

telecomegypt



*Translation from Arabic*

**Telecom Egypt Company**  
**(An Egyptian Joint Stock Company)**  
**Condensed Separate Interim Financial Statements**  
**For The Three Months Ended March 31, 2018**  
**And The Limited Review Report**

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

#### ***Introduction***

We have performed a limited review on the accompanying condensed separate statement of financial position of Telecom Egypt Company "an Egyptian joint stock company" as at March 31, 2018 and the related condensed separate statements of income, comprehensive income, changes in equity and cash flows for the three 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 separate interim financial statements in accordance with Egyptian Accounting Standard number (30) "Interim Financial Reporting". Our responsibility is to express a conclusion on these condensed separate interim financial statements based on our limited review.

#### ***Scope of Limited Review***

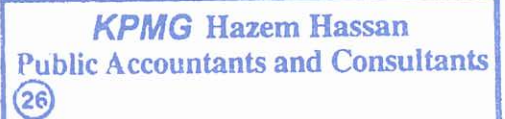
We conducted our limited review in accordance with Egyptian Standard on Review Engagements number (2410), "Limited Review of Interim Financial Statements Performed by the Independent Auditor of the Entity". A limited review of condensed separate interim financial statements consists of making inquiries,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

#### ***Conclusion***

Based on our limited review, nothing has come to our attention that causes us to believe that the accompanying condensed separate interim financial statements do not present fairly, in all material respects, the financial position of the company as at March 31, 2018 and of its financial performance and its cash flows for the three months then ended in accordance with Egyptian Accounting Standard number (30) "Interim Financial Reporting".

**KPMG Hazem Hassan  
Public Accountants & Consultants**

Cairo, May 9, 2018



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

	Note	31/3/2018	31/12/2017
	<u>No.</u>	<u>L.E. (000)</u>	<u>Restated</u> <u>L.E. (000)</u>
<b>Assets</b>			
<b><u>Non Current Assets</u></b>			
Fixed assets	(11)	17 927 757	17 852 509
Projects in progress	(12)	2 787 760	2 837 275
Investments in subsidiaries and associates	(13)	6 377 301	6 377 301
Available-for-sale investments		77 561	77 568
Other assets	(14)	10 202 527	10 320 926
Deferred tax assets	(24-1)	391 487	396 877
<b>Total Non Current Assets</b>		<b>37 764 393</b>	<b>37 862 456</b>
<b><u>Current Assets</u></b>			
Inventories	(15)	1 074 428	1 056 663
Trade receivables	(16)	4 794 352	4 312 747
Debtors and other debit balances	(17)	2 281 320	2 210 282
Held-to-maturity investments -treasury bills		106 628	102 090
Cash and cash equivalents	(18)	601 789	58 263
<b>Total Current Assets</b>		<b>8 858 517</b>	<b>7 740 045</b>
<b>Total Assets</b>		<b>46 622 910</b>	<b>45 602 501</b>
<b><u>Equity</u></b>			
Capital	(22)	17 070 716	17 070 716
Reserves	(23)	4 578 032	4 550 115
Retained earnings		2 064 692	2 797 513
<b>Total Equity</b>		<b>23 713 440</b>	<b>24 418 344</b>
<b><u>Non Current Liabilities</u></b>			
Loans and credit facilities	(19)	627 292	614 472
Creditors and other credit balances	(20)	1 442 528	1 303 429
Deferred tax liabilities	(24-1)	301 754	265 345
<b>Total Non Current Liabilities</b>		<b>2 371 574</b>	<b>2 183 246</b>
<b><u>Current Liabilities</u></b>			
Loans and credit facilities installments due within one year	(19)	7 139 223	6 678 314
Creditors and other credit balances	(20)	12 758 810	10 575 703
Provisions	(21)	639 863	1 746 894
<b>Total Current Liabilities</b>		<b>20 537 896</b>	<b>19 000 911</b>
<b>Total Liabilities</b>		<b>22 909 470</b>	<b>21 184 157</b>
<b>Total Equity and Liabilities</b>		<b>46 622 910</b>	<b>45 602 501</b>

The attached notes on pages (7) to (23) are an integral part of these condensed separate interim financial statements.

Financial Director



" Wael Hanafy "

Senior Financial Director



" Shaher Shokry "

Chief Financial Officer



" Mohamed Shamroukh "

Managing Director

&amp; 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 Separate Statement of Income**

	Note	<b><u>For the three months ended</u></b>	
		<b><u>31/3/2018</u></b>	<b><u>31/3/2017</u></b>
	<b><u>No.</u></b>	<b><u>L.E.(000)</u></b>	<b><u>Restated</u></b>
		<b><u>L.E.(000)</u></b>	<b><u>L.E.(000)</u></b>
Operating revenues	(3)	3 942 493	3 540 209
Operating cost	(4)	(2 744 285)	(1 999 513)
<b>Gross Profit</b>		<b>1 198 208</b>	<b>1 540 696</b>
Other income		71 182	66 521
Selling and distribution expenses	(5)	( 348 802)	( 221 007)
General and administrative expenses	(6)	( 417 963)	( 375 434)
Other expenses		( 22 621)	( 42)
<b>Operating profit</b>		<b>480 004</b>	<b>1 010 734</b>
Finance income		34 063	22 233
Finance cost		( 335 735)	( 154 293)
<b>Net finance cost</b>	(7)	<b>( 301 672)</b>	<b>( 132 060)</b>
<b>Income from investments in subsidiaries</b>	(8)	<b>237 576</b>	<b>81 046</b>
<b>Net profit before tax</b>		<b>415 908</b>	<b>959 720</b>
Income tax expense		( 11 900)	( 302 833)
Deferred tax	(24-1)	( 41 799)	86 659
<b>Total income tax</b>		<b>( 53 699)</b>	<b>( 216 174)</b>
<b>Net profit for the period</b>		<b>362 209</b>	<b>743 546</b>
Basic and diluted earning per share for the period (L.E. / Share)	(10)	0.21	0.44

The attached notes on pages (7) to (23) are an integral part of these condensed separate interim financial statements.

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

	<u>For the three months ended</u>	
	31/3/2018	31/3/2017
		<u>Restated</u>
	<u>L.E.(000)</u>	<u>L.E.(000)</u>
Net profit for the period	362 209	743 546
<b><u>Other Comprehensive Income Items</u></b>		
Other Comprehensive Income items	-	-
<b>Total Comprehensive Income</b>	<u><u>362 209</u></u>	<u><u>743 546</u></u>

The attached notes on pages (7) to (23) are an integral part of these condensed separate interim financial statements.



**Telecom Egypt Company**  
(An Egyptian Joint Stock Company)  
**Condensed Separate Statement of Changes In Equity**  
**For the Three Months Ended March 31, 2018**

	Capital	Legal reserve	Other reserves	Retained earnings	Total
	L.E. (000)	L.E. (000)	L.E. (000)	L.E. (000)	L.E. (000)
<b>Balance as of January 1, 2017</b>	17 070 716	1 583 913	2 796 578	4 782 442	26 233 649
<b><u>Comprehensive income</u></b>					
Net profit for the period ( Restated )	-	-	-	743 546	743 546
Other comprehensive income items	-	-	-	-	-
<b>Total comprehensive income ( Restated )</b>	-	-	-	743 546	743 546
<b><u>Transactions with shareholders of the company</u></b>					
Transferred to legal reserve	-	169 624	-	( 169 624)	-
Dividends for year 2016 (Shareholders)	-	-	-	( 1 707 071)	( 1 707 071)
Dividends for year 2016 (Employees & Board of Directors)	-	-	-	( 568 102)	( 568 102)
<b>Total transactions with shareholders</b>	-	169 624	-	( 2 444 797)	( 2 275 173)
<b>Balance as of March 31, 2017 ( Restated )</b>	17 070 716	1 753 537	2 796 578	3 081 191	24 702 022
<b>Balance as of January 1, 2018 ( Restated )</b>	17 070 716	1 753 537	2 796 578	2 797 513	24 418 344
<b><u>Comprehensive income</u></b>					
Net profit for the period	-	-	-	362 209	362 209
Other comprehensive income items	-	-	-	-	-
<b>Total comprehensive income</b>	-	-	-	362 209	362 209
<b><u>Transactions with shareholders</u></b>					
Transferred to legal reserve	-	27 917	-	( 27 917)	-
Dividends for year 2017 (Shareholders)	-	-	-	( 426 768)	( 426 768)
Dividends for year 2017 (Employees & Board of Directors)	-	-	-	( 640 345)	( 640 345)
<b>Total transactions with shareholders</b>	-	27 917	-	( 1 095 030)	( 1 067 113)
<b>Balance as of March 31, 2018</b>	17 070 716	1 781 454	2 796 578	2 064 692	23 713 440

The attached notes on pages (7) to (23) are an integral part of these condensed separate interim financial statements.

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

	Note No.	<b>For the three months ended:</b>	
		<b>31/3/2018</b>	<b>31/3/2017</b>
		<b>L.E.(000)</b>	<b>Reclassified L.E.(000)</b>
<b><u>Cash flows from operating activities</u></b>			
Cash receipts from customers		3 995 969	3 598 388
Value added tax collected from customers		89 562	76 065
Stamp tax and fees collected from third party		22 663	21 385
Deposits returned from customers		237	53
Cash paid to suppliers		( 667 223)	( 395 802)
Payments of NTRA license fees		( 97 858)	( 31 811)
Dividends paid to employees and Board of Directors		( 20)	( 14)
Cash paid to employees and Board of Directors		( 786 464)	( 619 255)
Cash paid on behalf of employees to third party		( 160 052)	( 140 950)
<b>Cash provided by operating activities</b>		<b>2 396 814</b>	<b>2 508 059</b>
Interest paid		( 230 723)	( 6 856)
Payments to Tax Authority - value added tax		( 439 704)	( 479 663)
Payments to Tax Authority - other taxes		( 242 475)	( 189 089)
Cash paid to parties for claims		( 847 053)	-
Other proceeds / ( payments )		415 769	( 15 599)
<b>Net cash provided by operating activities</b>		<b>1 052 628</b>	<b>1 816 852</b>
<b><u>Cash flows from investing activities</u></b>			
Payments for purchase of fixed assets , other assets and projects in progress		(1 154 474)	(1 609 660)
Payments for purchase of other assets - Fourth generation network license		( 25 000)	( 96 542)
Interest received		2 340	4 950
Dividends collected from investments		205 485	88 916
Proceeds from sale available for sale investment		7	-
<b>Net cash used in investing activities</b>		<b>( 971 642)</b>	<b>(1 612 336)</b>
<b><u>Cash flows from financing activities</u></b>			
Payments for loans and other facilities		( 20 316)	( 88 856)
Proceeds from credit facilities		480 336	303 661
<b>Net cash provided by financing activities</b>		<b>460 020</b>	<b>214 805</b>
<b>Net change in cash and cash equivalents during the period</b>		<b>541 006</b>	<b>419 321</b>
Cash and cash equivalents at the beginning of the period	(18)	46 226	520 730
<b>Cash and cash equivalents at the end of the period</b>	(18)	<b>587 232</b>	<b>940 051</b>

The attached notes on pages (7) to (23) are an integral part of these condensed separate interim financial statements.



**Telecom Egypt Company**  
**(An Egyptian Joint Stock Company)**

**Notes to the Condensed Separate Interim Financial Statements**  
**For The Three Months Ended March 31, 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 the condensed separate interim financial statements**

- These Condensed Separate Interim Financial Statements were approved by the company's Board of Directors for issuance on May 9, 2018.

**2. BASIS OF PREPERATION OF THE CONDENSED SEPARATE INTERIM FINANCIAL STATEMENTS**

**2-1 Statement of compliance**

- These Condensed Separate Interim Financial Statements as of March 31, 2018 have been prepared in accordance with Egyptian Accounting Standard No.30 "Interim Financial Reporting" accordingly it is condensed comparative view to the annual separate financial statements for the company, and in the light of applicable Egyptian laws and regulations.
- These Condensed Separate Interim Financial Statements don't include all the required information needed for preparing the full annual financial statements and must be read with the separate annual financial statements as of December 31, 2017

**2-2 Basis of measurement**

These Condensed Separate 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 presentational purposes, the current and non-current classification has been used for the condensed separate statement of Financial Position, while expenses are analyzed in condensed separate statement of income using a classification based on their function. The direct method has been used in preparing the condensed separate statement of cash flows.

**2-3 Functional and presentation currency**

These Condensed Separate Interim Financial Statements are presented in Egyptian pound (LE), which is the Company's functional currency. All financial information presented in "L.E." has been rounded to the nearest thousands unless otherwise stated.

**2-4 Use of estimates**

The preparation of the condensed separate interim financial statements in conformity with Egyptian Accounting Standards that requires the 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 supposed 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 ongoing basis. Accounting recognition 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 the most significant accounts used the estimation and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the condensed separate interim financial statements is included in the following notes:

- Impairment of financial and non-financial assets.
- Provisions and contingencies.
- Deferred tax assets.
- Operational useful life of fixed assets.

**2-5 Fair value measurement**

The fair value of financial instruments is determined based on the market value of the financial instrument or similar financial instruments at the date of the condensed separate 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

	<b>For the three months ended</b>	
	<b>31/3/2018</b>	<b>31/3/2017</b>
	<b>L.E. (000)</b>	<b>Reclassified L.E. (000)</b>
Home and personal communications*	578 965	351 130
Enterprise*	494 308	300 809
Domestic wholesale*	1 543 929	1 484 869
International carriers	1 096 357	1 186 638
International cables and networks	228 934	216 763
	<b>3 942 493</b>	<b>3 540 209</b>

Total operating revenues have increased by an amount of L.E. 402 284 K mainly due to the increase in home and personal communications revenues by an amount of L.E. 227 835 K due to the increase in revenues resulting from subscription of Fixed line and rendering Mobile services, in addition to the increase in enterprise revenues by an amount of L.E. 193 499 K due to the increase in sales of devices by an amount of L.E. 170 773 K and domestic wholesale revenue by an amount of L.E. 59 060 K due to the increase in Access Service revenue, however the decrease in International carriers revenue by an amount of L.E. 90 281 K which led to limitation of this increase.

\*Reclassification was made to comparative figures as shown in note no (30-2).

### 4. OPERATING COSTS

	<b>For the three months ended</b>	
	<b>31/3/2018</b>	<b>31/3/2017</b>
	<b>L.E. (000)</b>	<b>Restated L.E. (000)</b>
Interconnection cost	1 014 894	942 492
Depreciation and amortization*	629 558	353 734
Other operating cost*	1 099 833	703 287
	<b>2 744 285</b>	<b>1 999 513</b>

Operating costs have increased by an amount of L.E. 744 772 K mainly due to the following: -

- The increase of interconnection cost by an amount of L.E. 72 402 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 from this increase.
- The increase in the depreciation and amortization item by an amount of L.E. 275 824 K due to the additions of the last year after the first quarter and the current period.
- The increase of merchandise for sale cost by an amount of L.E. 180 054 K also salaries and wages and equivalent item to an amount of L.E. 60 741 K due to the annual increase by 10 % from the basic salary starting from January 2018, in addition to the increase of Fuel item by an amount of L.E. 44 679 K and Right of use (IRU) outside Egypt by an amount of L.E. 24 906 K.

\*Restatement and reclassification were made to comparative figures as shown in note no (30-2).

**5. SELLING AND DISTRIBUTION EXPENSES**

	<b>For the three months ended</b>	
	<b>31/3/2018</b>	<b>31/3/2017</b>
	<b>L.E. (000)</b>	<b>Reclassified L.E. (000)</b>
Salaries & wages*	195 131	179 840
Company's social insurance contribution	21 942	20 770
Advertising & marketing	46 665	15
Organizations services cost	47 399	17 428
Other expenses*	37 665	2 954
	<b><u>348 802</u></b>	<b><u>221 007</u></b>

The increase in selling and distribution expenses by an amount of L.E 127 795 K mainly due to the increase in Advertising and marketing item by an amount of L.E 46 650 K, also the increase in both organizations services cost and Tax and duties by an amount of L.E 29 971 K and L.E 10 042 K respectively.

\*Reclassification was made to comparative figures as shown in note no (30-2).

**6. GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>For the three months ended</b>	
	<b>31/3/2018</b>	<b>31/3/2017</b>
	<b>L.E. (000)</b>	<b>Reclassified L.E. (000)</b>
Salaries and wages*	290 134	246 949
Company's social insurance contribution	30 390	27 856
Depreciation	9 367	7 563
Tax and duties*	16 906	17 532
Organizations services cost	34 993	69 884
Other expenses*	36 173	5 650
	<b><u>417 963</u></b>	<b><u>375 434</u></b>

The increase in general and administrative expenses by an amount of L.E 42 529 K mainly due to the increase in salaries and wages and equivalent item by an amount of L.E 45 719 K due to the annual increase by 10 % from the basic salary starting from January 2018, however the decrease in organizations services cost item by an amount of L.E 34 891 K led to limitation from this increase.

\*Reclassification was made to comparative figures as shown in note no (30-2).

## 7. NET FINANCE COST

	<u>For the three months ended</u>	
	<u>31/3/2018</u>	<u>31/3/2017</u>
	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Total finance income	34 063	22 233
Total finance cost	( 335 735)	( 154 293)
<b>Net finance cost</b>	<b>( 301 672)</b>	<b>( 132 060)</b>

The increase in net finance cost by an amount of L.E 169 612 K during the period is mainly due to the increase in debit interest by an amount of L.E 219 151 K, also the finance cost of credit contracts by an amount of L.E 97 972 K, however the decrease in translation loss of foreign currencies balances and transactions by an amount of L.E 142 959 K led to limitation from this increase.

## 8. INCOME FROM INVESTMENT IN SUBSIDIARIES

	<u>For the three months ended</u>	
	<u>31/3/2018</u>	<u>31/3/2017</u>
	<u>L.E. (000)</u>	<u>L.E. (000)</u>
TE-Data	200 000	76 000
The Egyptian Telecommunication Company for information system (Xceed)	31 250	3 125
Middle East Radio Communication (MERC)	2 998	1 921
Centra for Technology	3 328	-
	<u>237 576</u>	<u>81 046</u>

This income is represented in the company's share in the cash dividends from investment according to the resolution of the General Assembly of investees.

## 9. EMPLOYEE'S BENEFITS

### 9-1 Early retirement scheme

The Company had an early retirement scheme where employees who wishes to retire, prior to the legal retirement age, are entitled to receive a compensation amounting to 75% of their latest basic salary for the remaining service period up to the retirement age with a maximum of 10 years for men and 15 years for women – by the date of 30/3/2016, internal instructions no. 9 were issued related to apply the optional early retirement for employees during the period from 3/4/2016 until 31/5/2016 the employees who wishes to retire prior to the legal retirement age are entitled to receive a compensation amounting to 125% of their latest basic salary for the remaining service period up to the retirement age with a maximum of 15 years. and now the company doesn't apply any early retirement scheme.



### 9-2 End of service benefits (Company's Contribution in Loyalty & 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% 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.

	<u>For the three months ended</u>	
	<u>31/3/2018</u>	<u>31/3/2017</u>
Net profit for the period (LE (000))	362 209	743 546
Number of shares available during the period	1707 071 600	1707 071 600
Basic and diluted earnings per share for the period (LE / share)	<u>0.21</u>	<u>0.44</u>

### 11. FIXED ASSETS

Description	31/3/2018	31/12/2017	31/3/2018	31/12/2017	31/3/2018	31/12/2017
	Cost	Cost	Accumulated depreciation	Accumulated depreciation	Net	Net
	<u>L.E.(000)</u>	<u>Restated L.E.(000)</u>	<u>L.E.(000)</u>	<u>Restated L.E.(000)</u>	<u>L.E.(000)</u>	<u>Restated L.E.(000)</u>
Land	2 369 049	2 369 049	-	-	2 369 049	2 369 049
Buildings & Infrastructure *	25 341 499	24 870 822	14 995 739	14 773 018	10 345 760	10 097 804
Centrals & information technologies equipment*	24 843 431	24 757 308	19 798 065	19 540 934	5 045 366	5 216 374
Vehicles	143 481	137 162	103 689	103 165	39 792	33 997
Furniture	314 611	314 093	242 408	236 858	72 203	77 235
Tools & supplies	130 939	130 908	75 352	72 858	55 587	58 050
<b>Total</b>	<u>53 143 010</u>	<u>52 579 342</u>	<u>35 215 253</u>	<u>34 726 833</u>	<u>17 927 757</u>	<u>17 852 509</u>

- The increase in net carrying value of fixed assets mainly due to the additions during the period by an amount of L.E. 564 574 K, however the depreciation of the period by an amount of L.E. 489 248 K led to limitation of this increase.
- The cost of fixed assets as of March 31, 2018 includes an amount of L.E. 23 427 million fully depreciated fixed assets and still in use.

\*Restatement and reclassification were made to comparative figures as shown in note no (30-1).



## 12. PROJECTS IN PROGRESS

	31/3/2018	31/12/2017
	<u>LE (000)</u>	<u>Reclassified LE (000)</u>
Land	16 503	16 503
Buildings and Infrastructure	324 626	494 046
Tools and supplies	2 532	2 532
Centrals and information technology equipment*	1 750 942	1 595 127
Other Assets (cables)	-	29 767
Advanced payments - fixed assets	693 157	699 300
	<u>2 787 760</u>	<u>2 837 275</u>

The balance of projects in progress is represented in the part that has been executed from commitments capital and contracts until March 31, 2018 and related advanced payment.

\*Reclassification was made to comparative figures as shown in note no (30-1).

## 13. INVESTMENTS IN SUBSIDIARIES & ASSOCIATES

	31/3/2018		31/12/2017	
	<u>Ownership</u> %	<u>Amount</u> L.E. (000)	<u>Ownership</u> %	<u>Amount</u> L.E. (000)
- Telecom Egypt France (TE France)	100.00	69 220	100.00	69 220
- TE Data	99.99	252 461	99.99	252 461
- TE Investment Holding	99.95	39 998	99.95	39 998
- Egyptian Telecommunication for Information System	97.66	31 250	97.66	31 250
- Centra Technology	58.76	14 737	58.76	14 737
- Wataneya for Telecommunications	50.00	125	50.00	125
- International Telecommunications Consortium limited (ITCL)	50.00	54	50.00	54
- Middle East Radio Communication	49.00	7 350	49.00	7 350
- Vodafone Egypt Telecommunications Company	44.95	5 960 054	44.95	5 960 054
- Egypt Trust	35.71	7 500	35.71	7 500
- Consortium Algerien de Telecommunications	33.00	133	33.00	133
		<u>6 382 882</u>		<u>6 382 882</u>
<u>Payments for investments purchase</u>				
- Egypt Trust *		2 500		2 500
		<u>6 385 382</u>		<u>6 385 382</u>
<u>Less:</u>				
<b>Impairment loss on investments of :-</b>				
Consortium Algerien de Telecommunications, International Telecommunications Consortium Limited, Egypt Trust, Wataneya for Telecommunications and Telecom Egypt France		8 081		8 081
		<u>6 377 301</u>		<u>6 377 301</u>

\* The company has been subscribed in the remaining 25% that represent share's in Egypt Trust capital and the commercial registration related to is in process .

**14. OTHER ASSETS**

	<b>31/3/2018</b>	<b>31/12/2017</b>
	<b><u>L.E. (000)</u></b>	<b><u>L.E. (000)</u></b>
<b><u>Cost</u></b>		
Fourth generation license	8 633 330	8 633 330
Submarine cables (right of way)	1 850 635	1 819 357
Land (possession-usufruct)	440 684	440 684
Licenses and programs	56 382	56 382
	<b><u>10 981 031</u></b>	<b><u>10 949 753</u></b>
<b><u>Less:</u></b>		
Accumulated amortization	778 504	628 827
<b>Net carrying amount</b>	<b><u>10 202 527</u></b>	<b><u>10 320 926</u></b>

- The decrease in net carrying value of other assets mainly due to the amortization of the period by an amount of L.E 149 677 K, however the additions of the period by an amount of L.E. 31 278 K led to limitation of this decrease.

- Other assets amortization is charged to operating costs.

- Other assets cost includes at March 31, 2018 an amount of L.E 167 million, fully depreciated other assets and still in use.

**- 15. INVENTORIES**

	<b>31/3/2018</b>	<b>31/12/2017</b>
	<b><u>L.E. (000)</u></b>	<b><u>L.E. (000)</u></b>
Spare parts	656 864	636 816
Material supplies ,Merchandise for sale and Letters of credit	186 589	155 874
Others – cables and supplies	230 975	263 973
	<b><u>1 074 428</u></b>	<b><u>1 056 663</u></b>

The value of inventories was written down by an amount of L.E. 13 634 K (against L.E. 15 064 K as at December 31, 2017) for obsolete and slow-moving items directly from the cost of each type of inventory.

**16. TRADE RECEIVABLES**

	<b>31/3/2018</b>	<b>31/12/2017</b>
	<b><u>L.E. (000)</u></b>	<b><u>L.E. (000)</u></b>
Trade Receivables - National	4 345 972	3 838 824
Trade Receivables - International	2 442 419	2 467 962
	<b><u>6 788 391</u></b>	<b><u>6 306 786</u></b>
<b><u>Less:</u></b>		
Impairment loss on trade receivables	1 994 039	1 994 039
	<b><u>4 794 352</u></b>	<b><u>4 312 747</u></b>

Trade receivables balance have increased by an amount of L.E 481 605 K mainly due to the increase in trade receivables - national which is represented in both of trade receivable domestic by an amount of L.E 379 162 K and trade receivable enterprise by an amount of L.E 125 347 K and international carries by an amount of L.E 143 717 K, however the decrease in trade receivables international cables and networks by an amount of L.E 169 260 K led to limitation of this increase.

**17. DEBTORS AND OTHER DEBIT BALANCES**

	<b>31/3/2018</b>	<b>31/12/2017</b>
	<b><u>LE (000)</u></b>	<b><u>LE (000)</u></b>
Accrued revenues	56 092	21 669
Deposites with other	190 414	188 343
Suppliers – debit balances	414 301	128 199
Tax Authority - value added tax	431 505	508 447
Tax Authority - withholding tax	187 445	138 429
Due from ministries, organizations and companies	545 896	419 986
Payments on the account of income tax	26 614	71 916
Temporary debts due from employees	—	316 773
Other debit balances	535 729	528 701
	<b><u>2 387 996</u></b>	<b><u>2 322 463</u></b>
<b><u>Less:</u></b>		
Impairment loss on debtors and other debit balances	106 676	112 181
	<b><u>2 281 320</u></b>	<b><u>2 210 282</u></b>

Debtors and other debit balances have increased by an amount of L.E. 71 038 K mainly due to the increase in suppliers – debit balances by an amount of L.E. 286 102 K and due from ministries, organizations and companies by an amount of L.E 125 910 K and tax authority – withholding tax by an amount of L.E 49 016 K, however due to the settlement of payments on the account of employees as a result of approved dividends for year 2017 led to the limitation of this increase.

**18. CASH AND CASH EQUIVALENTS**

	Note	31/3/2018	31/12/2017
	No.	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Banks - time deposits (less than 3 months)		576 766	18 504
Banks - current accounts		18 072	38 750
Cash on hand		6 951	1 009
<b>Cash and cash equivalents</b>		<u>601 789</u>	<u>58 263</u>
<b>Less:</b>			
Restricted cash and cash equivalents at banks	( 26)	<u>14 557</u>	<u>12 037</u>
<b>Cash and cash equivalents as per cash flows statement</b>		<u>587 232</u>	<u>46 226</u>

**19. LOANS AND CREDIT FACILITIES**

- The increase in the balance of loans and credit facilities by an amount of L.E 473 729 K mainly resulting from obtaining of loans and credit facilities with local and foreign currencies amounted to L.E. 7 766 515 K (against LE 7 292 786 K for the year ended 31 December, 2017).

**20. CREDITORS AND OTHER CREDIT BALANCES**

	31/3/2018	31/12/2017
	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Suppliers	2 113 277	1 876 090
Tax Authority-Income Tax	322 298	322 298
Tax Authority (taxes other than income tax)	505 101	424 962
Deposits from others	409 197	400 611
Assets creditors	6 205 927	6 519 614
Dividends payable	751 094	770
Accrued expenses	569 830	640 064
Public Authority for Social Insurance	49 333	37 216
Trade receivables - credit balances	372 589	199 481
Due to organizations and companies	281 417	295 449
Deferred revenue	1 011 824	74 526
National Telecommunication Regulatory Authority (NTRA)	449 113	345 442
Other credit balances	1 160 338	742 609
	<u>14 201 338</u>	<u>11 879 132</u>
<b>Less balances due within more than one year:</b>		
Assets creditors	1 400 623	1 258 706
Deffered revenue	36 630	39 448
Credit balances - organizations and companies	5 275	5 275
	<u>12 758 810</u>	<u>10 575 703</u>

Creditors and other credit balances have increased by an amount of L.E. 2 183 107 K mainly due to the increase in both of dividends payable item by an amount of L.E 750 324 K due to 2017 dividends according to General Assembly decree on March 29, 2018 and deferred revenue item by an amount of L.E 937 298 K as a result of the increase in transmission rental to mobile network operators by an amount of L.E 926 537 K and suppliers item by an amount of L.E 237 187 K, however the decrease in assets creditors by an amount of L.E 313 687 K led to the limitation of this increase.

**21. PROVISIONS**

	<b>31/3/2018</b>	<b>31/12/2017</b>
	<b><u>L.E. (000)</u></b>	<b><u>L.E. (000)</u></b>
Balance at the beginning of the period / year	1 746 894	1 057 657
Reclassification during the period/year	-	( 96 037)
Charged to income statement for the period / year	-	1 158 206
Used during the period / year	<u>(1 107 031)</u>	<u>( 372 932)</u>
<b>Balance at the end of the period / year</b>	<b><u>639 863</u></b>	<b><u>1 746 894</u></b>

**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 LE 10 each.
- The Egyptian Government owns 80% after floating 20% of company's shares in public offering during December 2005.

**23. RESERVES**

	<b>31/3/2018</b>	<b>31/12/2017</b>
	<b><u>L.E. (000)</u></b>	<b><u>L.E. (000)</u></b>
Legal reserve	1 781 454	1 753 537
Other reserves	<u>2 796 578</u>	<u>2 796 578</u>
	<b><u>4 578 032</u></b>	<b><u>4 550 115</u></b>

The balance of legal reserve have increased as a result of retaining an amount of L.E. 27 917 K from 2017 profit in accordance with the company's articles of association.

**24. DEFERRED TAX****24-1 Recognized deferred tax assets and liabilities**

	<b>31/3/2018</b>		<b>31/12/2017</b>	
	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)	<u>391 487</u>	<u>301 754</u>	<u>396 877</u>	<u>265 345</u>
Net deferred tax asset (liability)	<u>89 733</u>	<u>-</u>	<u>131 532</u>	<u>-</u>
Deferred tax charged to the income statement for the period / year	<u>( 41 799)</u>		<u>86 659</u>	

**24-2 Unrecognized deferred tax assets**

	31/3/2018	31/12/2017
	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Unrecognized deferred tax assets	<u>495 914</u>	<u>495 127</u>

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

**25. CAPITAL COMMITMENTS**

The company's capital commitments for the unexecuted parts of contracts until March 31, 2018 amounted to L.E. 315 Million (against L.E. 45 Million as at December 31, 2017) investees' share in capital haven't been claimed yet by an amount of L.E. 1 million. These commitments are expected to be settled in the subsequent period except for the uncalled installments of investees' share in capital, which shall be settled when required by the Board of Directors of those investees companies.

**26. CONTINGENT LIABILITIES**

In addition to the amounts included in the condensed separate statement of financial position, the company has the following contingent liabilities as at March 31, 2018:

	31/3/2018	31/12/2017
	<u>LE (000)</u>	<u>LE (000)</u>
- Letters of guarantee issued by banks on behalf of the company*	729 538	635 836
- Letters of credit	1 533 325	1 413 702

\* letters of guarantee which were issued by banks include letters of guarantee have been issued against restricted cash and cash equivalents at banks (note no.18)



## **27. TAX POSITION**

### **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 until 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 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.

### **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.

Notes To The Condensed Separate Interim Financial Statements  
For The Three Months Ended March 31, 2018 (continued)

Translation from Arabic

28. RELATED PARTY TRANSACTIONS

There are transactions between Telecom Egypt and its subsidiaries and associates and such transactions are approved by the company's management, the following statement contain the most important transactions during the financial period and the balances shown in the condensed separate interim financial statements date:

28-1 Transactions with subsidiaries

	Nature of transaction during the period	Amount of transactions during the period stated in the income statement		Movement during the period		Balance as of	
		L.E. 000	L.E. 000	Debit	Credit	31/3/2018	31/12/2017
				L.E. 000	L.E. 000	Debit/(Credit)	Debit/(Credit)
<b><u>Debit balances included in trade receivables</u></b>							
- TE Data	Leased circuits and information network circuits	864 653		957 658	492 439	1 208 119	742 900
- Egyptian Telecommunication Company for Information Systems	Lease of company premises, electricity claims, maintenance and Leased circuits	7 921		16 220	4 509	48 676	36 965
- Middle East Radio Communication (MERC)	Leased information circuits	515		587	587	-	-
- Jordanian Egyptian Company for data transfer	participation contract	4 677		-	4 529	(24 446)	(19 917)
- Jordanian Egyptian Company for data transfer	The movement of international clearing			6	-	(825)	(831)
				<u>974 471</u>	<u>502 064</u>	<u>1 231 524</u>	<u>759 117</u>
<b><u>Debit balances included in debtors and other debit balances</u></b>							
- Egyptian Telecommunication Company for Information Systems	Purchasing of fixed assets	-		-	-	145	145
- T E investment Holding	Lease of premises	5		5	-	5	-
				<u>5</u>	<u>-</u>	<u>150</u>	<u>145</u>
<b><u>Credit balances included in suppliers balances</u></b>							
- TE Data	Purchasing of fixed assets and services rendered from subsidiary company	14 220		22 065	438 929	(1 589 302)	(1 172 438)
- Egyptian Telecommunication Company for Information Systems	Services rendered from subsidiary company	46 959		74 763	53 940	(39 784)	(60 607)
- Centra for Technologies	Maintenance & supplying computers	42 196		120 803	49 197	(174 000)	(245 606)
- Centra for Electronic Industries	Maintenance & supplying computers	407		553	465	(1 036)	(1 124)
- Middle East Radio Communication (MERC)	Supplying & installing communication networks	361		776	412	(149)	(513)
				<u>218 960</u>	<u>542 943</u>	<u>(1 804 271)</u>	<u>(1 480 288)</u>
<b><u>Credit balance included in creditors and other credit balances</u></b>							
- TE Data	Supplying information technology equipment	-		-	-	(9 714)	(9 714)
- T E investment Holding	Services rendered from subsidiary company	13 704		14 507	15 349	(4 720)	(3 878)
- TE France	participation contract	7 250		4 862	7 250	(79 708)	(77 320)
				<u>19 369</u>	<u>22 599</u>	<u>(94 142)</u>	<u>(90 912)</u>

- Amount of transactions during the period does not include the value added tax which included in the income statement

Notes To The Condensed Separate Interim Financial Statements  
For The Three Months Ended March 31, 2018 (continued)

*Translation from Arabic*

**28. RELATED PARTY TRANSACTIONS ( continued )**

**28-2 Transactions with associates**

	Nature of transactions during the period	Amount of transactions during the period recorded in the statement of income		Movement during the period		Balance as of	
		L.E. 000	L.E. 000	Debit	Credit	Debit/(Credit)	Debit/(Credit)
<b><u>Balances included in trade receivables</u></b>							
- Vodafone Egypt Telecommunications Company	Outgoing calls and voice services to the associate company	346 654		1 813 166	1 516 056	( 56 929)	( 354 039)
	Incoming and international calls, transmission claims		241 083				
	premises and towers to the associate company						
				<u>1 813 166</u>	<u>1 516 056</u>	<u>( 56 929)</u>	<u>( 354 039)</u>
<b><u>Debit balances included in debit balances - long term</u></b>							
- Consortium Algerten de Telecommunications (CAT)*	Paid on behalf of associate to finance operating expenses	-		-	-	453 902	453 902
						<u>453 902</u>	<u>453 902</u>
<b><u>Debit balances included in debtors and other debit balances</u></b>							
- International Telecommunication Consortium Limited (ITCL)*		-		-	-	66	66
						<u>66</u>	<u>66</u>

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



## **29. 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 US\$ 125 millions , according to the opinion of the company's management , this report was prepared on inaccurate assumptions, this report is considered only an opinion and shall not "restrict the court".

On October 21, 2017, Etisalat Misr request to amend the Claims to compel Telecom Egypt to pay the amount stated in the expert report, the company has submitted a 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.

## **30. Comparative figures**

- Restatement was made to some of the comparative figures of the condensed separate statement of financial position, condensed separate statement of income and condensed separate 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 assets since the beginning of providing the service in 2017, which led to make an adjustment led to 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 three months ended March 31, 2017 was restated by an amount of L.E 13 751 K.
- Reclassification was made to some of the comparative figures of the condensed separate statement of income and condensed separate statement of cash flows to conform to the current presentation of the condensed separate interim financial statements.

The following is the effect of restatement and reclassification on the condensed separate interim financial statements:

### **30-1 Condensed Separate Statement of Financial position**

	<u>31/12/2017</u> <u>as previously</u> <u>reported</u> <u>LE(000)</u>	<u>Restatement</u> <u>debit / (credit )</u> <u>LE(000)</u>	<u>Reclassification</u> <u>debit / (credit )</u> <u>LE(000)</u>	<u>31/12/2017</u> <u>Restated</u> <u>LE(000)</u>
Fixed assets	17 094 735	( 98 479)	856 253	17 852 509
Projects in progress	3 693 528	-	( 856 253)	2 837 275
Retained earnings	(2 895 992)	98 479	-	(2 797 513)

**30-2 Condensed Separate Statement of Income**

	<u>For the three months ended</u> 31/3/2017 <u>as previously</u> <u>reported</u> <u>LE(000)</u>	<u>Restatement</u> <u>(debit) / credit</u> <u>LE(000)</u>	<u>Reclassification</u> <u>(debit) / credit</u> <u>LE(000)</u>	<u>For the three months ended</u> 31/3/2017 <u>Restated</u> <u>LE(000)</u>
Operating revenue	3 587 225	-	( 47 016)	3 540 209
Operating cost	(1 984 981)	( 13 751)	( 781)	(1 999 513)
Selling and distribution expenses	( 268 023)	-	47 016	( 221 007)
General and administrative expenses	( 380 848)	-	5 414	( 375 434)
Income tax	( 298 200)	-	( 4 633)	( 302 833)

**30-3 Condensed Separate Statement of Cash Flows**

	<u>For the three months ended</u> 31/3/2017 <u>as previously</u> <u>reported</u> <u>LE(000)</u>	<u>Reclassification</u> <u>LE(000)</u>	<u>For the three months ended</u> 31/3/2017 <u>Reclassified</u> <u>LE(000)</u>
cash paid to suppliers	( 397 663)	1 861	( 395 802)
Payments to tax authority - other taxes	( 187 228)	( 1 861)	( 189 089)

**31- SIGNIFICANT ACCOUNTING POLICIES**

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

Restatement and reclassification were made to some of comparative figures of the condensed separate interim financial statements (note no.30).