the movement from April 1, 2018 till September 30, 2018 from the interim financial data of Vodafone Egypt as of September 30, 2018, to determine the share of financial period from January 1 to September 30, 2018 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**

	30/9/2018	30/9/2018	31/12/2017
	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>
<b>Cost</b>			
Fourth generation network license	8 633 330	8 633 330	8 633 330
Submarine Cables (right of way)	2 185 037	1 630 613	1 822 190
Right of Use (ROU)	152 172	152 110	153 003
License (internet service - programs )	79 379	79 358	79 665
Land (possession-usufruct)	440 684	440 684	440 684
	<u>11 490 602</u>	<u>10 936 095</u>	<u>11 128 872</u>
<b>Less:</b>			
Accumulated amortization and impairment	1 217 593	625 169	787 148
<b>Net other assets</b>	<u>10 273 009</u>	<u>10 310 926</u>	<u>10 341 724</u>

- The decrease in net carrying value of other assets mainly due to the amortization of the period by an amount of L.E 446 491 K in addition to the disposals during the period by an amount of L.E 150 298 K, however the additions of the period by an amount of L.E. 513 145 K led to limitation of this decrease.
- Other assets cost includes at September 30, 2018 an amount of L.E 168 Million, other assets fully amortized and still in use.

**15. INVENTORIES**

	30/9/2018	31/12/2017
	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Spare parts	769 256	636 816
Project cables and supplies	313 799	263 973
Material supplies , Merchandise for sale and Letters of credit	321 535	282 984
	<u>1 404 590</u>	<u>1 183 773</u>

The value of inventories was written down by L.E. 16 471 K (against LE 18 229 K as at December 31, 2017) for obsolete and slow-moving items directly from the cost of each type of inventory related to.

**16. TRADE AND NOTES RECEIVABLE**

	30/9/2018	31/12/2017
	<u>L.E. (000)</u>	<u>Reclassified</u> <u>L.E. (000)</u>
Trade Receivables - National*	4 604 960	3 822 040
Trade Receivables - International	4 400 923	2 615 058
	<u>9 005 883</u>	<u>6 437 098</u>
<b>Less:</b>		
Impairment loss on trade receivables	2 097 555	2 065 960
	<u>6 908 328</u>	<u>4 371 138</u>
<b>Add:</b>		
Notes receivable	139	559
	<u>6 908 467</u>	<u>4 371 697</u>

Trade and notes receivable balance have increased by an amount of L.E.2 536 770 K is mainly due to the increase in Trade Receivables – International due to the increase in International cables and networks and International Carriers.

\* Reclassification was made on comparative figures as shown in Note no (31-1).

**17. DEBTORS AND OTHER DEBIT BALANCES**

	30/9/2018	31/12/2017
	<u>L.E.(000)</u>	<u>Reclassified</u> <u>L.E.(000)</u>
Accrued revenues	32 929	31 200
Deposits with other	197 370	202 168
Suppliers debit balances	997 707	261 017
Tax Authority - withholding tax	130 788	224 073
Tax Authority - value added tax*	949 737	589 181
Due from ministries, organizations and companies and agents	679 203	602 478
Payments on the account of income tax	40 565	84 842
Temporary debts due from employees	547 911	346 525
Other debit balances*	627 549	542 324
	<u>4 203 759</u>	<u>2 883 808</u>
<b>Less:</b>		
Impairment loss on debtors and other debit balances	165 681	171 729
	<u>4 038 078</u>	<u>2 712 079</u>

Debtors and other debit balances have increased by an amount of L.E.1 325 999 K mainly due to the increase in suppliers – debit balances item by an amount of L.E 736 690 K and increase in Tax Authority-value added tax item by an amount of L.E 360 556 K and Temporary debts due from employees by an amount of L.E 201 386 K, however the decrease in both of Tax Authority – withholding tax by an amount of L.E 93 285 K and Payments on the accounts of income tax item by an amount of L.E 44 277 K led to limitation of this increase.

\* Reclassification was made on comparative figures as shown in Note no (31-1).

**18. CASH AND CASH EQUIVALENTS**

	Note No.	30/9/2018 L.E. (000)	30/9/2017 L.E. (000)	31/12/2017 L.E. (000)
Banks - time deposits (less than 3 months)		308 443	154 092	126 948
Banks - current accounts		300 247	194 589	255 023
Cash on hand		225 358	153 206	11 908
Treasury bills (less than 3 months)		57 768	33 918	40 766
Money market funds (less than 3 months)		171 054	56 789	89 564
<b>Cash and cash equivalents</b>		<u>1 062 870</u>	<u>592 594</u>	<u>524 209</u>
<b>Less:</b>				
Restricted cash and cash equivalents at banks	(26)	16 856	12 195	17 273
<b>Cash and cash equivalents as per statement of cash flows</b>		<u>1 046 014</u>	<u>580 399</u>	<u>506 936</u>

The increase in Cash and Cash Equivalents due to the proceeds from the trade receivables during the period.

**19. LOANS AND CREDIT FACILITIES**

The increase in the balance of loans and credit facilities by an amount of L.E 6 400 467 K is mainly resulting from obtaining of loans and credit facilities from banks with local and foreign currencies amounted to L.E. 13 693 732 K (against LE 7 293 265 K at 31 December, 2017).

**20. CREDITORS AND OTHER CREDIT BALANCES**

	30/9/2018	31/12/2017
	<u>L.E. (000)</u>	<u>Reclassified</u> <u>L.E. (000)</u>
Suppliers and notes payable	856 296	840 879
Tax Authority-Income Tax	401 584	510 944
Tax Authority (taxes other than income tax)**	710 988	523 676
Deposits from others	423 786	403 212
Assets creditors	5 625 850	6 536 942
Dividends payable	3 477	3 333
Accrued expenses	568 907	909 695
Trade receivables - credit balances	467 107	280 668
Credit balances organizations and companies	407 015	308 947
Deferred revenues**	1 077 297	403 324
National Telecommunication Regulatory Authority (NTRA)	542 376	497 480
Other credit balances*	791 953	676 742
	<u>11 876 636</u>	<u>11 895 842</u>
<b><u>Less balances due within more than one year:</u></b>		
Assets creditors	1 028 007	1 265 359
Deferred revenues	394 207	39 448
Credit balances - organizations and companies	5 275	5 275
<b>Creditors and non current liabilities balances</b>	<u>1 427 489</u>	<u>1 310 082</u>
<b>Creditors and current liabilities balances</b>	<u>10 449 147</u>	<u>10 585 760</u>
<b>Total Creditors and other balances</b>	<u>11 876 636</u>	<u>11 895 842</u>

Creditors and other credit balances have decreased by an amount of L.E. 19 206 K mainly due to the decrease in both of the decrease in assets creditors item by an amount of L.E 911 092 K, accrued expenses by an amount of L.E 340 788 K and Tax Authority – income tax by an amount of L.E 109 360 K, however the increase in deferred revenue item by an amount of L.E 673 973 K, suppliers and trade rceivables – credit balances item by an amount of L.E 186 439 K and Tax Authority ( taxes other than income tax ) by an amount of L.E 187 312 K and Credit balances organization and companies by an amount of L.E 98 068 K led to the limitation of this increase.

\* Reclassification was made on comparative figures as shown in Note no (31-1).

**21. PROVISIONS**

	30/9/2018	31/12/2017
	<u>L.E.(000)</u>	<u>L.E.(000)</u>
Balance at the beginning of the period /year	1 829 848	1 102 111
Reclassification during the period/year	861	( 96 037)
Charged to income statement for the period / year**	11 365	1 214 627
Provision used during the period / year	(1 185 148)	( 390 859)
Translation differences	-	6
<b>Balance at the end of the period / year</b>	<u>656 926</u>	<u>1 829 848</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**

	<u>30/9/2018</u>	<u>31/12/2017</u>
	<u>L.E.(000)</u>	<u>Reclassified</u> <u>L.E.(000)</u>
Legal reserve*	1 899 028	1 845 776
Other reserves	2 796 578	2 796 578
	<u>4 695 606</u>	<u>4 642 354</u>

The increase in the legal reserve balance as a result of retaining an amount of L.E. 53 252 K from the profit of 2017 in accordance with the company's article of association.

\* Reclassification was made on comparative figures as shown in Note no (31-1).

**24. DEFERRED TAX**

**24-1 Recognized deferred tax assets and liabilities**

	<u>30/9/2018</u>		<u>31/12/2017</u>	
	Assets	Liabilities	Assets	Liabilities
	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>
Total deferred tax asset / (liability)	204 617	(1 044 124)	396 877	( 755 618)
Net deferred tax (liability)	-	( 839 507)	-	( 358 741)
Deferred tax charged to income statement for the period / year		( 480 766)		( 138 948)

**24-2 Unrecognized deferred tax assets**

	<u>30/9/2018</u>	<u>31/12/2017</u>
	<u>L.E.(000)</u>	<u>L.E.(000)</u>
Unrecognized deferred tax assets	<u>549 803</u>	<u>542 625</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, 2018 amounted to L.E 511 Million (against L.E. 53 Million up to December 31, 2017). These commitments are expected to be settled in the subsequent period.

**26. CONTINGENT LIABILITIES**

In addition to the amounts included in the condensed consolidated statement of financial position as of September 30, 2018, the company has the following contingent liabilities:

	<u>30/9/2018</u>	<u>31/12/2017</u>
	<u>L.E. (000)</u>	<u>L.E. (000)</u>
- Letters of guarantee issued by banks on behalf of the company*	895 593	721 310
- Letters of credit	930 297	1 416 929

\*Includes letters of guarantee which were issued by banks at September 30, 2018 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 is in process.
- Tax return was submitted for the year 2017 and all taxes were paid during the legal dates.

### **27- 2 Value added Tax /Sales**

- 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 and tax returns were submitted according to the value added tax law on the due legal dates.
- Tax inspection was performed for the years till December 31, 2010 and all due taxes were settled.
- Tax inspection for the years 2011 untill 2015 was performed and the tax differences were settled and the company didn't pay the additional tax, lawsuit was raised regarding it.

### **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 transferred 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				Balance as of 31/12/2017	
	during the period stated in the statement of income		Movement during the period			Balance as of 30/9/2018
	LE 000	LE 000	LE 000	LE 000		
			Debit	Credit	Debit (Credit)	
			LE 000	LE 000	LE 000	
<b>Debit balances due from associates</b>						
- Consortium Algerien de Telecommunications (CAT)*	-	-	-	-	453 902	
					453 902	
- International Telecommunication Consortium Limited (ITCL)*	-	-	-	-	66	
					66	
<b>Credit balances due to associates</b>						
- Vodafone Egypt Telecommunications Company	1 172 974		3 224 300	3 369 880	( 499 619)	
					( 354 039)	
Incoming and international calls, transmission & lease of company premises and towers to the associates company	908 319		64 362	57 014	( 6 669)	
Telecommunications services	19 074		3 288 662	3 426 894	( 506 288)	
					( 368 056)	

\* The balance is 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, 2018 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>30/9/2018</u>	<u>31/12/2017</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 %	-
Middle East and North Africa Submarine Cable Company ( MENA CABLE )	Egypt	100.00 %	-
Mena Company For Submarine Cable Company ( MENA CABLE ITALY )	Italy	100.00 %	-
Centra Distribution	Egypt	99.99 %	99.99 %
Middle East Radio Communication (MERC)	Egypt	51.00 %	51.00 %

\*During the period, 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 are in process 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 labor, in addition to profit margin which will be paid within one year from the date of obtaining the loan at most.

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

### **30. SIGNIFICANT CLAIMS AND LITIGATIONS**

#### **Dispute with Etisalat Misr regarding interconnection rates**

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

On October 21, 2017, Etisalat Misr request to amend the Claims to compel Telecom Egypt to pay the amount stated in the expert report, the company has submitted a memorandum of defense containing the legal defense against the said report , and has also requested leave to provide a memorandum to challenge the basis of challenges to the method used by the expert to reach its inaccurate findings along with the supporting documents . On November 25, 2017 the company submitted the supporting documents and memo's to the court. The court has decided to postpone the hearing on January 30, 2018 for judgment.

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

### **31. COMPARATIVE FIGUERS**

- Restatement was made to some of the comparative figures of the condensed consolidated statement of financial position, condensed consolidated statement of income and condensed consolidated statement of comprehensive income as a result of the reclassification made on fixed assets item which led to the increase in its cost by an amount of L.E 856 253 K against decrease in projects in progress by the same amount, as a result of recording these fixed asset since the beginning of providing the service in 2017, there is an increase in accumulated depreciation of fixed assets by an amount of L.E 98 479 K against increase in depreciation expense for the year 2017, which included in operating costs by the same amount regarding to the share of the nine months ended September 30, 2017 was restated by an amount of L.E 64 271 K.
- Reclassification was made to some of the comparative figuers of the condensed consolidated statement of financial position, condensed consolidated statement of income and condensed consolidated statement of cash flows to conform to the current presentation of the condensed consolidated interim financial statements.
- The following is the effect of restatement and reclassification on the condensed consolidated financial statements:

### 31-1 Effect on Condensed Consolidated Statement of Financial position:

	1/1/2017 as previously reported debit / (credit ) LE(000)	Restatement debit / (credit ) LE(000)	Reclassification debit / (credit ) LE(000)	1/1/2017 Reclassified debit / (credit ) LE(000)
Trade and notes receivable	4 738 671	-	346 010	5 084 681
Debtors and other debit balances	1 906 841	-	( 3 500)	1 903 341
Reserves	(4 446 323)	-	( 551)	(4 446 874)
Retained earnings	(8 056 342)	-	551	(8 055 791)
Creditors and other credit balances	(6 546 163)	-	13 663	(6 532 500)
Credit accounts to associates	-	-	( 356 173)	( 356 173)

	31/12/2017 as previously reported debit / (credit ) LE(000)	Restatement debit / (credit ) LE(000)	Reclassification debit / (credit ) LE(000)	31/12/2017 Restated debit / (credit ) LE(000)
Fixed assets	17 495 627	( 98 479)	856 253	18 253 401
Projects in progress	3 767 650	-	( 856 253)	2 911 397
Trade and notes receivable	4 017 658	-	354 039	4 371 697
Debtors and other debit balances	2 718 563	-	( 6 484)	2 712 079
Reserves	(4 641 301)	-	( 1 053)	(4 642 354)
Retained earnings	(8 674 562)	98 479	1 053	(8 575 030)
Creditors and other credit balances	(10 606 261)	-	20 501	(10 585 760)
Credit accounts to associates	-	-	( 368 056)	( 368 056)

### 31-2 Effect on Condensed Consolidated Statement of Income:

	For the nine months ended			For the nine months ended		For the Three months ended		For the Three months ended	
	30/9/2017			30/9/2017	30/9/2017				
	as previously reported (debit) / credit LE(000)	Restatement (debit) / credit LE(000)	Reclassification (debit) / credit LE(000)	Restated LE(000)	as previously reported LE(000)	Restatement (debit) / credit LE(000)	Reclassification (debit) / credit LE(000)	Restated (debit) / credit LE(000)	
Operating revenue	13 260 948	-	( 135 579)	13 125 369	4 433 159	-	( 44 248)	4 388 911	
Operating cost	(7 924 796)	( 64 271)	( 6 248)	(7 995 315)	(2 823 285)	( 44 649)	( 3 685)	(2 871 619)	
Selling and distribution expenses	(1 230 881)	-	135 579	(1 095 302)	( 439 445)	-	44 248	( 395 197)	
General and administrative expenses	(1 441 332)	-	12 269	(1 429 063)	( 477 777)	-	3 685	( 474 092)	
Income tax	( 617 513)	-	( 6 021)	( 623 534)	( 105 654)	-	-	( 105 654)	
Basic and diluted earnings per share ( L.E. share)	2.08	(0.04)	-	2.04	0.59	(0.03)	-	0.56	

**31-3 Effect on Condensed Consolidated Statement of Cash Flows:**

<u>Cash flows from operating activities</u>	<u>For the nine months ended</u>	<u>Reclassification</u>	<u>For the nine months ended</u>
	<u>30/9/2017</u>		<u>30/9/2017</u>
	<u>as previously</u>		<u>Reclassified</u>
	<u>reported</u>		
	<u>LE(000)</u>	<u>LE(000)</u>	<u>LE(000)</u>
cash paid to suppliers	(1 801 210)	7 691	(1 793 519)
Payments to tax authority - other taxes	( 515 887)	( 7 691)	( 523 578)
Dividends paid to employees and board of directors	( 640 932)	311 762	( 329 170)
Cash paid to employees and board of directors	(2 387 103)	( 311 762)	(2 698 865)

**32- SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies applied in the preparation of the condensed Consolidated interim financial statements as of September 30, 2018 is the same as the accounting policies applied in the preparation of the annual Consolidated financial statements as of December 31, 2017, these accounting policies have been applied consistently to all periods presented in these condensed Consolidated interim financial.

Restatement and reclassification were made to some of comparative figures of the condensed consolidated interim financial statements (note no.31).

**33- BUSINESS COMBINATION**

**33-1 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)

**33-2 Acquisition on subsidiary- “Middle East and North Africa Submarine Cables Company-“MENA”**

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

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

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

	<b>31/7/2018</b>
	<b><u>LE(000)</u></b>
<b><u>Assets</u></b>	
Fixed assets	1 215 660
Intangible assets	465 770
Project in progress	43 008
Other assets	267 234
<b>Total assets</b>	<b>1 991 672</b>
<b>Total liabilities</b>	<b>1 267 789</b>
<b>Net assets</b>	<b>723 883</b>
<b>Company's share of net assets 100%</b>	<b>723 883</b>

**34- LAWS WERE RECENTLY ISSUED**

On January 11, 2018, Comprehensive Health Insurance Law No. 2 for the year 2018 was issued and to be effective after spending six months starting from the next day of the law issuance date , and also the executive regulations of this law was issued on May 8, 2018, management of the company is studying now the effects resulting in the adoption of this law on its financial statements.

**35- SUBSEQUENT EVENTS****Obtaining of medium term syndicated loan**

On October 18, 2018 Telecom Egypt has signed a USD 500 Million medium – term syndicated loan which will be used to support its capital and operational expenditure, and refinance an existing short – term facility.

First Abu Dhabi Bank PJSC (FAB) and Mashreq Bank nPSC (Mashreq) were mandated as joint Book runners and mandated lead arrangers of the facility. FAB is the facility agent for the transaction and Mashreq Bank is the designated Account Bank.