

telecomegypt



**Telecom Egypt Company**  
**Condensed Consolidated Interim Financial Statements**  
**Prepared in Accordance with IFRSs**  
**For The Nine Months Ended September 30, 2019**  
**And Independent Auditor's Review Report**

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

#### Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Telecom Egypt Company and its subsidiaries ("the Group") as at September 30, 2019, the condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the nine months period then ended, and notes to the interim financial statements ('the condensed consolidated interim financial statements'). Management is responsible for the preparation and fair presentation of these condensed consolidated interim financial statements in accordance with IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

#### Scope of Review

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

#### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements do not give a true and fair view of the financial position of the Group as at September 30, 2019, and of its consolidated financial performance and its consolidated cash flows for the nine months period then ended in accordance with IAS 34 "Interim Financial Reporting".

*KPMG Hazem Hassan*

KPMG Hazem Hassan  
Cairo, Egypt

December 18, 2019



**Telecom Egypt Company**  
**Condensed consolidated statement of financial position**

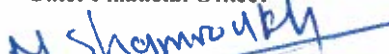
In thousands of Egyptian Pound	Note	30 September 2019	31 December 2018
<b>Assets</b>			
Property, plant and equipment	11	31 066 156	26 827 223
Intangible assets	12	10 923 984	10 824 133
Equity-accounted investees	13	10 199 536	13 396 524
Available-for-sale investments		79 811	79 811
Other financial assets		62 513	74 672
Deferred tax assets	23	312 305	239 160
<b>Non-current assets</b>		<b>52 644 305</b>	<b>51 441 523</b>
Inventories	14	1 764 807	1 766 009
Held-to-maturity investment (treasury bills)		28 864	105 488
Trade and other receivables	15	11 149 671	9 072 217
Cash and cash equivalents	16	1 346 556	892 775
<b>Current assets</b>		<b>14 289 898</b>	<b>11 836 489</b>
<b>Total assets</b>		<b>66 934 203</b>	<b>63 278 012</b>
<b>Equity</b>			
Share capital	17	17 070 716	17 070 716
Reserves	17	4 778 955	4 872 335
Retained earnings		11 833 041	9 766 290
<b>Equity attributable to owners of the company</b>		<b>33 682 712</b>	<b>31 709 341</b>
<b>Non-controlling interests</b>		<b>12 974</b>	<b>14 967</b>
<b>Total equity</b>		<b>33 695 686</b>	<b>31 724 308</b>
<b>Liabilities</b>			
Loans and credit facilities	19	5 229 443	550 168
Trade and other payables	20	4 211 343	3 667 798
Deferred revenue	21	322 068	371 930
Deferred tax liabilities	23	1 351 459	1 294 839
<b>Non-current liabilities</b>		<b>11 114 313</b>	<b>5 884 735</b>
Loans and credit facilities	19	9 888 805	13 303 507
Trade and other payables	20	9 668 077	10 098 460
Deferred revenue	21	945 058	471 354
Credit accounts due to associates	27	846 352	1 055 119
Provisions	22	775 912	740 529
<b>Current liabilities</b>		<b>22 124 204</b>	<b>25 668 969</b>
<b>Total liabilities</b>		<b>33 238 517</b>	<b>31 553 704</b>
<b>Total equity and liabilities</b>		<b>66 934 203</b>	<b>63 278 012</b>

Senior Director of Financial Affairs



"Wael Hanafy"

Chief Financial Officer



"Mohamed Shamroukh"

Managing Director  
& Chief Executive Officer


"Adel Hamed"

Board of Directors approval

Chairman



"Maged Osman"

Independent auditor's review report " attached "

The notes on pages 6 to 24 are an integral part of these condensed consolidated interim financial statements.

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

In thousands of Egyptian Pound	Note	For the nine months ended 30 September		For the three months ended 30 September	
		2019	2018	2019	2018
<b>Continuing operations</b>					
Revenue	5	<b>19 041 849</b>	17 494 489	<b>6 347 003</b>	7 274 419
Operating costs	6	<b>(12 580 354)</b>	(10 751 307)	<b>(4 744 985)</b>	(4 640 257)
Gross profit		<b>6 461 495</b>	6 743 182	<b>1 602 018</b>	2 634 162
Other income		<b>316 755</b>	286 356	<b>144 638</b>	97 126
Selling and distribution expenses	7	<b>(2 220 281)</b>	(1 963 982)	<b>(693 971)</b>	(767 158)
Administrative expenses	8	<b>(3 620 942)</b>	(1 825 155)	<b>(997 676)</b>	(691 954)
Other expenses		<b>(122 157)</b>	(60 999)	<b>(12 169)</b>	(13 479)
Reversal (Impairment loss) on trade and other receivables		<b>25 572</b>	(26 090)	<b>4 917</b>	(20 394)
<b>Operating profit</b>		<b>840 442</b>	3 153 312	<b>47 757</b>	1 238 303
Finance income		<b>1 389 435</b>	132 115	<b>432 652</b>	21 317
Finance costs		<b>(1 082 326)</b>	(981 135)	<b>(367 476)</b>	(313 568)
<b>Net finance income (cost)</b>	10	<b>307 109</b>	(849 020)	<b>65 176</b>	(292 251)
Share of profit of equity-accounted investees, net of tax	13	<b>2 133 579</b>	1 545 689	<b>1 049 039</b>	671 040
<b>Profit before tax</b>		<b>3 281 130</b>	3 849 981	<b>1 161 972</b>	1 617 092
Income tax		<b>(670 146)</b>	(784 877)	<b>(272 731)</b>	(321 230)
<b>Profit</b>		<b>2 610 984</b>	3 065 104	<b>889 241</b>	1 295 862
<b>Other comprehensive income</b>					
Foreign operations - foreign currency translation differences		<b>(159 880)</b>	(3 885)	<b>(47 998)</b>	9 610
<b>Other comprehensive income, net of tax</b>		<b>(159 880)</b>	(3 885)	<b>(47 998)</b>	9 610
<b>Total comprehensive income</b>		<b>2 451 104</b>	3 061 219	<b>841 243</b>	1 305 472
<b>Profit attributable to:</b>					
Owners of the company		<b>2 607 060</b>	3 060 322	<b>887 590</b>	1 295 086
Non - controlling interests		<b>3 924</b>	4 782	<b>1 651</b>	776
		<b>2 610 984</b>	3 065 104	<b>889 241</b>	1 295 862
<b>Total comprehensive income attributable to:</b>					
Owners of the company		<b>2 447 180</b>	3 056 437	<b>839 592</b>	1 304 696
Non - controlling interests		<b>3 924</b>	4 782	<b>1 651</b>	776
		<b>2 451 104</b>	3 061 219	<b>841 243</b>	1 305 472
<b>Earning per share</b>					
Basic earnings per share (LE)	18	<b>1.53</b>	1.79	<b>0.52</b>	0.76
Diluted earnings per share (LE)	18	<b>1.53</b>	1.79	<b>0.52</b>	0.76

The notes on pages 6 to 24 are an integral part of these condensed consolidated interim financial statements.

**Telecom Egypt Company**  
**Condensed consolidated statement of changes in equity**  
**For the period ended 30 September 2019**

Attributable to owners of the company

In thousands of Egyptian Pounds	Subs	Share capital	Legal reserve	Transition reserve	Other reserve	Retained Earnings	Total equity attributable to equity holders of the company	Non-controlling interest	Total equity
Balance as at 1 January 2018		17 070 716	1 845 776	189 443	2 796 578	7 702 020	29 604 533	11 695	29 616 228
<b>Total comprehensive income</b>									
Profit for the period		-	-	-	-	3 060 322	3 060 322	4 782	3 065 104
Other comprehensive income		-	-	(3 885)	-	-	(3 885)	-	(3 885)
<b>Total comprehensive income</b>				(3 885)		3 060 322	3 056 437	4 782	3 061 219
<b>Transactions with shareholders of the company</b>									
Restatements on retained earnings in associates		-	-	-	-	4 495	4 495	-	4 495
Restatements on retained earnings in subsidiaries		-	-	-	-	(20 099)	(20 099)	-	(20 099)
Transferred to legal reserves		-	53 252	-	-	(53 252)	-	-	-
Dividends		-	-	-	-	(426 768)	(426 768)	(3 002)	(429 770)
Acquisition of non-controlling interest in subsidiaries		-	-	(3 440)	-	(263 890)	(267 330)	-	(267 330)
<b>Total transactions with shareholders of the company</b>			53 252	(3 440)		(759 514)	(709 702)	(3 002)	(712 704)
<b>Balance as at 30 September 2018</b>		<b>17 070 716</b>	<b>1 899 028</b>	<b>182 118</b>	<b>2 796 578</b>	<b>10 402 828</b>	<b>31 951 268</b>	<b>13 475</b>	<b>31 964 743</b>
Balance at 31 December 2018 *		17 070 716	1 899 028	176 729	2 796 578	9 766 290	31 709 341	14 967	31 724 308
Impact of initial application of IFRS (16)	3 D	-	-	-	-	(47 041)	(47 041)	-	(47 041)
<b>Restated balance at 1 January 2019</b>		<b>17 070 716</b>	<b>1 899 028</b>	<b>176 729</b>	<b>2 796 578</b>	<b>9 719 249</b>	<b>31 662 300</b>	<b>14 967</b>	<b>31 677 267</b>
<b>Total comprehensive income for the period</b>									
Profit for the period		-	-	-	-	2 607 060	2 607 060	3 924	2 610 984
Other comprehensive income		-	-	(159 880)	-	-	(159 880)	-	(159 880)
<b>Total comprehensive income</b>				(159 880)		2 607 060	2 447 180	3 924	2 451 104
<b>Transactions with shareholders of the company</b>									
Transferred to legal reserves		-	66 500	-	-	(66 500)	-	-	-
Dividends		-	-	-	-	(426 768)	(426 768)	(5 917)	(432 685)
<b>Total transactions with shareholders of the company</b>			66 500			(493 268)	(426 768)	(5 917)	(432 685)
<b>Balance as at 30 September 2019</b>		<b>17 070 716</b>	<b>1 965 528</b>	<b>16 849</b>	<b>2 796 578</b>	<b>11 833 041</b>	<b>33 682 712</b>	<b>12 974</b>	<b>33 695 686</b>

\* The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See Note 3.

The notes on pages 6 to 24 are an integral part of these condensed consolidated interim financial statements.

**Telecom Egypt Company**  
**Condensed consolidated statement of cash flows**

For the nine months ended 30 September

In thousands of Egyptian Pound	Note	2019	2018
<b>Cash flows from operating activities</b>			
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 collected 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)
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)
Cash paid on liabilities long term		(3 637)	(784 389)
Cash paid to third parties for claims		-	(919 278)
Other payments		(351 776)	(98)
<b>Net cash provided by operating activities</b>		<b>1 360 563</b>	<b>961 244</b>
<b>Cash flows from investing activities</b>			
Payments for purchase of property, plant and equipment		(6 538 955)	(5 127 588)
Payments for purchase of intangible assets		(722 779)	(780 178)
Proceeds from sale of property, plant and equipment and intangible assets		42	46
Payments for acquisition of investments		-	(992 216)
Payments for retrieval of held -to- maturity investments - 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
<b>Net cash used in investing activities</b>		<b>(2 064 368)</b>	<b>(6 405 187)</b>
<b>Cash flows from financing activities</b>			
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)
<b>Net cash provided by financing activities</b>		<b>1 068 173</b>	<b>5 986 845</b>
<b>Net change in cash and cash equivalents</b>		<b>364 368</b>	<b>542 902</b>
Cash and cash equivalents at 1 January		873 555	506 936
Effect of movements in exchange rate on cash held		(15 321)	(3 824)
<b>Cash and cash equivalents at 30 September</b>	16	<b>1 222 602</b>	<b>1 046 014</b>

The notes on pages 6 to 24 are an integral part of these condensed consolidated interim financial statements.

## 1. Reporting entity

- Telecom Egypt Company (the "Company") is an Egyptian Joint Stock Company registered in the Arab Republic of Egypt and is engaged in the provision of public communications and associated products and services. The consolidated interim financial statements of the Company for the period ended September 30, 2019 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.
- The main purpose of the company represents in the following:
  - Owning, setting up, operating, maintenance and development of telecommunication networks and infrastructure necessary for communication services for using and / or managing and / or leasing to others and / or dealing on them.
  - Providing voice, video and data transmission telecommunication services to subscribers and / or managing and / or leasing to others and / or dealing on them.
  - Participating or contributing to global communication systems, such as: - submarine cables and satellites and obtaining capacities or circuits for using and / or managing and / or leasing to others and / or dealing on them.
  - Dealing or contracting or Participating with authorities, agencies, companies, organizations or any entity exercising an activity similar to or identical to the company's activities or relates or assists the company to achieve its purposes either in Arab Republic of Egypt or abroad.
  - Managing, selling, leasing, purchasing, possessing, renting and dealing on any property and rights or benefit or right in any property. Including the movable and immovable property which could be acquired or owned by the company.
  - Selling, purchasing and distributing of fixed line sets, mobile phones and computers, its peripherals, accessories and supplies, complementary devices and necessary spare parts and related maintenance works.
  - Setting up voice, video and written data transmission networks and providing value-added services, content services, marketing, electronic signature and online money transfer.
  - Real estate investment for serving its purposes and executing its projects.
- The registered office of the Company is 26 Ramses Street, Cairo, Egypt.
- The nominal shares for the company are traded in the Egyptian Stock Exchange and London Stock Exchange.

## 2. Basis of preparation

### a. Basis of accounting

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and should be read in conjunction with the Group's last annual consolidated financial statements for the year ended 31 December 2018 ('last annual financial statements'). They do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements.

This is the first set of the Group's financial statements where IFRS 16 have been applied. Changes to significant accounting policies are described in Note 3.

These condensed consolidated interim financial statements were authorized for issuance by the Company's Board of Directors on December 18, 2019

### b. Use of judgements and estimates

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

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for new significant judgements and key sources of estimation uncertainty related to the application of IFRS 16, which are described in note no. 3B (i).



**c. Measurement of fair values**

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

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

Significant valuation issues are reported to the group audit committee.

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

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

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

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

**d. Functional and presentation currency**

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

**3. Changes in significant accounting policies**

Except as described below, the accounting policies applied in these condensed consolidated interim financial statements are the same as those applied in the last annual financial statements.

The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2019.

The Group has initially adopted IFRS 16 Leases from 1 January 2019. A number of other new standards are effective from 1 January 2019 but they do not have a material effect on the Group's financial statements"

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated - i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

**A. Definition of a lease**

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining Whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Group has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

**B. As a lessee**

The Group leases many assets, including properties.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognizes right-of-use assets and lease liabilities for most leases - i.e. these leases are on condensed consolidated statement of financial position-balance sheet. However, the Group has elected not to recognize right-of-use assets and lease liabilities for some leases of low-value assets (e.g. IT equipment). The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The carrying amounts of right-of-use assets are as below.

Intangible assets (ROU)

In thousands of L.E	Property
Balance at 1 January 2019	496 576
Balance at 30 September 2019	494 762

The Group presents lease liabilities in 'trade and other payables' in the condensed consolidated statement of financial position.

**i. Significant accounting policies**

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. The right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's accounting policies.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

## ii. Transition

Previously, the Group classified property leases as operating leases under IAS 17. These include buildings and outlets.

The leases typically run for a period of 10 years. Some leases include an option to renew the lease for an additional five years after the end of the non-cancellable period. Some leases provide for additional rent payments that are based on changes in local price indices. At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at either: -their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application - the Group applied this approach to its largest property lease; or -an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments - the Group applied this approach to all other leases.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The Group leases a number of items of technical equipment. These leases were classified as finance leases under IAS 17. For these finance leases, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 were determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

## C. As a lessor

The accounting policies applicable to the Group as a lessor are not different from those under IAS 17. However, when the Group is an intermediate lessor the sub-leases are classified with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor. However, the Group has applied IFRS 15 Revenue from Contracts with Customers to allocate consideration in the contract to each lease and non-lease component.

## D. Impacts on financial statements

### i. Impacts on transition

On transition to IFRS 16, the Group recognized additional right-of-use assets, and additional lease liabilities, recognizing the difference in retained earnings. The impact on transition is summarized below.

In thousands of L.E	1 January 2019
Right-of-use assets presented in intangible assets	496 576
Deferred tax asset	116 842
Deferred tax liabilities	(111 730)
Trade and other receivables	(29 431)
Lease liabilities	(519 298)
Retained earnings	(47 041)

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted- average rate applied is 18% for Egyptian Pound ( all the lease contracts are concluded in Egyptian Pound).

In thousands of L.E	1 January 2019
Operating lease commitment at 31 December 2018 as disclosed in the Group's consolidated financial statements	1 265 290
Discounted using the incremental borrowing rate at 1 January 2019	519 298
Lease liabilities recognised at 1 January 2019	519 298

**ii. Impacts for the period**

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised L.E. 494 762 K of right-of-use assets and L.E. 536 761 K of lease liabilities as at 30 September 2019.

Also in relation to those leases under IFRS 16, the Group has recognised amortization and interest costs, instead of operating lease expense. During the nine months ended 30 September 2019, the Group recognised L.E. 82 600 K of amortization charges and L.E. 71 540 K of interest costs from these leases.

**E. New and amended standards not effective and not yet adopted by the Group**

At the date of the condensed consolidated financial information, the following other standards, amendments and Interpretations have not been effective and have not been early adopted by the Group:

<b>New and amended standards not effective and not yet adopted by the Group</b>	<b>Effective date</b>
Sale or Contribution of Assets between an Investor and its Associates or Joint Venture <i>(Amendments to IFRS 10 and IAS 28)</i>	Available for optional adoption/effective date deferred indefinitely
Amendments to References to Conceptual Framework in IFRS	1 January 2020
Definition of a Business <i>(Amendments to IFRS 3)</i>	1 January 2020
Definition of Material <i>(Amendments to IAS 1 and IAS 8)</i>	1 January 2020
IFRS 17 <i>Insurance contracts</i>	1 January 2021

Management anticipates that the application of the above amendments in future periods will have no material impact on the condensed consolidated interim financial information of the Group in the period of initial application.

#### 4. Segment reporting

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

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

#### For the nine months ended September 30,2019

Description	Communications, marine cables and infrastructure	Internet	Outsourcing	All other	Total
	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Revenue	11 925 763	6 292 702	554 808	268 576	19 041 849
Operating costs	( 10 879 328)	( 916 875)	( 521 483)	( 262 668)	( 12 580 354)
<b>Gross profit</b>	<b>1 046 435</b>	<b>5 375 827</b>	<b>33 325</b>	<b>5 908</b>	<b>6 461 495</b>
Credit interest	22 185	31 163	3 188	16 090	72 626
Debit interest and Finance cost	( 1 075 801)	-	( 3 185)	( 3 340)	( 1 082 326)
Depreciation and amortization	( 2 430 444)	( 116 469)	( 26 066)	( 1 798)	( 2 574 777)
share of profit of equity-accounted investees, net of tax	-	-	-	2 133 579	2 133 579
<b>Non cash items</b>					
Reversal of impairment on financial assets	24 550	-	-	1 022	25 572
Provisions	( 23 522)	( 15 509)	-	-	( 39 031)
<b>Total assets</b>	<b>61 682 290</b>	<b>3 680 223</b>	<b>694 713</b>	<b>876 977</b>	<b>66 934 203</b>
<b>Total liabilities</b>	<b>30 478 830</b>	<b>1 789 098</b>	<b>236 908</b>	<b>733 681</b>	<b>33 238 517</b>

#### For the nine months ended September 30,2018

Description	Communications, marine cables and infrastructure	Internet	Outsourcing	All other	Total
	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Revenue	12 094 917	4 829 281	469 260	101 031	17 494 489
Operating costs	( 9 534 455)	( 728 099)	( 392 338)	( 96 415)	( 10 751 307)
<b>Gross profit</b>	<b>2 560 462</b>	<b>4 101 182</b>	<b>76 922</b>	<b>4 616</b>	<b>6 743 182</b>
Credit interest	25 561	28 662	2 575	12 615	69 413
Debit interest and Finance cost	( 953 969)	-	-	( 1 021)	( 954 990)
Depreciation and amortization	( 1 824 705)	( 105 941)	( 22 828)	( 1 410)	( 1 954 884)
share of profit of equity-accounted investees, net of tax	-	-	-	1 545 689	1 545 689
<b>Non cash items</b>					
Impairment loss on financial assets	-	( 26 090)	-	-	( 26 090)
Provisions	-	( 11 365)	-	-	( 11 365)
<b>Total assets</b>	<b>57 149 230</b>	<b>1 842 299</b>	<b>417 961</b>	<b>380 397</b>	<b>59 789 887</b>
<b>Total liabilities</b>	<b>26 337 383</b>	<b>1 145 696</b>	<b>199 353</b>	<b>142 712</b>	<b>27 825 144</b>

## 5. Revenues

In thousands of Egyptian Pound	For the nine months ended 30 September		For the three months ended 30 September	
	2019	2018	2019	2018
Home and personal communications	7 686 562	5 986 344	2 747 650	2 126 434
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
	<b>19 041 849</b>	<b>17 494 489</b>	<b>6 347 003</b>	<b>7 274 419</b>

Revenues have increased by an amount of L.E. 1 547 360 K mainly due to the increase in home and personal communications revenues by an amount of L.E. 1 700 218 K due to the increase in revenues resulting from internet services, fixed line services and mobile phone services, in addition to the increase in domestic wholesale revenues by an amount of L.E. 507 685 K due to the increase in access service revenue, infrastructure revenue and Enterprise revenue by an amount of L.E. 197 093 K, however the decrease in International cables and networks by an amount of L.E. 891 632 K led to limitation of this increase .

## 6. Operating costs

In thousands of Egyptian Pound	For the nine months ended 30 September		For the three months ended 30 September	
	2019	2018	2019	2018
Interconnection cost	3 663 967	3 172 149	1 306 439	1 078 639
Property, plant and equipment depreciation	1 896 069	1 450 316	758 507	556 971
Amortization of intangible assets	588 981	446 412	227 130	146 388
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
Employee's compensated absence	5 000	4 058	1 133	1 352
Employees' share in profit	328 066	244 973	132 341	77 282
Frequencies and licenses	675 944	599 688	208 045	230 560
Other operating costs	2 972 914	3 207 721	1 117 316	1 995 766
	<b>12 580 354</b>	<b>10 751 307</b>	<b>4 744 985</b>	<b>4 640 257</b>

Operating costs have increased by an amount of L.E. 1 829 047 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 in salaries and wages and equivalent items 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. 588 322 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. 234 807 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.

### 7. Selling and distribution expenses

In thousands of Egyptian Pound	For the nine months ended 30 September		For the three months ended 30 September	
	2019	2018	2019	2018
Salaries & wages	849 038	736 116	285 677	243 952
Company's social insurance contribution	80 304	82 458	26 482	29 169
Employees' compensated absence	1 600	2 880	53	960
Employees' share in profit	125 739	124 210	40 825	38 358
Property, plant & equipment depreciation	7 484	372	4 136	91
Amortization of intangible assets	9 153	26	4 564	8
Advertising and marketing	668 605	697 338	181 032	382 738
Other selling and distribution expenses	478 358	320 582	151 202	71 882
	<b>2 220 281</b>	<b>1 963 982</b>	<b>693 971</b>	<b>767 158</b>

The increase in selling and distribution expenses by an amount of L.E 256 299 K mainly due to the increase in salaries and wages and equivalent items 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, and the increase in other selling and distribution expenses by an amount of L.E. 157 776 K mainly due to the increase in tax and duties item by an amount of L.E 69 643 K, organizations service cost item by an amount of L.E. 29 040 K.

### 8. Administrative expenses

In thousands of Egyptian Pound	Note	For the nine months ended 30 September		For the three months ended 30 September	
		2019	2018	2019	2018
Salaries & wages		1 077 832	1 076 976	173 744	394 676
Company's social insurance contribution		124 133	103 748	40 845	37 427
Employees' compensated absence		6 300	6 152	3 114	2 061
Early retirement compensations	(9-1)	1 476 205	-	471 953	-
End of service benefits	(9-2)	207 136	-	69 046	-
Employees' & BOD share in profit		167 854	187 400	26 097	64 531
Property, plant & equipment depreciation		71 303	57 776	21 024	18 791
Amortization of intangible assets		1 787	53	871	18
Other administration expenses		488 392	393 121	190 982	174 400
		<b>3 620 942</b>	<b>1 825 155</b>	<b>997 676</b>	<b>691 954</b>

The increase in administrative expenses by an amount of L.E. 1 795 787 K is mainly due to the increase in early retirement compensations item 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 end of service benefits item by an amount of L.E 207 136 K in addition to the increase in other administrative expenses by an amount of L.E 95 271 K due to the increase in tax and duties item by an amount of L.E 21 109 K.

## 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. 8).



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

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

The employees share in loyalty & belonging fund according to constant subscription are based on the same employees' basic salary where the end of service benefit calculated. The company's share represents annual defined contribution and the company had contributed by an amount of L.E 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. 8).

### 10. Net finance income (cost)

In thousands of Egyptian Pound	For the nine months ended 30 september		For the three months ended 30 September	
	2019	2018	2019	2018
Finance income	1 389 435	132 115	432 682	21 317
Finance costs	(1 082 326)	(981 135)	(367 476)	(313 568)
Net finance income (cost)	307 109	(849 020)	65 176	(292 251)

The increase in net finance income (cost) by an amount of L.E 1 156 129 K during the period is mainly due to the increase in translation profits of foreign currencies balances and transaction by an amount of L.E 1 284 277 K, however the increase in interest expense by an amount of L.E 128 414 K led to limitation of this increase.

**11. Property, plant and equipment**

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>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>
Land, Buildings & Infrastructure	32 713 721	28 364 721	16 028 366	15 011 041	16 685 355	13 353 680	14 242 933
Technical equipments & information technologies & fixtures on trunk radio network	30 206 083	27 190 553	21 957 717	20 910 569	8 248 366	6 279 984	6 921 764
Vehicles	217 322	189 513	154 133	151 421	63 189	38 092	37 594
Office furniture & fixtures	1 083 241	957 474	850 593	764 935	232 648	192 539	206 277
Tools & supplies	144 703	137 194	92 900	80 841	51 803	56 353	59 675
Under construction	5 784 795	3 400 664	-	-	5 784 795	3 400 664	5 358 980
<b>Total</b>	<b>70 149 865</b>	<b>60 240 119</b>	<b>39 083 709</b>	<b>36 918 807</b>	<b>31 066 156</b>	<b>23 321 312</b>	<b>26 827 223</b>

- The increase in net carrying amount of Property, plant and equipment by an amount of L.E. 4 238 933 K due to the increase in landing, buildings & infrastructure item and technical equipments & information technologies & fixtures on trunk radio network item by an amount of L.E. 2 442 422 K and L.E. 1 326 602 K respectively, and the increase in under construction item by an amount of L.E. 425 815 K.
- The cost of Property, plant and equipment as of September 30, 2019 includes an amount of L.E. 23 382 million fully depreciated Property, plant and equipment and still in use.

**12. Intangible assets**

	30/9/2019	31/12/2018	30/9/2018
<b>Cost</b>	<b><u>L.E. (000)</u></b>	<b><u>L.E. (000)</u></b>	<b><u>L.E. (000)</u></b>
Fourth generation network license	8 633 330	8 633 330	8 633 330
Submarine Cables (right of way)	2 465 948	2 407 087	2 185 037
Right of Use (ROU)	709 879	720 332	152 172
License (internet service - programs )	184 263	79 379	79 379
Land (possession-usufruct)	440 684	440 684	440 684
Under construction	17 534	70 776	2 728
Lease ROU	635 796	-	-
	<b>13 087 434</b>	<b>12 351 588</b>	<b>11 493 330</b>
<b>Less:</b>			
Accumulated amortization and impairment	2 163 450	1 527 455	1 217 593
<b>Net intangible assets</b>	<b>10 923 984</b>	<b>10 824 133</b>	<b>10 275 737</b>

- The increase in net carrying amount of intangible assets mainly due to the increase in lease ROU item by an amount of L.E. 494 762 K as a result of the adoption of IFRS 16 "Leases" and the additions during the period by an amount of L.E. 325 312 K, however the disposals and amortization during the period which are amounting to L.E. 11 741 K and L.E. 599 922 K respectively led to the limitation of this increase.
- Intangible assets cost includes at September 30, 2019 an amount of L.E. 175 million, fully amortized intangible assets and still in use.

### 13. Equity-accounted investees

In thousands of Egyptian Pound	Ownership		Carrying amount	
	30 September 2019	31 December 2018	30 September 2019	31 December 2018
Waneya for Telecommunication	50.00%	50.00%	-	-
International Telecommunication Consortium Limited (ITCL)	50.00%	50.00%	-	-
Vodafone Egypt. (SAE)*	44.95%	44.95%	10 199 384	13 396 377
Egypt Trust	35.71%	35.71%	-	-
Consortium Algérien de Télé – communications (CAT)	33.00%	33.00%	-	-
<b><u>Payments for investments purchase</u></b>				
Egypt Trust**	-	-	152	147
<b>Total</b>			<b>10 199 536</b>	<b>13 396 524</b>

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

#### \* Investment in Vodafone – Egypt

The investments in Vodafone Egypt on 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 data of Vodafone Egypt for the financial year ended in March 31, 2019 which presents the 12 months from the 1st of April 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 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.

#### \*\* Egypt Trust

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

**14. Inventories**

In thousands of Egyptian Pound	30 September 2019	31 December 2018
Spare parts	955 145	754 080
Merchandise for sale telecommunication equipment and computers	343 583	385 586
Project cables and supplies	255 825	482 239
Others	210 254	144 104
	<b>1 764 807</b>	<b>1 766 009</b>

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.

**15. Trade and other receivables**

In thousands of Egyptian Pound	30 September 2019	31 December 2018
Trade receivables - National	3 120 840	2 182 172
Trade receivables - International	2 244 584	2 403 805
Notes Receivable	111	505
<b>Other trade and notes receivable</b>	<b>5 365 535</b>	<b>4 586 482</b>
suppliers- debit balances	1 422 935	439 761
Deposits with others	257 895	254 891
Due from ministries & organizations and companies and franchises	746 736	1 129 171
Payments on the account of corporate tax	79 947	45 963
Tax authority - withholding tax	485 052	224 581
Tax authority - value added tax	1 895 122	1 910 067
Other receivables	896 449	481 301
<b>Other receivables and pre-payments</b>	<b>5 784 136</b>	<b>4 485 735</b>
	<b>11 149 671</b>	<b>9 072 217</b>

Trade and other receivables have increased by an amount of L.E. 2 077 454 K mainly due to the increase in suppliers- debit balances item by an amount of L.E. 983 174 K and Trade receivables – National item by an amount of L.E. 938 668 K, however the decrease in due from ministries & organizations and companies and franchises item by an amount of L.E. 382 435 K and the decrease in Trade receivables – International item by an amount of L.E. 159 221 K which led to the limitation of this increase.

## 16. Cash and cash equivalents

In thousands of Egyptian Pound	Note	30 September 2019	31 December 2018	30 September 2018
Bank balances		913 164	255 027	300 247
Time deposits ( less than 3 months)		169 851	376 656	308 443
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
<b>Cash and cash equivalents</b>		<b>1 346 556</b>	<b>892 775</b>	<b>1 062 870</b>
Restricted Cash	25	(123 954)	(19 220)	(16 856)
<b>Cash and cash equivalents in the statement of cash flows</b>		<b>1 222 602</b>	<b>873 555</b>	<b>1 046 014</b>

## 17. Capital and reserves

### Share capital

The Company's issued and fully paid up capital amounted to LE 17 070 716 K represented in 1 707 071 600 shares of par value LE 10.

In December 2005, the share capital ownership became as follows; 80% the Egyptian Government and 20% private investors.

The holder of ordinary shares is entitled to receive dividends as declared from time to time and is entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

### Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations that are not integral to the operations of the Company, as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

## 18. Earnings per share

### Basic earnings per share

The calculation of basic earnings per share at September 30, 2019 based on the profit attributable to owners of the company of L.E. 2 607 060 K (September 30, 2018: L.E. 3 060 322 K) and a number of ordinary shares outstanding during the period ended September 30, 2019 of 1 707 071 600 (September 30, 2018: 1 707 071 600), calculated as follows:

In thousands of Egyptian Pound	For the period ended 30 september	
	2019	2018
Profit for the period	2 610 984	3 065 104
Profit attributable to owners of the company	2 607 060	3 060 322
<b>Number of ordinary shares</b> In thousands		
	2019	2018
Issued ordinary shares at 1 January	1 707 072	1 707 072
Number of ordinary shares at 30 September	1 707 072	1 707 072
Basic earnings per share (L.E./share)	1.53	1.79
Diluted earnings per share (L.E./share)	1.53	1.79

## 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. Trade and other payables

In thousands of Egyptian Pound

	30 September 2019	31 December 2018
Local suppliers	1 282 318	1 149 074
Notes payable	21 751	18 975
Accrued expenses	858 191	898 184
Assets creditors	6 848 390	8 114 940
Due to organizations and companies	230 418	532 003
<b>Trade payables</b>	<b>9 241 068</b>	<b>10 713 176</b>
Tax Authority - income tax	411 575	312 890
Tax Authority ( taxes other than income tax )	663 275	638 569
Deposits from others	466 846	458 930
Customers advances	666 685	404 313
Dividends payable	3 481	3 442
Liabilities of early retirement scheme	618 790	-
Due to National Telecommunication Regulatory Authority (NTRA )	554 230	384 843
Lease liabilities	536 761	-
Other credit balances	716 709	850 095
<b>Other payables</b>	<b>4 638 352</b>	<b>3 053 082</b>
	<b>13 879 420</b>	<b>13 766 258</b>
<b>Non current</b>	<b>4 211 343</b>	<b>3 667 798</b>
<b>Current</b>	<b>9 668 077</b>	<b>10 098 460</b>
	<b>13 879 420</b>	<b>13 766 258</b>

Trade and other payables have increased by an amount of L.E. 113 162 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, local suppliers item by an amount of L.E. 133 244 K , customers advances 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, Tax Authority – income tax item by an amount of L.E. 98 685 K and, however the decrease in assets creditors item by an amount of L.E. 1 266 550 K and Due to organization and companies by an amount of L.E. 301 585 K led to the limitation of this increase.

## 21. Deferred Revenue

The deferred revenue amounting to L.E. 1 267 126 K which is represented in both rent of transmission systems for mobile companies by an amount of L.E 317 093 K (against L.E 30 312 K at December 31, 2018) and deferred revenue for mobile services by an amount of L.E 66 404 K (against L.E 49 750 K at December 31, 2018), revenue from cables operating and maintenance services by an amount of L.E 60 339 K (against L.E 428 347 K at December 31, 2018) and revenue from internet and telecommunications services by an amount of L.E 823 290 K (against L.E 334 875 K at December 31, 2018).

## 22. Provisions

In thousands of Egyptian Pound

	30 September 2019 Provision for liabilities	31 December 2018 Provision for liabilities, Claims	30 September 2018 Provision for liabilities, Claims
Balance at 1 January	740 529	1 829 960	1 829 848
Reclassification	-	811	861
Provisions formed	39 031	102 083	11 365
Provisions used	(3 637)	(1 192 320)	(1 185 148)
Translation differences	(11)	( 5)	-
Balance at end of the period \ year	775 912	740 529	656 926

\* As at September 30, 2019 provisions are mainly related to taxes, liabilities, lawsuits, and compensation in respect of agreements concluded with others.

## 23. Deferred tax

### Recognized deferred tax assets and liabilities

	30/9/2019		31/12/2018	
	Assets L.E.(000)	Liabilities L.E.(000)	Assets L.E.(000)	Liabilities L.E.(000)
Total deferred tax asset / (liability)	312 305	(1 351 459)	239 160	(1 294 839)
Net deferred tax liability	-	(1 039 154)	-	(1 055 679)
Deferred tax charged to income statement for the period/ year	16 525			( 688 507)

### Unrecognized deferred tax assets

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

Deferred tax assets have not been recognized in respect of the above items because there is no reasonable certainty concerning the company's ability to use the benefits in the future from these assets.

## 24. 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).

## 25. Contingencies

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

In thousands of Egyptian Pounds	30 September 2019	31 December 2018
Letters of guarantee issued by banks on behalf of the Group	1 046 548	913 002
Letters of credit	2 306 724	1 357 440

- letters of guarantee which were issued by banks at September 30, 2019 include letters of guarantee have been issued against restricted cash and cash equivalents at banks.

## 26. TAX POSITION (Telecom Egypt Company)

### 26-1 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 returns were submitted according to the income tax law and all taxes were paid during the legal dates.

### 26- 2 Value added Tax /Sales

Tax inspection for the years 2010 until 2015 was performed and the tax differences were settled and the company didn't pay the additional tax, lawsuit was raised regarding it.

- Tax returns were submitted according to the value added tax law and the accrued taxes were paid.

### 26- 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.

### 26- 4 Stamp Tax

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

### 26- 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 on the due dates.

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



## 27. Related parties

### Identity of related parties

The Group has a relationship with its associate Vodafone Egypt and Consortium Algerian de Telecommunications (CAT).

### Transaction with Associates

During the financial period ended September 30, 2019, fixed to mobile interconnection, audio text fees and sale of products and services in favor of Vodafone Egypt LE 1 358 544 K. Lease of company's premises and towers in favor of the group, transmission and international calls and telecommunication services amounted to L.E. 956 921 K and the balance due to Vodafone Egypt at September 30, 2019 amounted to LE 846 352 K.

## 28. Group entities

TE 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	99.99 %	99.99 %
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.

**29. Business Combination**

**29.1 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:

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

**29.2 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 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 represent the equity and USD 50 Million represent MENA Cable outstanding debt.

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

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

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