

telecomegypt



Translation from Arabic

Telecom Egypt Company
(An Egyptian Joint Stock Company)
Consolidated Financial Statements
For the Financial Year Ended December 31, 2018
& Auditor's Report

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(An Egyptian Joint Stock Company)
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For the Financial Year Ended December 31, 2018
& Auditor's Report

Index

<u>Contents</u>	<u>Page Number</u>
- Auditor's Report	1:2
- Consolidated Statement of Financial Position	3
- Consolidated Statement of Income	4
- Consolidated Statement of Comprehensive Income	5
- Consolidated Statement of Changes in Equity	6
- Consolidated Statement of Cash Flows	7
- Notes to the Consolidated Financial Statements	8:42



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Translation from Arabic

AUDITOR'S REPORT TO THE SHAREHOLDERS OF TELECOM EGYPT COMPANY

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Telecom Egypt Company S.A.E, which comprise the consolidated statement of financial position as at December 31, 2018 and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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



Hazem Hassan

Translation from Arabic

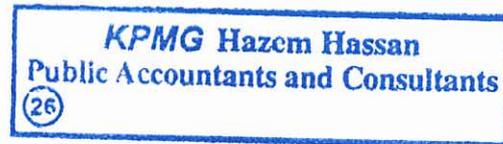
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Telecom Egypt Company as of December 31, 2018, and of its consolidated financial performance and cash flows for the financial year then ended in accordance with the Egyptian Accounting Standards and the Egyptian laws and regulations relating to the preparation of these consolidated financial statements.

**KPMG Hazem Hassan
Public Accountants & Consultants**

Cairo, February 20, 2019



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

	Note	31/12/2018	31/12/2017	1/1/2017
	No.	L.E. (000)	Restated L.E. (000)	Reclassified L.E. (000)
Assets				
Non current Assets				
Fixed assets	(13)	21 534 394	18 253 401	14 238 001
Projects in progress	(14)	5 429 756	2 911 397	7 418 288
Investments in associates	(15)	13 452 011	11 746 262	9 452 591
Available-for-sale investments	(16)	79 811	77 568	81 273
Long-term balances (prepaid expense)		74 672	-	-
Other assets	(17)	10 753 357	10 341 724	1 391 327
Deferred tax assets	(28-1)	239 160	397 437	418 502
Total non current Assets		51 563 161	43 727 789	32 999 982
Current Assets				
Inventories	(18)	1 766 009	1 183 773	662 097
Trade and notes receivables	(19)	4 378 759	4 371 697	5 084 681
Debtors and other debit balances	(20)	5 200 654	2 712 079	1 903 341
Held-to-maturity investments-treasury bills		105 488	113 320	144 428
Cash and cash equivalents	(21)	892 775	524 209	1 035 999
Total Current Assets		12 343 685	8 905 078	8 830 546
Total Assets		63 906 846	52 632 867	41 830 528
Equity				
Capital	(26)	17 070 716	17 070 716	17 070 716
Reserves	(27)	4 695 606	4 642 354	4 446 874
Retained earnings		10 529 466	8 575 030	8 055 791
Foreign entities translation reserve		176 729	189 443	161 357
Total Equity attributable to the owners of the holding company		32 472 517	30 477 543	29 734 738
Non - controlling interest		15 820	12 135	10 696
Total Equity		32 488 337	30 489 678	29 745 434
Non current Liabilities				
Loans and credit facilities	(22)	550 168	614 472	626 235
Creditors and other credit balances	(23)	4 039 728	1 310 082	114 226
Deferred tax liabilities	(28-1)	1 244 893	756 178	638 295
Total non current Liabilities		5 834 789	2 680 732	1 378 756
Current Liabilities				
Loans and facilities installments due within one year	(22)	13 303 507	6 678 793	2 715 554
Creditors and other credit balances	(23)	10 484 565	10 585 648	6 532 500
Credit balances due to associates	(32)	1 055 119	368 056	356 173
Provisions	(24)	740 529	1 829 960	1 102 111
Total Current Liabilities		25 583 720	19 462 457	10 706 338
Total liabilities		31 418 509	22 143 189	12 085 094
Total equity and liabilities		63 906 846	52 632 867	41 830 528

The attached notes on pages from (8) to (42) are an integral part of these consolidated financial statements.

Director of Financial Affairs

Wael Hanafy

" Wael Hanafy "

Senior Director of Financial Affairs

Shaher Shokry

" Shaher Shokry "

Chief Financial Officer

M. Shamsoukh

" Mohamed Shamsoukh "

Managing Director
& Chief Executive Officer

Adel Hamed

" Adel Hamed "

Board of Directors approval

Chairman

M. O.

" Maged Osman "

Auditor's Report "attached"

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

	Note <u>No.</u>	<u>For the financial year ended:</u>	
		<u>31/12/2018</u>	<u>31/12/2017</u>
		<u>L.E.(000)</u>	<u>Restated</u> <u>L.E.(000)</u>
Operating revenues	(3)	22 770 582	18 567 282
Operating costs	(4)	(14 369 363)	(11 313 234)
Gross Profit		8 401 219	7 254 048
Other income	(5)	344 600	308 493
Selling and distribution expenses	(6)	(2 538 278)	(1 627 203)
General and administrative expenses	(7)	(2 449 419)	(2 547 729)
Other expenses	(8)	(197 837)	(1 364 151)
Operating profit		3 560 285	2 023 458
Finance income	(9)	187 019	113 223
Finance cost	(9)	(1 499 017)	(759 241)
Net Finance cost		(1 311 998)	(646 018)
Share of profit of equity accounted investees	(10)	2 200 602	2 337 269
Profit before income tax		4 448 889	3 714 709
Income tax		(310 695)	(520 204)
Deferred tax	(28-1)	(646 992)	(138 948)
Total income tax		(957 687)	(659 152)
Profit for the year		3 491 202	3 055 557
<u>Profit attributable to :</u>			
Owners of the holding company		3 484 064	3 051 919
Non-controlling interest		7 138	3 638
Profit for the year		3 491 202	3 055 557
Basic and diluted earnings per share (LE \ Share)	(12)	1.61	1.38

The attached notes on pages from (8) to (42) are an integral part of these consolidated financial statements.

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

	<u>For the financial year ended:</u>	
	<u>31/12/2018</u>	<u>31/12/2017</u>
		<u>Restated</u>
	<u>L.E.(000)</u>	<u>L.E.(000)</u>
Profit for the year	3 491 202	3 055 557
<u>Other Comprehensive Income items :</u>		
Translation differences of foreign entities	(9 274)	28 086
Total Comprehensive Income	<u>3 481 928</u>	<u>3 083 643</u>
Attributable to :		
Owners of the holding company	3 474 790	3 080 005
Non-controlling interest	7 138	3 638
Total Comprehensive Income	<u>3 481 928</u>	<u>3 083 643</u>

The attached notes on pages from (8) to (42) are an integral part of these Consolidated Financial Statements.

Telecom Egypt Company

(An Egyptian Joint Stock Company)

Consolidated Statement of Changes in Equity
For The Financial year Ended December 31, 2018

	Capital	Legal reserve	Other reserves	Retained earnings	Foreign entities translation reserve	Total of equity attributable to the holding company owners of	Non-controlling interest	Total
	L.E.(000)	L.E.(000)	L.E.(000)	L.E.(000)	L.E.(000)	L.E.(000)	L.E.(000)	L.E.(000)
Balance as of January 1,2017 (Reclassified)	17 070 716	1 650 296	2 796 578	8 055 791	161 357	29 734 738	10 696	29 745 434
Comprehensive Income								
Profit for the year (Restated)	-	-	-	3 051 919	-	3 051 919	3 638	3 055 557
Translation differences of foreign entities	-	-	-	-	28 086	28 086	-	28 086
Total Comprehensive Income (Restated)	-	-	-	3 051 919	28 086	3 080 005	3 638	3 083 643
Transactions with shareholders :								
Transferred to legal reserve	-	195 480	-	(195 480)	-	-	-	-
Dividends for year 2016 (shareholders)	-	-	-	(1 707 071)	-	(1 707 071)	(1 921)	(1 708 992)
Dividends for year 2016 (Employees & Board of Directors)	-	-	-	(613 499)	-	(613 499)	(278)	(613 777)
Dividends in associates (Employees & Board of Directors)	-	-	-	(16 630)	-	(16 630)	-	(16 630)
Total transactions with shareholders	-	195 480	-	(2 532 680)	-	(2 337 200)	(2 199)	(2 339 399)
Balance as of December 31,2017 (Restated)	17 070 716	1 845 776	2 796 578	8 575 030	189 443	30 477 543	12 135	30 489 678
Balance as of January 1,2018 (Restated)	17 070 716	1 845 776	2 796 578	8 575 030	189 443	30 477 543	12 135	30 489 678
Comprehensive Income								
Profit for the year	-	-	-	3 484 064	-	3 484 064	7 138	3 491 202
Translation differences of foreign entities	-	-	-	-	(9 274)	(9 274)	-	(9 274)
Total Comprehensive Income	-	-	-	3 484 064	(9 274)	3 474 790	7 138	3 481 928
Transactions with shareholders :								
Transferred to legal reserve	-	53 252	-	(53 252)	-	-	-	-
Adjustments on retained earning at subsidiaries	-	-	-	(20 099)	-	(20 099)	-	(20 099)
Adjustments on retained earning at associates	-	-	-	4 495	-	4 495	-	4 495
Dividends for year 2017 (shareholders)	-	-	-	(426 768)	-	(426 768)	(3 002)	(429 770)
Dividends for year 2017 (Employees & Board of Directors)	-	-	-	(720 224)	-	(720 224)	(451)	(720 675)
Dividends of associates (Employees & Board of Directors)	-	-	-	(49 890)	-	(49 890)	-	(49 890)
Acquisition of non controlling interest in subsidiaries	-	-	-	(263 890)	(3 440)	(267 330)	-	(267 330)
Total transactions with shareholders	-	53 252	-	(1 529 628)	(3 440)	(1 479 816)	(3 453)	(1 483 269)
Balance as of December 31, 2018	17 070 716	1 899 028	2 796 578	10 529 466	176 729	32 472 517	15 820	32 488 337

The attached notes on pages from (8) to (42) are an integral part of these Consolidated Financial Statements.

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

	Note No.	For the Financial year ended:	
		31/12/2018	31/12/2017
		Reclassified	
		L.E. (000)	L.E. (000)
Cash flows from operating activities			
Cash receipts from customers		21 008 454	15 262 881
Value added tax collected from customers		412 710	370 112
Stamp tax and fees collected (from third party)		32 070	29 436
Deposits collected from customers		1 009	257
Cash paid to suppliers		(5 154 249)	(2 589 706)
Payments of NTRA license fees		(604 355)	(439 000)
Dividends paid to employees and Board of Directors		(374 267)	(329 234)
Cash paid to employees and Borad of Directors		(4 603 676)	(3 867 121)
Cash paid on behalf of employees to third party		(825 476)	(682 678)
Cash provided by operating activities		9 892 220	7 754 947
Interest paid		(921 712)	(325 226)
Payments to Tax Authority - income tax		(292 042)	(274 981)
Payments to Tax Authority - value added tax		(2 467 970)	(1 859 081)
Payments to Tax Authority - other taxes		(978 400)	(676 764)
Cash paid to third parties for claims		(919 278)	-
Cash paid on long - term liabilities		(784 389)	-
Other (payments) / proceeds		(32 868)	30 562
Net cash provided by operating activities		3 495 561	4 649 457
Cash flows from investing activities			
Payments for purchase of fixed assets, projects in progress and other assets		(8 027 576)	(6 088 007)
Payments for purchase of other assets		(780 178)	(1 419 828)
Proceeds form sales of fixed assets and other assets		66	149
Payments for acquisition of investements		(993 465)	-
Payments for purchase of held-to-maturity investment - treasury bills		(219 517)	(222 174)
Interest received		44 785	55 014
Dividends collected from investments		453 595	37 753
Proceeds from sale of available for sale investment		7	-
Proceeds from retrieval of held-to-maturity investment - treasury bills		227 472	261 861
Proceeds from income of securities (treasury bills - mutual fund)		22 411	15 611
Net cash used in investing activities		(9 272 400)	(7 359 621)
Cash flows from financing activities			
Payment for loans and other facilities		(48 090)	(133 969)
Proceeds form loans and other facilities		6 633 922	4 033 067
Dividends paid to shareholders		(429 927)	(1 708 896)
Net cash provided by financing activities		6 155 905	2 190 202
Net change in cash and cash equivalents during the year		379 066	(519 962)
Translation differences of foreign entities		(12 447)	2 022
Cash and cash equivalents at the beginning of the year	(21)	506 936	1 024 876
Cash and cash equivalents at the end of the year	(21)	873 555	506 936

The attached notes on pages from (8) to (42) are an integral part of these consolidated financial statements.

Telecom Egypt Company
(An Egyptian Joint Stock Company)

Notes to the Consolidated Financial Statements
For the Financial Year Ended December 31, 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 consolidated financial statements

These consolidated financial statements were approved by the Board of Directors for issuance on February 20, 2019.

2. BASIS OF PREPERATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2-1 Statement of compliance

These consolidated financial statements as of December 31, 2018, have been prepared in accordance with Egyptian Accounting Standards and in the light of applicable Egyptian laws and regulations.

2-2 Basis of measurement

These consolidated financial statements have been prepared under the historical cost basis, except for certain financial investments which are evaluated at fair value in according to the Egyptian Accounting Standards.

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

2-3 Functional and presentation currency

These consolidated financial statements are presented in Egyptian pound (L.E.). All financial information presented in "L.E." has been rounded to the nearest thousand unless otherwise stated.

2-4 Use of estimates

The preparation of the consolidated financial statements in conformity with Egyptian Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other various factors that are believed to be reasonable under the circumstances, the results of these assumption represent the judgmental basis for the value of assets and liabilities that may not apparently available from other sources. The actual results may differ from these estimates.

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

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

2-5 Fair value measurement

- The fair value of financial instruments is determined based on the market value of the financial instrument or similar financial instruments at the date of the consolidated financial statements without deducting any estimated future selling costs. The financial assets values are determined with the current purchase prices; however, the financial liabilities values are determined with the current prices that could settle these liabilities.
- In case there is no active market to determine the fair value of the financial instruments, the fair value is estimated using different valuation techniques taking into consideration the prices of the latest transactions, and use the current fair value of the similar financial instruments as guideline – the discounted cash flows technique or any other valuation methods that results reliable values.
- When the discounted cash flows is used as a valuation technique, the future cash flows are estimated based on the management best estimate. The discount rate used is determined in line with the market rate at the date of the financial statements for the similar financial instruments in nature and conditions.

2-6 Segment reporting

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

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

3. OPERATING REVENUES

	For the financial year ended:	
	31/12/2018	31/12/2017
	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Home and personal communications	8 064 282	5 662 272
Enterprise	3 215 287	2 627 235
Domestic wholesale	3 570 733	3 303 833
International carriers	4 424 255	4 868 176
International cables and networks	3 496 025	2 105 766
	<u>22 770 582</u>	<u>18 567 282</u>

4. OPERATING COSTS

	Note No.	For the financial year ended:	
		31/12/2018	31/12/2017
		<u>L.E. (000)</u>	<u>Restated L.E. (000)</u>
Interconnection cost		4 295 373	4 152 402
Depreciation of fixed assets*	(13)	2 017 850	1 764 020
Amortization of other assets	(17)	620 242	263 638
Salaries and wages		2 077 766	1 793 875
Company's social insurance contribution		236 487	194 181
Employees vacations allowance		5 410	7 411
Frequencies and licences charges (NTRA)		780 843	686 139
Leased circuits & satellite subscriptions		237 754	245 893
Cost of merchandise available for sale		602 408	459 469
Right of use (IRU) outside Egypt		1 308 891	144 990
Fuel		638 210	446 679
Spare parts		128 807	84 130
Maintenance		392 863	311 484
Organizations services cost		441 850	247 617
Electricity and water		74 406	61 752
Materials, supplies and miscellaneous printed		46 654	31 501
Transportation cost		126 218	90 099
Company's call costs		71 470	54 065
Rents		118 375	37 261
Other operating costs		147 486	236 628
		<u>14 369 363</u>	<u>11 313 234</u>

*Restatement was made to the comparative figures as shown in (Note no. 37-2).

5. OTHER INCOME

	<u>For the financial year ended</u>	
	<u>31/12/2018</u>	<u>31/12/2017</u>
	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Fines and earned delay interest on company's receivables	120 117	86 941
Sundry revenues	224 483	221 552
	344 600	308 493

6. SELLING AND DISTRIBUTION EXPENSES

	<u>Note No.</u>	<u>For the financial year ended:</u>	
		<u>31/12/2018</u>	<u>31/12/2017</u>
		<u>L.E. (000)</u>	<u>L.E. (000)</u>
Salaries and wages		1 034 420	986 121
Company's social insurance contribution		111 328	100 217
Employees vacations allowance		3 840	5 259
Depreciation of fixed assets	(13)	463	2 793
Amortization of other assets	(17)	35	35
Advertising and marketing		937 272	200 968
Tax and duties		87 656	26 074
Organizations services cost		506	62 035
Sales and collection commissions		242 267	126 456
Rent		12 611	21 644
Other selling and distribution expenses		107 880	95 601
		2 538 278	1 627 203

7. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>Note No.</u>	<u>For the financial year ended:</u>	
		<u>31/12/2018</u>	<u>31/12/2017</u>
		<u>L.E. (000)</u>	<u>L.E. (000)</u>
Salaries and wages		1 598 879	1 582 640
Company's social insurance contributions		140 533	119 500
The company's contribution in loyalty and belonging fund	(11-2)	-	260 000
Employees vacations allowance		8 203	11 236
Depreciation of fixed assets	(13)	78 177	74 524
Amortization of other assets	(17)	71	73
Organizations services and consulting cost		212 931	207 818
Bad debts		396	6 951
Tax and duties		119 384	99 399
Takaful contribution expense		41 890	-
Bank charges		16 343	12 713
Other general and administrative expenses		232 612	172 875
		2 449 419	2 547 729

8. OTHER OPERATING EXPENSES

	Note No.	<u>For the financial year ended:</u>	
		31/12/2018	31/12/2017
		<u>L.E. (000)</u>	<u>L.E. (000)</u>
Provisions	(24)	102 083	1 214 627
Capital losses		17 000	52 861
Donations		75 668	62 302
Other expenses		3 086	34 361
		<u>197 837</u>	<u>1 364 151</u>

9. NET FINANCE COST

	Note No.	<u>For the financial year ended:</u>	
		31/12/2018	31/12/2017
		<u>LE (000)</u>	<u>LE (000)</u>
<u>Finance income</u>			
Interest income		37 152	35 036
Treasury bills income		31 969	31 484
Income from money market funds		23 094	19 153
Dividends from available for sale investment		14 460	27 550
Gain on sale of available for sale investments		1	-
Reversal of impairment loss on financial assets	(25)	3 607	-
Translation gain of foreign currencies balances and transactions		76 736	-
Total finance income		<u>187 019</u>	<u>113 223</u>
<u>Finance costs</u>			
Interest expense		(1 093 239)	(330 699)
Impairment loss on financial assets	(25)	-	(41 293)
Finance costs of credit contracts		(405 778)	(247 017)
Impairment loss on available-for-sale investments	(25)	-	(3 705)
Translation loss of foreign currencies balances and transactions		-	(136 527)
Total finance cost		<u>(1 499 017)</u>	<u>(759 241)</u>
Net finance cost		<u>(1 311 998)</u>	<u>(646 018)</u>

10. SHARE OF PROFIT OF EQUITY ACCOUNTED INVESTEE

	<u>For the financial year ended:</u>	
	31/12/2018	31/12/2017
	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Vodafone Egypt Telecommunication company	2 200 544	2 337 629
Egypt Trust	58	(360)
	<u>2 200 602</u>	<u>2 337 269</u>

11. EMPLOYEES' BENEFITS

11-1 Early retirement scheme (Telecom Egypt Company)

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.

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

The employees are granted an end of service benefits through a Loyalty & 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 defined contribution.

12. BASIC AND DILUTED EARNINGS PER SHARE

	For the financial year ended:	
	<u>31/12/2018</u>	<u>31/12/2017</u>
		<u>Restated</u>
The holding company owner's equity :-		
Profit for the year (L.E.(000))	3 484 064	3 051 919
Less:		
Employees' share in dividends (L.E.(000))*	722 486	697 151
Board of Directors share (L.E.(000))*	10 310	7 004
Net profit for the year available for distribution (L.E.(000))	2 751 268	2 347 764
Number of the available shares during the year (share)	1 707 071 600	1 707 071 600
Basic and diluted earnings per share for the year (LE / share)	1.61	1.38

- Restatement was made on the comparative figures as shown in (Note no. 37-2)

* According to Board of Directors proposal to be presented in the Company and its Subsidiaries General Assembly for approval.

13- FIXED ASSETS

	Land	Buildings & Infrastructure	Technical equipment & information technologies *	Vehicles	Furniture	Tools & supplies	Decoration & fixtures	Fixtures on trunk radio network	Total
	L.E. (000)	L.E. (000)	L.E. (000)	L.E. (000)	L.E. (000)	L.E. (000)	L.E. (000)	L.E. (000)	L.E. (000)
Cost as at 1/1/2017	2,371,572	22,719,150	22,853,240	145,558	516,229	96,179	119,574	315	48,821,817
Adjustments on beginning balance	(25,191)	78,518	(32,953)	-	(31)	-	-	-	20,343
Additions during the year (Restated)	77	2,487,312	3,321,864	2,480	109,329	36,864	4,108	-	5,962,034
Disposals during the year	-	(313,065)	(49,399)	(5,317)	(4,696)	(1,555)	-	-	(374,032)
Translation differences of foreign entities	-	-	8,553	190	11,429	-	3,353	-	23,525
Cost as at 31/12/2017 (Restated)	2,346,458	24,971,915	26,101,305	142,911	632,260	131,488	127,035	315	54,453,687
Acquisition assets cost	3,845	789,489	52,931	-	3,849	-	1,049	-	851,163
Additions during the year	47	2,446,862	2,775,187	8,097	68,858	12,434	7,288	-	5,318,773
Disposals during the year	-	(511,312)	(125,062)	(5,136)	(6,414)	(1,273)	(547)	-	(649,744)
Translation differences of foreign entities	-	(2,933)	(5,562)	(7)	(698)	-	(152)	-	(9,352)
Cost as at 31/12/2018	2,350,350	27,694,021	28,798,799	145,865	697,855	142,649	134,673	315	59,964,527
Accumulated depreciation as at 1/1/2017	-	14,171,642	19,745,742	107,882	391,121	67,072	100,042	315	34,583,816
Adjustments on beginning balance	-	4,779	954	-	-	-	-	-	5,733
Depreciation for the year (Restated)	-	791,781	972,740	4,821	53,771	7,617	10,607	-	1,841,337
Accumulated depreciation for disposals	-	(181,415)	(46,609)	(5,231)	(4,582)	(1,554)	-	-	(239,391)
Translation differences of foreign entities	-	-	2,851	186	3,864	-	1,890	-	8,791
Accumulated depreciation as at 31/12/2017 (Restated)	-	14,786,787	20,675,678	107,658	444,174	73,135	112,539	315	36,200,286
Accumulated depreciation for acquisition assets - Adjustments from subsidiaries	-	32,510	5,308	-	35	-	171	-	38,024
Acquisition assets cost	-	602,097	37,355	-	3,784	-	320	-	643,556
Depreciation for the year	-	725,013	1,281,974	5,700	66,353	11,112	6,338	-	2,096,490
Accumulated depreciation for disposals	-	(409,441)	(120,801)	(5,078)	(6,376)	(1,273)	(514)	-	(543,483)
Translation differences of foreign entities	-	(1,511)	(2,647)	(7)	(458)	-	(117)	-	(4,740)
Accumulated depreciation as at 31/12/2018	-	15,735,455	21,876,867	108,273	507,512	82,974	118,737	315	38,430,133
Net carrying amounts as at 31/12/2018	2,350,350	11,958,566	6,921,932	37,592	190,343	59,675	15,936	-	21,534,394
Net carrying amounts as at 31/12/2017 (Restated)	2,346,458	10,185,128	5,425,627	35,253	188,086	58,353	14,496	-	18,253,401

- Cost of fixed assets includes an amount of L.E. 23,743 Million fully depreciated assets and still in use
* Restatement and reclassification were made to the comparative figures are shown in (Note no. 37-1)

Note	For the financial year ended	
	31/12/2018	31/12/2017
No.	L.E. (000)	Restated
(4)	2,017,850	1,764,020
(6)	463	2,793
(7)	78,177	74,524
	2,096,490	1,841,337

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

Operating costs	
Selling and Distribution expenses	
General and administrative expenses	

Notes to the consolidated financial statements
For the financial year ended December 31, 2018 (continued)

14. PROJECTS IN PROGRESS

	Note	31/12/2018	31/12/2017
	No.	L.E. (000)	<u>Reclassified</u> L.E. (000)
Land		21 025	16 503
Buildings and Infrastructure		2 616 751	494 046
Centrals and information technologies equipment *		2 222 125	1 689 740
Tools and supplies		24 083	2 532
Vehicles		493	-
Furniture		2 108	-
Other Assets (cables)		70 776	29 767
Advance payments - fixed assets		492 886	699 300
		<u>5 450 247</u>	<u>2 931 888</u>
Less:			
Impairment loss on projects in progress	(25)	<u>20 491</u>	<u>20 491</u>
		<u>5 429 756</u>	<u>2 911 397</u>

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

15. INVESTMENTS IN ASSOCIATES

	Note	31/12/2018		31/12/2017	
	No	Ownership	LE (000)	Ownership	LE (000)
		%		%	
- Vodafone Egypt Telecommunication company *		44.95	13 451 864	44.95	11 746 173
- Wataneya for Telecommunication **		50.00	125	50.00	125
- International Telecommunication Consortium Limited (ITCL) **		50.00	54	50.00	54
- Egypt Trust**		35.71	7 647	35.71	7 589
- Consortium Algerian de Telecommunications (CAT) **		33.00	133	33.00	133
			<u>13 459 823</u>		<u>11 754 074</u>
Less					
- Impairment loss on investments in associates	(25)		<u>7 812</u>		<u>7 812</u>
			<u>13 452 011</u>		<u>11 746 262</u>

*Notes to the consolidated financial statements
For the financial year ended December 31, 2018 (continued)*

* The investments in Vodafone Egypt on December 31, 2018 represents the ownership of 107 869 799 shares with a percentage of 44.95% from the total shares of Vodafone Egypt.

The financial year of Vodafone Egypt ends on March 31, the equity method was applied in recognizing the investment in Vodafone Egypt when preparing the Consolidated Financial Statements as of December 31, 2018 by using the Consolidated Financial Statements of Vodafone Egypt for the financial year ended March 31, 2018 that were authorized by the Company's management which presents the 12 months from the 1st of April 2017 till March 31, 2018, less the movements for the period from the 1st of April 2017 till December 31, 2017 extracted from the consolidated Financial Statements for Vodafone Egypt as of December 31, 2017. Plus, the movements for the period from the 1st of April 2018 till December 31, 2018 extracted from the consolidated Financial Statements for Vodafone Egypt as of December 31, 2018, to determine the share of financial period from January 1 to December 31, 2018 of business results.

** The impairment loss on investments for Egypt Trust, Wataneya for Telecommunication, Consortium Algerian Telecommunications (CAT) and International Telecommunication Consortium Limited (ITCL) due to the realized losses by these investee companies which exceeded this investments amount, as the Extra Ordinary General Assembly meeting of Consortium Algeria Telecommunication held on July 1, 2009 approved the dissolution and liquidation of CAT.

16. AVAILABLE-FOR-SALE INVESTMENTS

	Note	31/12/2018	31/12/2017
	<u>No.</u>	<u>LE (000)</u>	<u>LE (000)</u>
- Participations in foreign satellite companies and organizations*		26 676	26 683
- Investments in other companies		87 205	87 205
- Payment for purchase available for sale investments		2 250	-
		<u>116 131</u>	<u>113 888</u>
<u>Less:</u>			
Impairment loss on available-for-sale investments	(25)	36 320	36 320
		<u><u>79 811</u></u>	<u><u>77 568</u></u>

* This item includes the company's share in Arab Sat represented in 7 968 455 shares amounting to L.E. 11 856 K including free shares distributed during 2010 by Arab Sat to all the shareholders based on their shares, accordingly telecom Egypt contribution in Arab Sat capital remains as the same at 1.5937%.

Notes to the consolidated financial statements
For the financial year ended December 31, 2018 (continued)

17- OTHER ASSETS

	Fourth generation Network license	Submarine cables	International circuit (ROU)	Licenses Internet services	Licenses and programs	land (Possession)	land (Usufruct)	Total
	L.E. (000)	L.E. (000)	L.E. (000)	L.E. (000)	L.E. (000)	L.E. (000)	L.E. (000)	L.E. (000)
Cost as at January 1, 2017 (Reclassified)	-	1 231 136	152 565	23 133	56 382	440 683	1	1 903 900
Adjustments on beging balance	-	29 130	-	-	-	-	-	29 130
Additions during the year	8 633 330	585 185	-	-	-	-	-	9 218 515
Disposals during the year	-	(23 261)	-	-	-	-	-	(23 261)
Translation differences of foreign entities	-	-	438	150	-	-	-	588
Cost at December 31, 2017	8 633 330	1 822 190	153 003	23 283	56 382	440 683	1	11 128 872
Acquisition assets cost	-	3 947 146	401 773	-	-	-	-	4 348 919
Additions during the year	-	149 889	524 648	-	-	-	-	674 537
Disposals during the year	-	(3 511 865)	(358 246)	-	-	-	-	(3 870 111)
Translation differences of foreign entities	-	(273)	(846)	(286)	-	-	-	(1 405)
Cost at December 31, 2018	8 633 330	2 407 087	720 332	22 997	56 382	440 683	1	12 280 812
Accumulated amortization as at January 1, 2017 (Reclassified)	-	345 503	126 613	21 662	18 795	-	-	512 573
Adjustments on beging balance	-	11 894	-	-	-	-	-	11 894
Amortization for the year	131 301	106 774	6 695	181	18 795	-	-	263 746
Accumulated amortization for disposals	-	(1 402)	-	-	-	-	-	(1 402)
Translation differences of foreign entities	-	-	265	72	-	-	-	337
Accumulated amortization as at December 31, 2017 (Reclassified)	131 301	462 769	133 573	21 915	37 590	-	-	787 148
Accumulated amortization for acquisition assets - Adjustments from subsidiaries	-	33 883	-	-	-	-	-	33 883
Accumulated amortization acquisition assets	-	3 162 367	199 602	-	-	-	-	3 361 969
Amortization for the year	459 569	120 813	20 997	177	18 792	-	-	620 348
Accumulated amortization for disposals	-	(3 088 051)	(186 905)	-	-	-	-	(3 274 956)
Translation differences of foreign entities	-	(58)	(723)	(156)	-	-	-	(937)
Accumulated amortization as at December 31, 2018	590 870	691 723	166 544	21 936	56 382	-	-	1 527 455
Net carrying amounts as at December 31, 2018	8 042 460	1 715 364	553 788	1 061	-	440 683	1	10 753 357
Net carrying amounts as at December 31, 2017	8 502 029	1 359 421	19 430	1 368	18 792	440 683	1	10 341 724

Amortization for the year is charged to statement of income as follows:

		For the financial year ended	
	Note	31/12/2018	31/12/2017
	No.	L.E. (000)	L.E. (000)
Operating costs	(4)	620 242	263 638
Selling and Distribution expenses	(6)	35	35
General and administrative expenses	(7)	71	73
		<u>620 348</u>	<u>263 746</u>

- Accumulated amortization and impairment at December 31, 2018 include an amount of L.E. 79 825 K is represented in impairment of right of use of international circuits (ROU) and internet service license by one of subsidiary (Note no. 25)
- Other assets costs included L.E 175 Million other assets fully amortized and still in used.

18. INVENTORIES

	31/12/2018	31/12/2017
	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Spare parts	754 080	636 816
Material supplies	977	977
Computers and Pc's components	8 333	1 324
Merchandise for sale-telecommunication equipment and computers	385 586	159 309
Others – cables and supplies	482 239	263 973
	<u>1 631 215</u>	<u>1 062 399</u>
<u>Add:</u>		
Letters of credit	134 794	121 374
	<u>1 766 009</u>	<u>1 183 773</u>

Inventory's value was written down by L.E. 19 215 K (against L.E. 18 229 K at December 31, 2017) (Note no. 25) for obsolete and slow moving items deducted directly from the cost of each type of inventory.

19. TRADE AND NOTES RECEIVABLES

	Note	31/12/2018	31/12/2017
	<u>No.</u>	<u>L.E. (000)</u>	<u>Reclassified</u>
		<u>L.E. (000)</u>	<u>L.E. (000)</u>
Trade Receivables - National *		3 797 603	3 468 001
Trade Receivables - International *		2 653 385	2 969 097
		<u>6 450 988</u>	<u>6 437 098</u>
<u>Less:</u>			
Impairment loss on trade receivables	(25)	2 072 734	2 065 960
		<u>4 378 254</u>	<u>4 371 138</u>
<u>Add:</u>			
Notes Receivables		505	559
		<u>4 378 759</u>	<u>4 371 697</u>

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

20. DEBTORS AND OTHER DEBIT BALANCES

	Note	31/12/2018	31/12/2017
	<u>No.</u>	<u>L.E. (000)</u>	<u>Reclassified</u> <u>L.E. (000)</u>
Suppliers – debit balances		439 761	261 017
Deposits with others		254 891	202 168
Customs Authority - deposits		2 397	2 740
Accrued revenues		26 364	31 200
Tax Authority – withholding tax		224 581	224 073
Tax Authority – value added tax *		1 910 067	589 181
Due from organizations, companies and franchises		1 048 520	498 266
Due from Ministries		80 651	104 212
Temporary debts due from employees		714 919	346 525
Due from banks		3 848	5 718
Payments on the account of income tax		45 963	84 842
Other debit balances*		604 736	533 866
		<u>5 356 698</u>	<u>2 883 808</u>
Less:			
Impairment loss on debtors and other debit balances	(25)	156 044	171 729
		<u>5 200 654</u>	<u>2 712 079</u>

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

21. CASH AND CASH EQUIVALENTS

	Note	31/12/2018	31/12/2017
	<u>No.</u>	<u>LE (000)</u>	<u>LE (000)</u>
Banks - time deposits (less than 3 months)		376 656	126 948
Banks - current accounts		255 027	255 023
Cash on hand		10 832	11 908
Treasury bills (less than 3 months)		135 063	40 766
Money market funds (less than 3 months)		115 197	89 564
Cash and cash equivalents		<u>892 775</u>	<u>524 209</u>
Less:			
Restricted cash and cash equivalents	(30)	19 220	17 273
Cash and cash equivalents as per cash flow statement		<u>873 555</u>	<u>506 936</u>

Notes to the consolidated financial statements
For the financial year ended December 31, 2018 (continued)

Translation from Arabic

22. LOANS AND CREDIT FACILITIES

Description	Loan Currency	Long term loan	Long term loan	Balance	Balance	Annual	<u>Repayment schedule</u>
		installments due within one year	installments due within more than one year	as of 31/12/2018	as of 31/12/2017	interest rate	
		<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>%</u>	
Governmental Loans	U.S.\$	-	-	-	20 332	4 %	Annual installments ending on 24/1/2018
Foreign loans	EURO	40 043	550 168	590 211	656 160		0.75% - 5.5% Semi-annual installments ending on 30/6/2036
Total loans		40 043	550 168	590 211	676 492		
Bank facilities	LE	3 642 140	-	3 642 140	4 350 171		Variable interest rate
Bank facilities	U.S.\$	9 619 712	-	9 619 712	2 254 190		Variable interest rate
Bank facilities	EURO	-	-	-	10 254		Variable interest rate
Foreign suppliers' facilities	EURO	1 612	-	1 612	1 679	5.50%	
Subsidiary's local facility	LE	-	-	-	479		Corridor rate + 0.1%
Total facilities		13 263 464	-	13 263 464	6 616 773		
Total loans & facilities		13 303 507	550 168	13 853 675	7 293 265		

Obtaining of medium term syndicated loan

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

First Abu Dhabi Bank PJSC (FAB) and Mashreq Bank NPSC (Mashreq) were mandated as joint Book runners and mandated lead arrangers of the facility. FAB is the facility agent for the transaction and Mashreq Bank is the designated Account Bank, the company didn't use any amount from the said loan till 31/12/2018.

Notes to the consolidated financial statements
For the financial year ended December 31, 2018 (continued)

23. CREDITORS AND OTHER CREDIT BALANCES

	31/12/2018	31/12/2017
	<u>L.E. (000)</u>	<u>Reclassified L.E. (000)</u>
Suppliers and notes payables	1 168 049	840 879
Tax Authority-Income Tax *	271 892	510 832
Tax Authority (taxes other than income tax)*	613 059	523 676
Deposits from others	458 930	403 212
Assets creditors	8 114 940	6 536 942
Dividends payable	3 442	3 333
Accrued expenses	879 443	909 695
Customers - credit balances	404 313	280 668
Credit balances - organizations and companies	467 877	308 947
Deferred revenues **	843 284	403 324
National Telecommunication Regulatory Authority (NTRA)	384 843	497 480
Social Insurance Authority	64 126	46 510
Accrued interest	46 614	11 823
Other credit balances*	803 481	618 409
	<u>14 524 293</u>	<u>11 895 730</u>
<u>Less balances due within more than one year:</u>		
Other assets creditors	3 667 798	1 265 359
Deferred revenues	371 930	39 448
Credit balances - organizations and companies	-	5 275
<u>Non-Current creditors and other credit balances</u>	<u>4 039 728</u>	<u>1 310 082</u>
<u>Current creditors and other credit balances</u>	<u>10 484 565</u>	<u>10 585 648</u>
<u>Total creditors and other credit balances</u>	<u>14 524 293</u>	<u>11 895 730</u>

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

**The deferred revenues amounting to L.E. 843 284 K which are represented in both rent of transmission systems for mobile companies by an amount of L.E 30 312 K (against L.E 7 864 K at December 31, 2017) and deferred revenues for mobile services by an amount of L.E 49 750 K (against L.E 27 214 K at December 31, 2017), revenues from cables operating and maintenance services by an amount of L.E 428 347 K (against L.E 39 448 K at December 31, 2017) and revenues from internet and telecommunications services by an amount of L.E 334 875 K (against L.E 328 798 K at December 31, 2017).

24. PROVISIONS

Balance as of 1/1/2018	Reclassification	Charged to income statement	Used during the year	Translation differences	Balance as of 31/12/2018
L.E. (000)	L.E. (000)	L.E. (000)	L.E. (000)	L.E. (000)	L.E. (000)
1 829 960	811	102 083	(1 192 320)	(5)	740 529
1 829 960	811	102 083	(1 192 320)	(5)	740 529

Provision for liabilities and claims

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

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

25. IMPAIRMENT LOSS ON ASSETS

No.	Balance as of 1/1/2018	Formed / (Reversal) during the year	Used during the year	Translation differences	Balance as of 31/12/2018
	L.E. (000)	L.E. (000)	L.E. (000)	L.E. (000)	L.E. (000)
(14)	20 491	-	-	-	20 491
(15)	7 812	-	-	-	7 812
(16)	36 320	-	-	-	36 320
(32)	453 968	-	-	-	453 968
(17)	79 825	-	-	-	79 825
(18)	18 229	997	-	(11)	19 215
(19)	2 065 960	6 774	-	-	2 072 734
(20)	171 729	(10 381)	(4 762)	(542)	156 044
	2 854 334	(2 610)	(4 762)	(553)	2 846 409

Impairment loss on projects in progress

Impairment loss on investments in associates

Impairment loss on available-for-sale investment

Impairment loss on debit balances due from associates

Impairment loss on other assets

Write-down of inventories

Impairment loss on trade receivables

Impairment loss on debtors and other debit balances

26. CAPITAL

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

27. RESERVES

	31/12/2018	31/12/2017
	<u>L.E. (000)</u>	<u>Reclassified</u> <u>L.E. (000)</u>
Legal reserve **	1 899 028	1 845 776
General reserve *	2 771 654	2 771 654
Revaluation reserve available-for-sale investments	6 814	6 814
Capital reserve	18 110	18 110
	<u>4 695 606</u>	<u>4 642 354</u>

* General reserve amounting to L.E. 2 771 654 K as at December 31, 2018 represents the dividends transferred to the general reserve for years 1999/2000 till 2006 after deducting L.E. 916 530 K which represents the net adjustments on the fixed assets for land item during the years from 2005 to 2014, and transfer an amount of L.E. 2 000 000 K from general reserve to retained earnings according to Ordinary General Assembly decree which was held on March 20, 2016.

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

28. DEFERRED TAX

28-1 Recognized Deferred tax assets and liabilities

	31/12/2018		31/12/2017	
	Assets	(Liabilities)	Assets	(Liabilities)
	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>Reclassified</u> <u>L.E. (000)</u>	<u>Reclassified</u> <u>L.E. (000)</u>
Fixed assets *	-	(419 279)	-	(154 852)
Other assets	-	(153 917)	-	(40 403)
Write down of inventories	3 672	-	3 389	-
Impairment loss on trade receivables, debtors and other debit balances	183 407	-	79 999	-
Provisions	13 518	-	276 860	-
Accrued liabilities	35 583	-	35 785	-
Net gain of translation of foreign currencies balance	-	(102)	-	(64 465)
Unrealized gain or loss for exchange currencies *	-	-	560	-
Re-evaluation of available for sale financial investments losses	2 980	-	844	-
Undistributed profit in subsidiaries and associated	-	(671 595)	-	(496 458)
Total deferred tax asset \ (liabilities)	<u>239 160</u>	<u>(1 244 893)</u>	<u>397 437</u>	<u>(756 178)</u>
Net deferred tax liabilities	<u>-</u>	<u>(1 005 733)</u>	<u>-</u>	<u>(358 741)</u>
Deferred tax charged to the consolidated income statement for the year (expense) / income	-	(646 992)	-	(138 948)

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

28-2 Unrecognized deferred tax assets

	31/12/2018	31/12/2017
	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Impairment loss on trade receivables	404 479	394 196
Impairment loss on debtors & other debit balances	128 978	129 316
Provision for liabilities and claims	15 605	13 067
Other	5 241	5 299
	<u>554 303</u>	<u>541 878</u>

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

28-3 Reconciliation of effective tax rate

	For the financial year ended	
	31/12/2018	31/12/2017
	<u>L.E. (000)</u>	<u>Restated L.E. (000)</u>
Net profit for the year before income tax	4 448 889	3 714 709
Income tax according to the current tax law (22.5%)	1 001 000	835 810
Tax on dividends from subsidiaries and associates	35 833	6 098
Add / (Less):		
Tax rate difference for subsidiaries outside Egypt	(255)	(1 644)
Provisions and impairment	(18 597)	49 002
Exempted investments income	(5 100)	(14 845)
Unrealized foreign exchange differences	(61 468)	-
foreign tax paid outside Egypt	(3 945)	(5 251)
Adjustments on other items	(159 013)	(384 489)
Previous years tax difference	(5 905)	(2 245)
Tax on undistributed profit in subsidiaries and associates	175 137	176 716
	<u>(43 313)</u>	<u>(176 658)</u>
Income tax	<u>957 687</u>	<u>659 152</u>
Effective tax rate	<u>21.53%</u>	<u>17.74%</u>

* Restatement was made on the comparative figures as shown in (Note no. 37-2)

29. CAPITAL COMMITMENTS

The company's capital commitments for the unexecuted parts of contracts until December 31, 2018 amounted to L.E. 3 206 Million (against L.E. 53 Million as at December 31, 2017)

30. CONTINGENT LIABILITIES

In addition to the amounts included in the consolidated statement of financial position as the December 31, 2018 the company has the following contingent liabilities:

	31/12/2018	31/12/2017
	<u>L.E. (000)</u>	<u>L.E. (000)</u>
- Letters of guarantee issued by banks on behalf of the company*	913 002	721 310
- Letters of credit	1 357 440	1 416 929

* Letters of guarantee which were issued by banks on behalf of the company and for the benefits of others include letters of guarantee have been issued against restricted cash and cash equivalent at banks (Note no.21).

31. TAX POSITION (Telecom Egypt)

31-1 Corporate tax

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

31- 2 Value Added Tax \ Sales Tax

- 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.

31- 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, the company disputed for one item and has been transferred to the internal Committee.
- Tax inspection for the year 2015 is in process.

31- 4 Stamp Tax

- Tax inspection for the period from March 27, 1998 to December 31, 2000 was performed for certain sectors and the company was notified 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.

31- 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.

32. RELATED PARTY TRANSACTIONS

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

Nature of translation	Amount of transactions during the year recorded in the income statement	Transaction volume during the year		Balance as of 31/12/2018	Balance as of 31/12/2017
		Debit L.E. 000	Credit L.E. 000	Debit/(Credit) L.E. 000	Reclassified Debit/(Credit) L.E. 000
<u>Debit balances due from associates</u>					
Consortium Algerian Telecommunications (CAT)* / **	-	-	-	453 902	453 902
International Telecommunication Consortium Limited (ITCL)* / **	-	-	-	66	66
				453 968	453 968
<u>Credit balances due to associates</u>					
Vodafone Egypt Telecommunications Company	1 595 124				
Outgoing calls and voice services to the associates company		4 077 747	4 773 340	(1 049 632)	(354 039)
Incoming and international calls, transmission claims & lease of company premises and towers to the associates company	1 219 857				
Telecommunications Services	25 924	72 395	63 865	(5 487)	(14 017)
		4 150 142	4 837 205	(1 055 119)	(368 056)

* The Balance represented in the value of the finance provided by Telecom Egypt to Consortium Algerian de Telecommunication Company (CAT) where Telecom Egypt participates directly and indirectly by 50%, accordingly, impairment has been made for the full balance. (Note no. 25) the mentioned company suffers from financial difficulties and sustains material losses. The Extra-Ordinary General Assembly of (CAT) held on July 1, 2009 approved the dissolution and liquidation of (CAT). In the light of these circumstances, there is high probability that will not be able to collect the finance given to Consortium Algerian de Telecommunication Company.

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

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

33. GROUP ENTITIES

Parent company's direct and indirect share in subsidiaries companies on December 31, 2018 which were included in the consolidated financial statements are as follows:

<u>Company name</u>	<u>Country of incorporation</u>	<u>Ownership interest</u>	
		<u>31/12/2018</u>	<u>31/12/2017</u>
Telecom Egypt France	France	100.00 %	100.00 %
WE Data **	Egypt	100.00 %	100.00 %
T.E Data Jordan	Jordan	100.00 %	100.00 %
TE Investment Holding	Egypt	100.00 %	100.00 %
The Egyptian Telecommunication Company for Information Systems (Xceed)	Egypt	100.00 %	100.00 %
Xceed Customer Care Maroc	Morocco	100.00 %	100.00 %
Centra Technologies	Egypt	100.00 %	100.00 %
Centra Industries	Egypt	100.00 %	100.00 %
Telecom Egypt Globe	Singapore	100.00 %	100.00 %
Egyptian International Submarine Cables Company (EISCC) *	Egypt	100.00 %	-
Middle East and North Africa Submarine Cables Company (MENA)	Egypt	100.00 %	-
MENA Cable Italy	Italy	100.00 %	-
Centra Distribution	Egypt	99.99 %	99.99 %
Middle East Radio Communication (MERC)	Egypt	51.00 %	51.00 %

*During the year, the 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, and the group 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, the loan have been fully paid during the year.

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

34. FINANCIAL INSTRUMENTS

34-1 Credit risk

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

Description	Note	31/12/2018	31/12/2017
	No.	L.E. (000)	<u>Reclassified</u> L.E. (000)
Trade and notes receivables*	(19)	4 378 759	4 371 697
Debtors and other debit balances*	(20)	5 200 654	2 712 079
Held-to-maturity investment -treasury bills		105 488	113 320
Cash and cash equivalents	(21)	881 943	512 301
		<u>10 566 844</u>	<u>7 709 397</u>

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

34-2 Liquidity risk

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

Description	Carrying Amount L.E. (000)	One year or less L.E. (000)	From 1-2 years L.E. (000)	From 3-5 years L.E. (000)	More than 5 years L.E. (000)
<u>December 31, 2018</u>					
Creditors and other credit balances	14 524 293	10 484 565	1 163 707	2 649 498	226 523
Loans and credit facilities	13 853 675	13 303 507	80 085	120 128	349 955
	<u>28 377 968</u>	<u>23 788 072</u>	<u>1 243 792</u>	<u>2 769 626</u>	<u>576 478</u>
<u>December 31, 2017</u>					
Creditors and other credit balances	11 895 730	10 585 648	576 657	490 028	243 397
Loans and credit facilities	7 293 265	6 678 793	83 377	125 066	406 029
	<u>19 188 995</u>	<u>17 264 441</u>	<u>660 034</u>	<u>615 094</u>	<u>649 426</u>

34-4 Sensitivity analysis

A 10% strengthening of the foreign currencies against the EGP as of December 31, 2018 may lead to losses increase by an amount of L.E 347 348 K (L.E. 250 081 K as of December 31, 2017). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis on 2017.

And a 10% weakening of the foreign currencies against L.E. at December 31, 2018 would have had the equal but opposite effect on the foreign currencies to the amounts shown above.

34-5 Interest rate risk

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

Description	Note	31/12/2018	31/12/2017
	No.	L.E. (000)	L.E. (000)
Financial instruments with variable interest rate			
Financial assets – deposits	(21)	376 656	126 948
Financial liabilities (loans-credit facilities)	(22)	13 853 675	7 293 265

34-6 Fair values for financial instruments

The financial instruments are represented in the balance of cash on hand and at banks, loans and credit facilities, trade receivables, investments, debtors and creditors balances.

The fair value of these financial instruments does not materially differ from its book value.

35. CLAIMS AND LITIGATIONS

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.

36 - Segment reporting

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

For the financial year ended 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>
Operating revenues	15 226 886	6 656 409	633 688	253 599	22 770 582
Operating costs	(12 573 156)	(1 039 002)	(531 662)	(225 543)	(14 369 363)
Gross profit	2 653 730	5 617 407	102 026	28 056	8 401 219
Credit interest	33 923	38 582	3 944	15 766	92 215
Debit interest and Finance cost	(1 465 157)	(31 223)	-	(2 637)	(1 499 017)
Depreciation and amortization	(2 544 679)	(139 260)	(30 806)	(2 093)	(2 716 838)
The company's share of profit in associates companies	-	-	-	2 200 602	2 200 602
Non cash items					
Reserval / (impairment loss) on financial assets	34 888	(31 223)	-	(58)	3 607
Provisions	(74 151)	(20 050)	(7 532)	(350)	(102 083)
Total assets	60 951 833	2 130 749	468 743	355 521	63 906 846
Total liabilities	29 524 799	1 247 195	176 987	469 528	31 418 509
For the financial year ended 2017					
Description	Communications, marine cables and infrastructure	Internet	Outsourcing	All other	Total
	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Operating revenues	12 807 837	5 157 842	475 080	126 523	18 567 282
Operating costs *	(9 633 192)	(1 170 048)	(377 772)	(132 222)	(11 313 234)
Gross profit *	3 174 645	3 987 794	97 308	(5 699)	7 254 048
Credit interest	39 465	36 249	1 469	8 490	85 673
Debit interest and Finance cost	(576 564)	-	-	(1 152)	(577 716)
Depreciation and amortization *	(1 939 007)	(146 318)	(19 253)	(505)	(2 105 083)
The company's share of profit in associates companies	-	-	-	2 337 269	2 337 269
Non cash items					
Impairment loss on financial assets	(37 533)	(3 299)	-	(461)	(41 293)
Impairment loss on available-for-sale investments	(3 705)	-	-	-	(3 705)
Provisions	(1 156 590)	(46 557)	(11 180)	(300)	(1 214 627)
Total assets *	50 375 959	1 675 243	371 322	210 343	52 632 867
Total liabilities *	20 461 223	1 120 457	156 776	404 733	22 143 189

*Restatement and reclassification were made to the comparative figures as shown in (Note no. 38)

37- COMPARATIVE FIGURES

- Restatement was made to some of the comparative figures of the consolidated statement of financial position, consolidated statement of income and consolidated statement of comprehensive income as a result of the reclassification was made to 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, there is an increase in accumulated depreciation of fixed assets by an amount of L.E 98 479 K against increase in depreciation expense for the year 2017 included in operating costs by the same amount.
- Reclassification was made to some of the comparative figures of the consolidated statement of financial position, and consolidated statement of income and consolidated statement of cash flows to conform to the current presentation of the consolidated financial statements.
 - The following is the effect of reclassification and representation on the consolidated financial statements.

37-1 Effect on the Consolidated statement of financial position

	<u>1/1/2017</u> <u>as previously</u> <u>reported</u> <u>L.E.(000)</u>	<u>Reclassification</u> <u>debit / (credit)</u> <u>L.E.(000)</u>	<u>1/1/2017</u> <u>Reclassified</u> <u>L.E.(000)</u>
Trade receivables	4 738 671	346 010	5 084 681
Debtors and other debit balances	1 906 841	(3 500)	1 903 341
Reserves	(4 446 323)	(551)	(4 446 874)
Retained earning	(8 056 342)	551	(8 055 791)
Creditors and other credit balances	(6 546 163)	13 663	(6 532 500)
Credit balances due to associates	-	(356 173)	(356 173)

	<u>For the financial year ended</u> <u>31/12/2017</u> <u>as previously</u> <u>reported</u> <u>debit / (credit)</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 financial year ended</u> <u>31/12/2017</u> <u>Restated</u> <u>debit / (credit)</u> <u>LE(000)</u>
Fixed assets	17 495 627	(98 479)	856 253	18 253 401
Project in progress	3 767 650	-	(856 253)	2 911 397
Deferred tax assets	396 877	-	560	397 437
Trade and note receivables	4 017 658	-	354 039	4 371 697
Debtors and other debit balances	2 718 563	-	(6 484)	2 712 079
Reserves	(4 641 301)	-	(1 053)	(4 642 354)
Retained earnings	(8 674 562)	98 479	1 053	(8 575 030)
Deferred tax liabilities	(755 618)	-	(560)	(756 178)
Credit and other credit balances	(10 606 261)	-	20 613	(10 585 648)
Credit balances due to associates	-	-	(368 056)	(368 056)
Provisions	(1 829 848)	-	(112)	(1 829 960)

37-2 Effect on the Consolidated statement of income

	For the financial year ended 31/12/2017 as previously reported L.E. (000)	Restatement (debit)/credit L.E. (000)	For the financial year ended 31/12/2017 Restated L.E. (000)
Operating cost	(11 214 755)	(98 479)	(11 313 234)
Basic and diluted earning per share (L.E/Share)	1.43	(.05)	1.38

37-3 Effect on the Consolidated statement of Cash Flows

	For the financial year ended 31/12/2017 as previously reported LE(000)	Reclassification LE(000)	For the financial year ended 31/12/2017 Reclassified LE(000)
Cash flows from operating activities			
Dividends paid to employees and Board of Directors	(641 148)	311 914	(329 234)
Cash paid to employees and Board of Directors	(3 555 207)	(311 914)	(3 867 121)

38- BUSINESS COMBINATION

38-1 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:

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

38-2 Acquisition on subsidiary- "Middle East and North Africa Submarine Cables Company-"MENA"

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

The company determined the primary study for consolidation related to the acquisition of "MENA" company using provisional value on July 31, 2018 till complete the study of 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 12 months according to Egyptian Accounting Standard no. (29) "Business Combination".

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

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

39. LAWS WERE RECENTLY ISSUED

On January 11, 2018, Comprehensive Health Insurance Law No. 2 for the year 2018 was issued and to be effective after spending six months starting from the next day of the law issuance date, and also the executive regulations of this law was issued on May 8, 2018, management of the company calculated and recorded the due contribution according to the recent explanation of the provisions of the law and its executive regulations.

40. SUBSEQUENT EVENTS

On February 18, 2019 Vodafone Egypt has proposed a dividend of EGP 12.2 bn, of which Telecom Egypt's share is the equivalent of EGP 5.5 bn. The dividends will be paid on two tranches, the first of which amounts to EGP 4.8 bn and will be paid in March 2019 with the remainder in June 2020, to be presented in the Company General Assembly for approval.

41. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the Consolidated Financial Statements as of December 31, 2018.

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

41-1 Basic of consolidation

41-1-1 Subsidiaries

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

41-1-2 Non-controlling interests

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

41-1-3 Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

41-1-4 Investments in associates (equity accounted investees)

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

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

41-1-5 Transactions eliminated for consolidation

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

41-2 Foreign currencies translation

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

41-3 Foreign operation

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

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

41-4 Fixed assets and depreciation

(A) Recognition and measurement

- Items of property, plant and equipment are measured at historical cost less accumulated depreciation and accumulated impairment losses note no. (41-12)

- The cost of fixed assets include expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Where parts of an item of fixed assets have different useful lives, their depreciation is accounted for as separate items.

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

(B) Subsequent costs

The cost of replacing part of an item of property, fixed assets is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of fixed assets are recognized in consolidated statement of income as incurred.

(C) Depreciation

Depreciation is recognized in profit or loss according to a straight-line method over the estimated useful life of fixed assets. The useful life for some fixed assets items have been modified during the year based on the technical department opinion and the Board of Directors decree in meeting held on July 5, 2018 effective from 1/1/2018 which led to decrease in the depreciation of the year ended December 31, 2018 by an amount of L.E 351 488 K, after applied the modified useful life from 1/1/2018.

The current year estimated useful lives for the fixed assets before and after modifying are as follows:

	<u>Estimated useful life /year</u> <u>Before modifying</u>	<u>Estimated useful life /year</u> <u>After modifying</u>
Buildings and Infrastructure	5 - 50	5 - 50
Technical equipment and information technologies	3 - 20	3 - 15
Vehicles	5 - 10	7 - 15
Furniture	5 - 10	5 - 10
Tools and supplies	8	2 - 8

41-5 Other assets

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

Other assets are stated at purchased cost including any expenses that are directly attributable to preparing the asset for its intended use, net of accumulated amortization and impairment losses. Amortization is recognized in profit and loss on a straight-line basis over the estimated useful lives of other assets from the date that they are available for use.

41-5-1 Licenses

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

41-5-2 Right of way and right of use

The Group recognizes an intangible asset arising from a right of way and right of use of other assets when it has the right for usage of the assets. An intangible asset is measured initially at cost upon initial recognition. Subsequent to initial recognition the intangible asset is measured at cost, less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over the shorter of the period of its expected use which ranges from 10 to 20 years and the term of the underlying agreement, starting from the date of the acquisition of the right.

41-5-3 Other intangible assets

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

41-6 Projects in Progress

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

41-7 Available - for - sale investments

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

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

41-8 Financial asset at fair value through profit or loss (Held for trading investments)

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

41-9 Investments held -to- maturity (Treasury bills)

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

41-10 Inventories

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

41-11 Trade receivables, debtors and other debit balances

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

41-12 Impairment loss on assets

(A) Financial assets

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

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the

original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

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

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

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

(B) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognized in the consolidated statement of income.

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

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

41-13 Provisions

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

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

41-14 Cash and cash equivalents

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

41-15 Grants

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

41-16 Creditors and other credit balances

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

41-17 Revenue recognition

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

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

41-18 Expenses

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

41-18-1 Operating lease payments

Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

41-18-2 Net financing (costs) /income

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

Finance income includes, interest receivable on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit and loss and foreign exchange gain.

41-19 Employees benefits

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

41-20 Capital lease agreements

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

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

41-21 Earnings per share

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

41-22 Reserves

- Legal Reserve: According to the company's Article of Associations requirements, 5% of the net profit is set aside to form a legal reserve. The transfer to legal reserve ceases once the reserve reaches 50% of the company's paid up capital.

- Other reserves: the General Assembly may form other reserves based on the Board of Directors' recommendation.

41-23 Income tax

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

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

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

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

41-24 Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

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

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

The Group risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

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

41-24-1 Credit risk

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

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

Trade receivable & other debtors

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

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

Cash and cash equivalents

Credit risk relating to cash and cash equivalents - except cash on hand - and financial deposits arises from the risk that the counterparty becomes insolvent and accordingly is unable to return the deposited funds. To mitigate this risk, whenever possible, the Group conducts transactions and deposits funds with financial institutions with high investment grade.

41-24-2 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet

its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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

41-24-3 Market risk

Market risk is the risk that changes in market prices, such as foreign currency exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group is exposed to currency risk on transactions that are denominated in a currency other than the respective functional currencies of the Group, primarily the U.S. Dollars (USD) and Euro. In respect of monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level through purchase or sale of the foreign currencies with current prices when that is necessary to face un-balanced short term.

Interest rate risk

The Group is exposed to market risks as a result of changes in interest rates particularly in relation to borrowings. Borrowings issued at floating rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The basic strategy of interest rate risk management is to balance the debt structure with an appropriate mix of fixed and floating interest rate borrowings based on the Group's perception of future interest rate movements.

Other market prices risk

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

41-24-4 Capital management

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