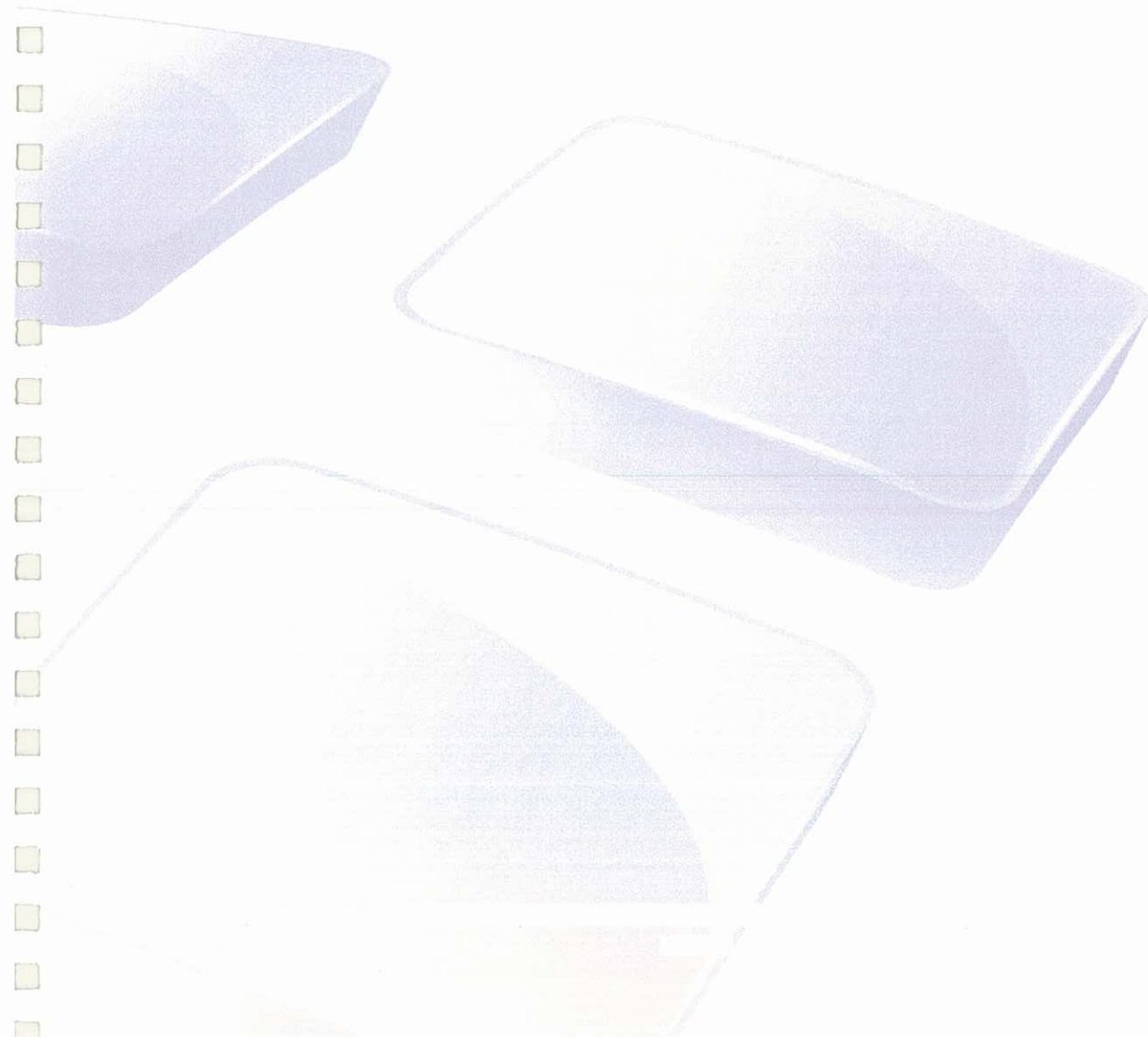




Translation from Arabic

Telecom Egypt Company
(An Egyptian Joint Stock Company)
Condensed Consolidated Interim Financial Statements
for the six months ended June 30, 2014
And the Limited Review Report





Translation from Arabic

Telecom Egypt Company
(An Egyptian Joint Stock Company)
Condensed Consolidated Interim Financial Statements
for the six months ended June 30, 2014
And the Limited Review Report

Index

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Hazem Hassan

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Translation from Arabic

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

Introduction

We have performed a limited review on the accompanying condensed consolidated balance sheet of Telecom Egypt Company "an Egyptian joint stock company" and its subsidiaries as of June 30, 2014 and the related condensed consolidated statements of income, cash flows and changes in equity for the six months then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these condensed consolidated interim financial statements in accordance with Egyptian Accounting Standard number (30) "Interim Financial Reporting". Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our limited review.

Scope of Limited Review

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

Conclusion

Based on our limited review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements do not present fairly, in all material respects, the consolidated financial position of the company and its subsidiaries as at June 30, 2014 and of its financial performance and its cash flows for the six months then ended in accordance with Egyptian Accounting Standard number (30) "Interim Financial Reporting".

Emphasis of Matter

Without qualifying our conclusion, we draw attention to note No. (27-2) of the notes to the condensed consolidated interim financial statements, a resolution has been taken by the Board of Directors of National Telecom Regulatory Authority (NTRA) to cancel the annual license fees cap incurred by the company starting from 1 July 2011, accordingly, the license fees will be calculated based on the percentages stated in the license granted to the company without fees cap.



Hazem Hassan

Translation from Arabic

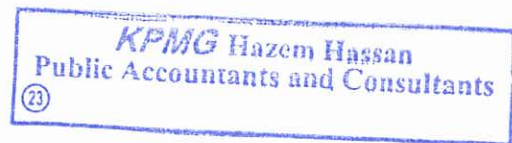
The company submitted a grievance against the said resolution based on the fact that the terms of change, according to the granted license, for changing the annual license fees cap were not satisfied. On 24 February 2014 the company received a letter from the Chairman of NTRA stating that the company's grievance is currently being considered.

The company is of the opinion that it has a valid case according to the granted license, in addition to what has been mentioned in the grievance submitted to NTRA, which supports its position with respect to the claim not to change the basis of the annual license fees calculation. It is difficult at the moment to determine the final outcome of this dispute until an agreement is reached concerning the basis of the annual license fees calculation between the company and NTRA.

Cairo, August 12, 2014

KPMG Hazem Hassan

**KPMG Hazem Hassan
Public Accountants & Consultants**





Translation from Arabic

Telecom Egypt Company
(An Egyptian Joint Stock Company)
Condensed consolidated Balance Sheet As of:

	Note No.	30/6/2014 L.E. (000)	31/12/2013 L.E. (000) Restated
Long Term Assets			
Fixed assets	(4)	10 892 812	11 242 891
Projects in progress	(5)	708 367	486 258
Investments in associates	(6)	8 915 938	8 592 328
Available-for-sale investments		100 319	100 319
Other assets	(7)	836 986	861 564
Deferred tax assets	(17-1)	369 574	324 555
Total Long Term Assets		21 823 996	21 607 915
Current Assets			
Inventories	(8)	437 147	458 620
Trade and notes receivable	(9)	3 981 177	3 386 025
Debtors and other debit balances	(10)	1 525 731	1 424 088
Held-to-maturity investments-treasury bills		575 643	99 246
Cash and cash equivalents	(11)	4 065 657	5 662 378
Total Current Assets		10 585 355	11 030 357
Current Liabilities			
Loans and credit facilities installments due within one year	(12)	84 764	107 208
Creditors and other credit balances	(13)	3 669 100	3 240 848
Provisions	(14)	610 561	486 793
Total Current Liabilities		4 364 425	3 834 849
Working Capital		6 220 930	7 195 508
Total Investments		28 044 926	28 803 423
Financed as follows:			
Equity and Long Term Liabilities			
Equity			
Capital	(15)	17 070 716	17 070 716
Reserves	(16)	6 306 851	6 187 926
Retained earnings		2 657 059	2 072 279
Net profit for the period / year		1 543 237	2 958 449
Foreign entites translation reserve		12 111	10 088
Equity attributable to owners of the company		27 589 974	28 299 458
Non - controlling interest		15 957	16 493
Total Equity		27 605 931	28 315 951
Long Term Liabilities			
Loans and credit facilities	(12)	431 416	475 266
Creditors and other credit balances	(13)	7 579	12 206
Total Long Term Liabilities		438 995	487 472
Total Equity and Long Term Liabilities		28 044 926	28 803 423

The attached notes on pages (7) to (24) are an integral part of these condensed consolidated Interim financial statements.

Financial Director " Shaher Shokry "	Chief Financial officer " Mohamed Shamroukh "	Vice Pres.of Financial, Admin affairs and HR " Taha Mashhor "	Managing Director & Chief Executive Officer " Mohamed Amin Elnawawy "	Chairman " Omar ELSheikh "
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Limited Review Report for condensed consolidated Interim financial statements"attached"



Translation from Arabic

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

	Note No.	<u>For the six months ended</u>		<u>For the three months ended</u>	
		30/06/2014	30/06/2013	30/06/2014	30/06/2013
		<u>L.E.(000)</u>	<u>L.E.(000)</u> <u>Restated</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u> <u>Restated</u>
Operating revenues	(18)	6 432 167	5 489 879	3 868 031	2 773 086
Operating costs	(19)	(3 215 418)	(3 328 380)	(1 676 209)	(1 690 359)
Gross Profit		3 216 749	2 161 499	2 191 822	1 082 727
Other income		81 547	165 469	36 420	118 944
General and administrative expenses	(20)	(868 997)	(747 262)	(526 170)	(411 508)
Selling and distribution expenses	(21)	(605 994)	(503 756)	(330 613)	(266 917)
Other expenses		(350 480)	(12 762)	(344 424)	6 977
Operating profit		1 472 825	1 063 188	1 027 035	530 223
Finance income	(22)	282 589	640 762	169 199	293 189
Finance cost	(22)	(47 794)	(6 581)	(34 587)	22 565
Net finance income		234 795	634 181	134 612	315 754
Share of profit of equity accounted investees	(23)	372 600	485 401	218 436	258 438
Profit before tax		2 080 220	2 182 770	1 380 083	1 104 415
Income tax expense		(580 435)	(396 494)	(397 650)	(167 171)
Deferred tax	(17-1)	45 019	(32 390)	42 303	(41 684)
Total income tax		(535 416)	(428 884)	(355 347)	(208 855)
Profit for the period		1 544 804	1 753 886	1 024 736	895 560
<u>Profit attributable to :</u>					
Owners of the company		1 543 237	1 753 200	1 023 928	895 549
Non-controlling interest		1 567	686	808	11
Profit for the period		1 544 804	1 753 886	1 024 736	895 560
Basic earnings per share (L.E. / Share)	(25)	0.90	1.03	0.60	0.52

The attached notes on pages (7) to (24) are an integral part of these condensed consolidated interim financial statements.



Translation from Arabic

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

	For the six months ended		
	Note	30/06/2014	30/06/2013
	<u>No.</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>
			<u>Reclassified</u>
<u>Cash flows from operating activities:-</u>			
Cash receipts from trade receivables		4 480 654	4 179 492
Sales tax collected from trade receivables		132 381	144 330
Stamp tax and fees collected (from third party)		29 206	32 296
Deposits returned to trade receivables		(2 709)	(6 291)
Cash paid to suppliers		(394 145)	(283 861)
Payments of financial lease obligations		(15)	(757)
Dividends paid to employees		(404 045)	(1 387 060)
Cash paid to employees		(1 252 890)	(229 636)
Cash paid on behalf of employees to third party		(201 324)	(314 163)
Cash provided by operating activities		2 387 113	2 134 350
Interest paid		(7 130)	(11 835)
Payments to Tax Authority - income tax		(702 449)	(545 758)
Payments to Tax Authority - sales tax		(453 485)	(299 127)
Payments to Tax Authority - other tax		(214 069)	(156 304)
Other proceeds		57 706	174 685
Net cash provided by operating activities		1 067 686	1 296 011
<u>Cash flows from investing activities:-</u>			
Payments for purchase of fixed assets, projects in progress and other assets		(580 306)	(293 496)
Proceeds from sale of fixed assets and other assets		489	271
Interest received		15 739	27 406
Payments for purchase of held to maturity investments - treasury bills		(626 658)	(43 498)
Proceeds from treasury securities bills interest and money market funds		290 789	155 046
Dividends collected from investments		12 886	7 788
Net cash used in investing activities		(887 061)	(146 483)
<u>Cash flows from financing activities:-</u>			
Repayment of loans and other facilities		(61 729)	(107 190)
Change in long term obligations		-	313
Dividends paid to Shareholders		(1 715 310)	(2 217 249)
Net cash used in financing activities		(1 777 039)	(2 324 126)
Net change in cash and cash equivalents during the period		(1 596 414)	(1 174 598)
Translation differences of foreign entities		763	3 295
Cash and cash equivalents at the beginning of the period	(11)	5 644 304	6 325 330
Cash and cash equivalents at the end of the period	(11)	4 048 653	5 154 027

The attached notes on pages (7) to (24) are an integral part of these condensed consolidated interim financial statements.



Translation from Arabic

Telecom Egypt Company

(An Egyptian Joint Stock Company)

Condensed consolidated Statement of Changes in Equity

For the six months ended June 30, 2014

	Capital	Legal reserve	Other reserves	Retained earnings	Net profit	Foreign entities translation reserve	Equity attributable to owners of the company	Non-controlling interest	Total equity
	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>
Balance as of January 1, 2013 (restated)	17 070 716	1 249 396	4 810 362	2 296 586	2 619 785	2 065	28 048 910	18 349	28 067 259
Transferred to retained earnings	-	-	-	2 619 785	(2 619 785)	-	-	-	-
Transferred to legal reserve	-	123 228	-	(123 228)	-	-	-	-	-
Dividends year 2012	-	-	-	(2 681 670)	-	-	(2 681 670)	-	(2 681 670)
Dividends paid to employees(Subsidiaries)	-	-	-	(30 209)	-	-	(30 209)	(2 954)	(33 163)
Dividends paid to employees(Associates)	-	-	-	(4 045)	-	-	(4 045)	-	(4 045)
Profit for the period (restated)	-	-	-	-	1 753 200	-	1 753 200	686	1 753 886
Translation differences of foreign entities	-	-	-	-	-	3 785	3 785	35	3 820
Balance as of June 30, 2013 (restated)	17 070 716	1 372 624	4 810 362	2 077 219	1 753 200	5 850	27 089 971	16 116	27 106 087
Balance as of January 1, 2014 (restated)	17 070 716	1 377 564	4 810 362	2 072 279	2 958 449	10 088	28 299 458	16 493	28 315 951
Transferred to retained earnings	-	-	-	2 958 449	(2 958 449)	-	-	-	-
Transferred to legal reserve	-	118 925	-	(118 925)	-	-	-	-	-
Dividends year 2013	-	-	-	(2 198 458)	-	-	(2 198 458)	-	(2 198 458)
Dividends paid to employees(Subsidiaries)	-	-	-	(34 263)	-	-	(34 263)	(2 118)	(36 381)
Dividends paid to employees(Associates)	-	-	-	(22 023)	-	-	(22 023)	-	(22 023)
Profit for the period	-	-	-	-	1 543 237	-	1 543 237	1 567	1 544 804
Translation differences of foreign entities	-	-	-	-	-	2 023	2 023	15	2 038
Balance as of June 30, 2014	17 070 716	1 496 489	4 810 362	2 657 059	1 543 237	12 111	27 589 974	15 957	27 605 931

The attached notes on page (7) to (24) are an integral part of these condensed consolidated interim financial statements.



Translation from Arabic

Telecom Egypt Company
(An Egyptian Joint Stock Company)

Notes to the Condensed Consolidated Interim Financial Statements
For the six months ended June 30, 2014

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 Condensed Consolidated interim Financial Statements of the Company for the six months ended June 30, 2014 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.
- The company is subject to the provisions of the Companies Law No. 159 of 1981 and Capital Market law No. 95 of 1992.
- The registered office of the company is 26 Ramses Street, Cairo, Egypt.

The nominal shares for the company Are traded in the Egyptian Stock Exchange and the London market for securities.

1-2 Purpose of the company

- The main purpose of the company represents in the following:
- Owning, setting up, operating, maintenance and development of telecommunication networks and infrastructure necessary for communication services for using and / or managing and / or leasing to others and / or dealing on them.
- Providing voice, video and data transmission telecommunication services to subscribers and / or managing and / or leasing to others and / or dealing on them.
- Participating or contributing to global communication systems, such as: - submarine cables and satellites and obtaining capacities or circuits for using and / or managing and / or leasing to others and / or dealing on them.
- Dealing or contracting or Participating with authorities , agencies, companies , organizations or any entity exercising an activity similar to or identical to the company's activities or relates or assists the company to achieve its purposes either in Arab Republic of Egypt or abroad.
- Managing, selling, leasing , purchasing, possessing, renting and dealing on any property and rights or benefit or right in any property. Including the movable and immovable property which could be acquired or owned by the company.
- Selling, purchasing and distributing of fixed line sets , mobile phones and computers, its peripherals , accessories and supplies , complementary devices and necessary spare parts and related maintenance works.
- Setting up voice, video and written data transmission networks and providing value-added services , content services, marketing , electronic signature and online money transfer.
- Investment properties for serving its purposes and executing its projects.

1-3 Issuance of the condensed consolidated interim financial statements

These condensed consolidated interim financial statements were approved by the Board of Directors on August 12, 2014.



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

2-1 Statement of compliance

These condensed consolidated interim financial statements as of June 30, 2014 have been prepared in accordance with Egyptian Accounting Standard No.30 "Interim Financial Reporting" accordingly it is condensed compared to the annual consolidated financial statements for the company, and in the light of applicable Egyptian laws and regulations.

These condensed consolidated interim financial Statements don't include all the required information needed for preparing the full annual financial statements and must be read with the annual consolidated financial statements as of December 31, 2013.

2-2 Basis of measurement

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

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

2-3 Functional and presentation currency

These condensed consolidated interim financial statements are presented in Egyptian pound (L.E.), which is the group functional currency. All financial information presented in "L.E." has been rounded to the nearest thousand unless otherwise stated.

2-4 Use of estimates

The preparation of the condensed consolidated interim financial statements in conformity with Egyptian Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of 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 an going basis. Accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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

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



Notes to the condensed consolidated interim financial statements (continued)
For the six months ended June 30, 2014

Translation from Arabic

3. SIGNIFICANT ACCOUNTING POLICIES

- The accounting policies applied in the preparation of the condensed consolidated interim financial statements as of June 30, 2014 are the same as the accounting policies applied in the preparation of the annual consolidated financial statements as of December 31, 2013.
- These accounting policies have been applied consistently to all periods presented in these condensed consolidated interim financial statements.
- Certain comparative figures have been reclassified to conform with the current presentation of the condensed consolidated interim financial statements (Note No.32).

4. FIXED ASSETS

Description	30/06/2014	30/06/2014	30/06/2014	31/12/2013
	Cost	Accumulated depreciation	Net	Net
	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>
				<u>Reclassified</u>
Land	2 485 284	-	2 485 284	2 484 949
Buildings & Infrastructure	19 275 667	13 029 272	6 246 395	6 487 617
Centrals and technical equipment & information technologies	20 692 570	18 673 964	2 018 606	2 131 248
Vehicles	119 229	107 492	11 737	9 381
Furniture	407 324	325 799	81 525	73 988
Tools & supplies	77 637	61 752	15 885	14 889
Decoration & fixtures	106 333	72 953	33 380	40 819
Fixtures on trunk radio network	315	315	-	-
Total	43 164 359	32 271 547	10 892 812	11 242 891

- The decrease in net carrying value of fixed assets is due to the depreciation of the period.
- The cost of fixed assets includes an amount of L.E. 19 274 million fully depreciated fixed assets and still used.
- A reclassification was made from land item to other assets as shown in Note No. (32).



Notes to the condensed consolidated interim financial statements (continued)
For the six months ended June 30, 2014

Translation from Arabic

5. PROJECTS IN PROGRESS

The balance of projects in progress in the balance sheet on June 30, 2014 includes an amount of LE 297 310 K represented in buildings and infrastructure (against LE 111 384 K as at December 31, 2013), and also includes an amount of LE 269 510 K represented in centrals and technical equipment and information technologies (against LE 238 367 k as at December 31, 2013).

6. INVESTMENTS IN ASSOCIATES

	30/6/2014		31/12/2013	
	<u>Ownership</u>	<u>amount</u>	<u>Ownership</u>	<u>amount</u>
	<u>%</u>	<u>L.E. (000)</u>	<u>%</u>	<u>L.E. (000)</u>
- Vodafone Egypt Telecommunication company	44.95	8 915 938	44.95	8 592 328
- Wataneya for Telecommunication	50.00	125	50.00	125
- Consortium Algerien de Telecommunications (CAT)	33.00	133	33.00	133
- International Telecommunication Consortium Limited. (ITCL)	50.00	54	50.00	54
- Egypt Trust	35.71	7 500	35.71	7 500
- Sofisat	25.00	-	25.00	-
		<u>8 923 750</u>		<u>8 600 140</u>
<u>Less:</u>				
Impairment loss on investment in associates		7 812		7 812
Net		<u>8 915 938</u>		<u>8 592 328</u>

The investments in Vodafone Egypt on June 30, 2014 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 Condensed Consolidated Interim Financial Statements as of June 30, 2014 by using the consolidated financial statements of Vodafone Egypt for the financial year ended in March 31, 2014 that were authorized from Company's Board of directors which presents the 12 months from the 1st of April 2013 till March 31, 2014 deduct the movements of the period from April 1, 2013 till December 31, 2013 from the interim financial statements of Vodafone Egypt as of December 31, 2013 and add the movements of the period from April 1, 2014 till June 30, 2014 from the interim financial statements of Vodafone Egypt as of June 30, 2014 to determine the share of financial period from January 1, 2014 to June 30, 2014 of business results.



Notes to the condensed consolidated interim financial statements (continued)
For the six months ended June 30, 2014

Translation from Arabic

7. OTHER ASSETS

	30/6/2014	31/12/2013
	<u>L.E. (000)</u>	<u>L.E. (000)</u>
<u>Cost</u>		<u>reclassified</u>
Submarine Cables	733 473	737 238
Right of Use (ROU)	147 672	147 598
Services Licensing	21 496	21 469
Land (possession-usufruct)	353 005	353 005
	<u>1 255 646</u>	<u>1 259 310</u>
<u>Less:</u>		
Accumulated amortization	418 660	397 746
Net	<u>836 986</u>	<u>861 564</u>

- The decrease in net carrying value of other assets is due to the amortization of the period.
- Accumulated depreciation and impairment loss as at June 30,2014 include an amount of LE 79 825 k represented in impairment loss on Right of use (ROU) and Internet Services Licensing in one of the subsidiaries.
- An adjustment was made on land item (possession) as shown in Note No (32).

8. INVENTORIES

	30/6/2014	31/12/2013
	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Spare parts	332 460	293 248
Project cables and supplies	70 205	130 569
Others	34 482	34 803
	<u>437 147</u>	<u>458 620</u>

The value of inventory was written down by LE 24 620 K (against LE 20 081 K as at December 31, 2013) for obsolete and slow moving items directly from the cost of each type of inventory.



Notes to the condensed consolidated interim financial statements (continued)
For the six months ended June 30, 2014

Translation from Arabic

9. TRADE AND NOTES RECEIVABLE

	30/6/2014	31/12/2013
	<u>L.E.(000)</u>	<u>L.E.(000)</u>
Governmental sector	411 002	412 241
Private sector	4 802 982	3 789 614
Foreign telecommunication companies and organizations	<u>1 211 176</u>	<u>1 585 673</u>
	6 425 160	5 787 528
Less:		
Impairment loss on trade receivables	<u>2 444 153</u>	<u>2 401 590</u>
	3 981 007	3 385 938
Add:		
Notes receivable	<u>170</u>	<u>87</u>
	<u>3 981 177</u>	<u>3 386 025</u>

The increase in trade and notes receivable by LE 595 152 K is due to the increase in private sector balance by an amount of LE 1 013 368 K as a result of increase in IRU revenue during the period in addition to delay in the collection of some dues of mobile operators and the decrease in Foreign telecommunication companies and organizations balance by LE 374 497 K, also Impairment loss on trade receivables increased by an amount of LE 42 563 K to meet the default risk.

10. DEBTORS AND OTHER DEBIT BALANCES

	30/6/2014	31/12/2013
	<u>L.E.(000)</u>	<u>L.E.(000)</u>
Suppliers – debit balances	84 688	21 323
Tax Authority	671 703	789 170
Due from organizations and companies	273 567	108 758
Payments on the account of corporate tax	138 169	86 611
Other debit balances	<u>486 236</u>	<u>546 225</u>
	1 654 363	1 552 087
Less:		
Impairment loss on debtors and other debit balances	<u>128 632</u>	<u>127 999</u>
	<u>1 525 731</u>	<u>1 424 088</u>

The balance of debtors and other debit balances has been increased by LE 101 643 K due to the increase in suppliers – debit balances and due from organizations and companies items by LE 63 365 K and LE 164 809 K respectively, on the other hand a decrease in tax authority by an amount of LE 117 467 K led to a reduction of the increase.



Notes to the condensed consolidated interim financial statements (continued)
For the six months ended June 30, 2014



Translation from Arabic

11. CASH AND CASH EQUIVALENTS

	30/6/2014	31/12/2013
	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Banks - time deposits (less than 3 months)	2 658 211	2 035 373
Banks - current accounts	61 461	91 667
Cash on hand	19 610	14 588
Treasury bills (less than 3 months)	1 206 695	3 390 332
Money market funds (less than 3 months)	119 680	130 418
Cash and cash equivalents	4 065 657	5 662 378
Less:		
Restricted cash and cash equivalents	17 004	18 074
Cash and cash equivalents as per statement of cash flows	4 048 653	5 644 304

The decrease in cash and cash equivalents is due to the payment of 2013 dividends during the period in addition to investing in treasury bills (long term) by an amount of LE 626 658 K.

12. LOANS AND FACILITIES

The decrease in the balance of loans and facilities is mainly resulting from the payment of due loans installments during the period, and take into consideration the following points:

Foreign suppliers facilities in euro amounted to LE 773 K equivalent to Euro 79 K against letters of guarantee issued by National Bank of Egypt in favor of the supplier "Siemens" company as a guarantee for payment of this facility and there are no other guarantees.

The unused amount of foreign loans and facilities as at June 30, 2014 which is available for use amounted to the equivalent to LE 8 146 K.



Notes to the condensed consolidated interim financial statements (continued)
For the six months ended June 30, 2014

Translation from Arabic

13. CREDITORS AND OTHER CREDIT BALANCES

	30/6/2014	31/12/2013
	<u>L.E.(000)</u>	<u>L.E.(000)</u>
		<u>Restated</u>
Deposits from others	656 763	656 224
Accrued expenses*	297 352	315 636
Trade receivables - credit balances	328 722	347 412
Deferred revenues	525 275	20 281
Customers credit balances - Marine Cables	2 410	2 410
Dividends payable	2 867	2 262
Tax Authority-Income Tax	551 828	715 592
Tax Authority (taxes other than income tax)	149 171	105 548
Other credit balances	1 162 291	1 087 689
	<u>3 676 679</u>	<u>3 253 054</u>
Less:		
Credit balances due after more than one year	7 579	12 206
	<u>3 669 100</u>	<u>3 240 848</u>

The creditors and other credit balance have increased by an amount of LE 423 625 K mainly due to the increase in Deferred revenue by an amount of LE 504 994 K for rental transmission system to mobile operators for the second half of year 2014, decrease in tax authority-income tax item by amount of LE 163 764 K.

*Adjustments were made to the previous year balance of accrual expenses by an amount of LE 332 K as shown in Note No. (32).

14. PROVISIONS

	30/6/2014	31/12/2013
	<u>L.E.(000)</u>	<u>L.E.(000)</u>
Balance at the beginning of the period /year	486 793	334 515
Charged to income statement for the period / year*	332 371	226 798
Reversal of provision	-	(39 465)
Used provision during the period / year	(208 607)	(35 062)
Translation differences	4	7
Balance at the end of the period / year	<u>610 561</u>	<u>486 793</u>

*Provisions charged to income statement within other expenses to meet contingent liabilities.



Notes to the condensed consolidated interim financial statements (continued)
For the six months ended June 30, 2014

Translation from Arabic

15. CAPITAL

The company's issued and fully paid-up capital is LE 17 070 716 K, represented in 1 707 071 600 shares at a par value of LE 10 each.

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

16. RESERVES

	30/6/2014	31/12/2013
	<u>L.E.(000)</u>	<u>L.E.(000)</u>
Legal reserve	1 496 489	1 377 564
Other reserves	4 810 362	4 810 362
	<u>6 306 851</u>	<u>6 187 926</u>

The balance of legal reserve has increased as a result of retaining 5% of the 2013 net profits in accordance with the company's article of association.

17. DEFERRED TAX

17-1 Deferred tax assets and liabilities

	30/6/2014		31/12/2013	
	Assets	Liabilities	Assets	Liabilities
	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>	<u>L.E.(000)</u>
Total deferred tax asset / (liability)	374 182	(4 608)	327 620	(3 065)
Net deferred tax asset	369 574	-	324 555	-
Deferred tax charged to income statement for the period / year	<u>45 019</u>		<u>(74 538)</u>	

17-2 Unrecognized deferred tax assets

	30/6/2014	31/12/2013
	<u>L.E.(000)</u>	<u>L.E.(000)</u>
Unrecognized deferred tax assets	543 190	526 126

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



Notes to the condensed consolidated interim financial statements (continued)
For the six months ended June 30, 2014

Translation from Arabic

18. OPERATING REVENUES

	For the six months ended		For the three months ended	
	30/6/2014	30/6/2013	30/6/2014	30/6/2013
	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Home	1 543 311	1 464 228	778 838	741 769
Enterprise	1 012 949	921 927	583 442	479 286
Domestic wholesale	1 228 074	1 124 102	686 731	553 453
International carrier	1 551 513	1 691 597	820 247	803 643
International cables and networks	1 096 320	288 025	998 773	194 935
Total operating revenues	<u>6 432 167</u>	<u>5 489 879</u>	<u>3 868 031</u>	<u>2 773 086</u>

Total operating revenues have increased by an amount of L.E. 942 288 K mainly due to the increase in international cables and networks revenues by an amount of L.E. 808 295 K, as a result of increase in submarine cables IRU sales.

19. OPERATING COSTS

	For the six months ended		For the three months ended	
	30/6/2014	30/6/2013	30/6/2014	30/6/2013
	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>
		<u>Reclassified</u>		<u>Reclassified</u>
Interconnection cost	1 194 310	1 228 501	610 911	566 640
Depreciation and amortization	759 906	845 204	377 625	420 592
Other operating costs	1 261 202	1 254 675	687 673	703 127
	<u>3 215 418</u>	<u>3 328 380</u>	<u>1 676 209</u>	<u>1 690 359</u>

Operating costs have decreased by L.E. 112 962 K due to the following:

- The decrease of interconnection cost by L.E. 34 191 K mainly due to the decrease in interconnection for mobile operators.
- The decrease in depreciation and amortization by L.E. 85 298 K as a result of the increase in the fully depreciated assets during the period



Notes to the condensed consolidated interim financial statements (continued)
For the six months ended June 30, 2014

Translation from Arabic

20. GENERAL AND ADMINISTRATIVE EXPENSES

	For the six months ended		For the three months ended	
	30/6/2014	30/6/2013	30/6/2014	30/6/2013
	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>
		<u>Restated</u>	<u>Restated</u>	<u>Restated</u>
Salaries and wages	490 198	495 965	263 427	281 358
Depreciation	26 623	25 017	13 970	12 171
Others*	352 176	226 280	248 773	117 979
	<u>868 997</u>	<u>747 262</u>	<u>526 170</u>	<u>411 508</u>

The increase in general and administrative expenses is mainly due to the increase in others item by L.E. 121 735 K as a result of the increase in taxes and fees within others item by L.E. 99 173 K, as a result of the sales tax inspection differences on December 31, 2010.

*Adjustments were made to the comparative figures resulted in an increase in other expenses by an amount of L.E 166 K as shown in Note No. (32).

21. SELLING AND DISTRIBUTION EXPENSES

	For the six months ended		For the three months ended	
	30/6/2014	30/6/2013	30/6/2014	30/6/2013
	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>
		<u>Reclassified</u>		<u>Reclassified</u>
Salaries and wages	399 208	364 876	212 377	195 499
Depreciation	4 646	4 404	2 413	2 228
Others	202 140	134 476	115 823	69 190
	<u>605 994</u>	<u>503 756</u>	<u>330 613</u>	<u>266 917</u>

The increase in Selling and distribution expenses by L.E. 102 238 K is mainly due to increase in discount allowed within others by L.E. 68 967 K.

22. NET FINANCE INCOME

	For the six months ended		For the three months ended	
	30/6/2014	30/6/2013	30/6/2014	30/6/2013
	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>	<u>L.E. (000)</u>
Total finance income	282 589	640 762	169 199	293 189
Total finance cost	(47 794)	(6 581)	(34 587)	22 565
Net finance income	<u>234 795</u>	<u>634 181</u>	<u>134 612</u>	<u>315 754</u>

The decrease in net finance income by L.E. 399 386 K is mainly due to the decrease in foreign currency exchange gain by L.E. 252 879 K against the same period.



23. SHARE OF PROFIT OF EQUITY ACCOUNTED INVESTEEES

An amount of LE 372 600 K (against LE 485 401 K for the comparative period) which represents the Company's share in Vodafone Egypt profits in According to equity method.

24. EMPLOYEE'S BENEFITS

24-1 Early retirement scheme

The Company has an early retirement scheme whereby employees who wish 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. Compensations relating to early retirement amounted to LE 806 K for the period ended June 30, 2014 (against LE 1 007 K for the same period of the year 2013) are included in general and administrative expenses.

24-2 End of service benefits

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, 2002 increasing at a compound rate of 5%. The subscription for employees hired after January 1, 2002, is calculated according to a subscription schedule for new hires and increasing at a compound rate of 5% starting from the next year from the hiring date.

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 contribution for the period ended June 30, 2014 amounts to LE 85 744 K (against LE 77 949 K for the same period as of the year 2013). The Company's contribution is included in general and administrative expenses.

25. BASIC EARNINGS PER SHARE FOR THE PERIOD

Basic earnings per share for the period are determined as follows:

	For the six months ended		For the three months ended	
	30/6/2014	30/6/2013 Restated	30/6/2014	30/6/2013 Restated
Share of equity of the holding company:				
Net profit for the period (L.E. (000))	1 543 237	1 753 200	1 023 928	895 549
Number of shares during the period (share)	1 707 071 600	1 707 071 600	1 707 071 600	1 707 071 600
Basic earnings per share for the period (L.E. / share)	0.90	1.03	0.60	0.52

26. CAPITAL COMMITMENTS

The company's capital commitments for the unexecuted parts of contracts until June 30, 2014 amounted to LE 500 million against L.E. 151.9 million as at December 31, 2013 (includes L.E. 1 million represents the uncalled installments of investees' share in capital). These commitments are expected to be settled in the subsequent period except for the uncalled installments of investees' share in capital, which shall be settled when required by the Board of Directors of those investees companies.



Notes to the condensed consolidated interim financial statements (continued)
For the six months ended June 30, 2014

Translation from Arabic

27. CONTINGENT LIABILITIES

27-1 In addition to the amounts included in the condensed consolidated balance sheet as of June 30, 2014, the company has the following contingent liabilities:

	<u>30/6/2014</u>	<u>31/12/2013</u>
	<u>L.E. (000)</u>	<u>L.E. (000)</u>
- Letters of guarantee issued by banks on behalf of the company*	55 054	54 464
- Letters of credit	185 890	85 953

* letters of guarantee were issued against restricted cash and cash equivalents include letters of guarantee have been issued against cash margin (restricted cash and cash equivalent) (Note no.11)

27-2 NATIONAL TELECOM REGULATORY AUTHORITY (NTRA) ANNUAL LICENSE FEES

- NTRA annual licenses fees are booked and paid in accordance with article no. 38 of the license granted to Telecom Egypt, which states that Telecom Egypt is to pay licenses fees amounting to 3% of total revenues (excluding international calls revenues) in addition to 5% of international calls revenues. However, the same article states that starting from 2006 till 2008, Telecom Egypt has to pay the annual license fees cap. Starting from first of July 2008, NTRA has the right to reconsider either to proceed with the annual license fees cap, or apply the said percentages; depending on market conditions and tariff restructuring.
- Telecom Egypt received a claim from NTRA according to NTRA Board of Directors' resolution during year 2012, cancelling the annual license fees cap and claiming 5% of international calls revenue, in addition to 3% of the remaining revenues starting from the fiscal year 2011/2012. The amount disputed till June 30, 2014 amounts to approximately L.E. 672 million.
- Telecom Egypt submitted a grievance to the Minister of Telecommunications and the Chairman of NTRA requesting to continue applying the annual license fees cap as the terms of change according to the granted licenses for changing the annual license fees cap depending on market conditions and tariff restructuring were not satisfied, which didn't have any positive impact on the company's activity evidenced by the company's financial analysis included in the company's grievance which is based on company's issued financial statements.
- On February 24, 2014 Telecom Egypt received a letter from the Chairman of NTRA stating that the company's grievance is currently being considered.
- Telecom Egypt is of the opinion that it has a valid case for its grievance, since neither the market conditions nor the tariff restructuring changes had a positive impact on the company's activity so that NTRA could change from the annual license fees cap to apply the said percentages.



Notes to the condensed consolidated interim financial statements (continued)
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Translation from Arabic

28. TAX POSITION (Telecom Egypt Company)

28-1 Corporate tax

- Tax inspection was performed for the years till December 31, 2008 and all due taxes were settled.
- Tax inspection for the years 2009,2010 and 2011 is currently being undertaken
- Tax return for the years from 2012 to 2013 was submitted on the due dates and payments were made accordingly.
- On June 4, 2014, law no. 44 of 2014 was issued, imposing additional 5% increase in the tax rate on individuals and corporate entities whose annual income exceeds one million egyptian pounds for a period of three years starting from the current tax period. This tax will be calculated and collected according to the provisions of the income tax law, and shall come into force on June 5, 2014.
- On June 30, 2014, a presidential decree no. 53 of 2014 was issued, amending certain provisions of the income tax Law No. 91 of 2005 , the main amendments are:
 - 1.Imposing income tax on dividends.
 - 2.Imposing income tax on capital gains from selling shares and securities.According to these amendments, the company assess the effect and the mechanism of applying the amendments starting from the effective date of the law, July 1, 2014 and in light of its executive regulation when issued.

28- 2 Sales Tax

- Tax inspection was performed for the years till December 31, 2010 and all due taxes were settled.
- Tax inspection for the years from 2009 till 2011 is currently being undertaken

28- 3 Salary Tax

- Tax inspection was performed for the years till December 31 ,2007, and the Company was notified and all due taxes were settled.
- Tax inspection was performed for 2008 and the objection to the form in the legal dates and the related provisions were formed to meet the disputed tax liabilities.
- Tax inspection for the years from 2009 till 2012 is currently being undertaken.

28- 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, the company objected on the disputed items on the due dates and the related provisions were formed to meet the disputed tax liabilities.
- Tax inspection for the period from January 1, 2001 till July 31, 2006 was performed for certain sectors of the company and due taxes were settled. Tax inspection for the remaining sectors is currently being undertaken during the same period.
- Tax inspection for period from August 1, 2006 to December 31, 2009 and due taxes were settled and disbuted items has been transferred to the internal committee.
- Tax inspection for the years 2010 till 2012 is currently being undertaken.

28- 5 Real estate taxes

- All taxes are paid according to the addition notices received by the company. The company's Legal Affairs Department follows up on the disputes according to the Real Estate Tax Law.
- Tax returns were submitted according to the new Real Estate Tax Law No.196 for the year 2008 on the due dates.
Provisions were formed to meet any tax liabilities that may arise from the tax inspection.



Notes to the condensed consolidated interim financial statements (continued)
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Translation from Arabic

29. RELATED PARTY TRANSACTIONS

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

	Nature of transactions during the period	Transactions volume		Balance as of 30/6/2014	Balance as of 31/12/2013		
		during the period stated in the income statement	during the period			Debit (Credit)	Debit (Credit)
<u>Debit balances included in trade receivables</u>							
- Vodafone Egypt Telecommunications Company	Outgoing calls and voice services to the associates company	591 298		8 598	(92 197)		
	Incoming and international calls, transmission & lease of company premises and towers to the associates company	478 557	1 440 282	1 339 487			
			1 440 282	1 339 487	(92 197)		
<u>Debit balances included in debit balances - long term</u>							
- Consortium Algerien de Telecommunications (CAT)*	Paid on behalf of associates to finance operating expenses	-	-	453 902	453 902		
				453 902	453 902		
<u>Debit balances included in debtors and other debit balances</u>							
- International Telecommunication Consortium Limited (ITCL)**		-	-	66	66		
				66	66		
<u>Credit balances included in creditors and other credit balances</u>							
- Vodafone Egypt Telecommunications Company	telecommunications services	3 334	3 284	(1 064)	(1 014)		

* Impairment was formed to this balance which represented in the value of the finance provided by Telecom Egypt to Consortium Algerien de Telecommunication Company (CAT) where Telecom Egypt participates directly and indirectly by 50%, this company suffers from financial difficulties and sustains material losses. The Extra-Ordinary General Assembly Meeting of the company (CAT) held on July 1, 2009 approved the dissolution and liquidation of the company. In the light of these circumstances, there is high probability that Telecom Egypt will not be able to collect the finance given to Consortium Algerien de Telecommunication Company

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



Notes to the condensed consolidated interim financial statements (continued)
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Translation from Arabic

30. GROUP ENTITIES

Parent company direct and indirect share in subsidiaries companies on June 30, 2014 which were included in the condensed consolidated interim financial statements is as follows:

<u>Company name:</u>	<u>Country of incorporation</u>	<u>Ownership interest</u>	
		<u>30/6/2014</u>	<u>31/12/2013</u>
Telecom Egypt France	France	100.00 %	100.00 %
T.E Data	Egypt	99.99 %	99.99 %
T.E Data Jordan	Jordan	99.99 %	99.99 %
TE Investment Holding	Egypt	99.99 %	99.99 %
The Egyptian Telecommunication Company for Information Systems (Xceed)	Egypt	97.66 %	97.66 %
Xceed Customer Care Maroc	Morocco	97.66 %	97.66 %
Centra Technologies	Egypt	58.76 %	58.76 %
Centra Distribution	Egypt	58.74 %	58.74 %
Centra Industries	Egypt	58.63 %	58.63 %
Middle East Radio Communication (MERC)	Egypt	51.00 %	51.00 %

31. CLAIMS AND LITIGATIONS

The Company's external legal advisor's opinion is that the following cases are still in preliminary stage; hence, the final outcome cannot currently be reliably estimated.

31-1 INTERCONNECT AGREEMENT WITH MOBILE COMPANIES.

Telecom Egypt had filed a complaint before the Dispute Resolution Board of the National Telecommunication Regulatory Authority (NTRA) requesting the application of interconnection rates with the mobile operators (Mobinil and Vodafone), for the implementation of the law's obligation and signed agreement between Telecom Egypt and each of Mobinil and Vodafone. On September 3, 2008 The NTRA issued a decision in favor of Telecom Egypt and amended on December 31, 2009 and on January 14, 2010, the mobile operators (Vodafone and Mobinil) had appealed to the administration court between the mobile operators and the National Telecommunication Regulatory Authority (NTRA) and the two appeals are still in progress, knowing that Vodafone is still applying the interconnection rates mentioned in those agreements till the appeal is resolved, However, Mobinil company do not apply those interconnection rates, knowing that Telecom Egypt is not part of the filed appeal between Mobinil and against the (NTRA) to repeal the previous mentioned Decision. On September 2009, Mobinil had filed the Arbitration Case no. 644/2009 requesting the application of the interconnection rates mentioned in the signed agreements with Telecom Egypt as an objection to evade the (NTRA) mentioned decisions claiming that Telecom Egypt made a contract violation and as a compensation to



*Notes to the condensed consolidated interim financial statements (continued)
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Translation from Arabic

resort to the (NTRA) and not to conclude the services agreement related to the Transmission and International portals and the compensation of this violation. On October 2009, Telecom Egypt had filed the Arbitration Case against Mobinil and filed the Arbitration Case no. 650/2009 against Vodafone, that's where Telecom Egypt's management believes that these two companies calculate Telecom Egypt with rates exceeds the rates where these two companies are dealing with each other and this violate the article no.(13) from the interconnection agreement between Telecom Egypt and these two companies and still those cases before the arbitral courts. Telecom Egypt's external legal counselor believe that the company's legal position is grounded on the interconnection agreement, and in the light of the telecommunication law in both cases.

According to the external legal counselor's opinion the company recognize its revenues and its costs related to the interconnection service with mobile operators according to the decisions released by the National telecommunication Regulatory Authority and that's till the dispute is resolved.

The amount in dispute as per the company's record between Telecom Egypt and both companies " Mobinil , Vodafone " in relation to the said dispute during the period from September 3, 2008 to the end of June 2014 is of LE 1 086 616 K.

31-2 Other Claim

- The company has filed an arbitration case against an investee, in which the company owns 25%, claiming compensations for breach of obligations stipulated in a revenue sharing agreement concluded between the company and the investee and requesting the termination of the said agreement. Also, the investee has filed a counter arbitration case against "Telecom egypt" company claiming compensation for an alleged breach of obligations stipulated in the same agreement.
- the company has filed an arbitration claim against the three prepaid cards companies which filed a counter claim against Telecom Egypt, one of these claims was settled infavour of Telecom Egypt and the other two claims are still under inspection at Cairo Regional Center Commercial Arbitration.



Notes to the condensed consolidated interim financial statements (continued)
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Translation from Arabic

32. COMPARATIVE FIGURES

- The comparative figures of the condensed consolidated balance sheet was amended and represented on December 31,2013, also the condensed consolidated income statement for the six months ended on June 30,2013 was amended by 2013 share of the cost of buying microsoft software licenses for computers of a subsidiary, the following is the effect of these changes on consolidated balance sheet and income statement:-
- Also a reclassification was made on the comparative figures of some items of consolidated balance sheet , consolidated income statement and consolidated statement of cash flows items to conform to the current presentation.

*Effect on condensed consolidated balance sheet

<u>Description</u>	31/12/2013			31/12/2013
	<u>L.E.(000)</u>	<u>LE(000)</u>	<u>LE(000)</u>	<u>L.E.(000)</u>
	<u>as previously</u>	<u>Adjustments</u>	<u>Reclassification</u>	<u>Restated</u>
	<u>reported</u>			
Fixed assets	11 243 429	-	(538)	11 242 891
Other assets	861 026	-	538	861 564
Creditors and other credit balances	3 240 516	332	-	3 240 848
Net profit	2 958 644	(195)	-	2 958 449
Non - controlling interest	16 630	(137)	-	16 493

*Effect on condensed consolidated income statement.

<u>Description</u>	For the six			For the six
	months ended	<u>LE(000)</u>	<u>LE(000)</u>	months ended
	30/06/2013	<u>Adjustments</u>	<u>Reclassified</u>	30/06/2013
	<u>L.E.(000)</u>			<u>L.E.(000)</u>
	<u>as previously</u>			<u>Restated</u>
	<u>reported</u>			
Operating costs	3 328 363	-	17	3 328 380
Other operating revenue	157 808	-	7 661	165 469
General and administrative expenses	747 094	166	2	747 262
Selling and distribution expenses	503 775	-	(19)	503 756
Other operating expenses	(5 101)	-	(7 661)	(12 762)