Chairman's message

One dream - a year of achievements and important decisions

The past year has witnessed noteworthy achievements by Telecom Egypt (TE) as a result of its successful implementation of a number of important plans.

These ambitious plans are part of its development strategy, which was devised by the company's experts and executives to cater to the needs of the Egyptian market.

This success was a clear indication of the continuing growth of the company and a testimony to the tireless efforts of its employees in serving its customers.

Perhaps the most important decision was not to utilise the licence that TE had obtained to establish a third mobile phone network in Egypt. This decision was taken following a detailed and realistic study of market economics, in light of the changes that took place in all sectors of the economy.

The decision not to establish a third mobile network did not, however, prevent TE investing in this field. As part of its investment strategy, the company decided to enter into a partnership with Vodafone Egypt in the area of mobile telephones with a 25.5% share.

According to this landmark agreement in Egypt, TE will take part in the management of Vodafone Egypt and will get returns on its investment without entering into an uncalculated risk with an investment that studies have shown to be futile.

The company witnessed steady growth throughout 2003, and this encouraged it to issue TE bonds, which will bolster its position in the market as a viable business entity and attract serious investors.

Following a detailed study of tenders from seven specialised institutions and a meticulous selection process, the Board of Directors appointed HSBC to operate as the company's Financial Advisor in relation to TE's forthcoming bond issue at a value of approximately LE 2 billion. The proceeds from these bonds will be used to finance more projects being carried out by the company. The bonds will be issued in the last quarter of 2004.

During the year 2003, TE's financial performance also improved significantly. Sales revenue increased by 15% to reach LE 7.2 billion while bottom line figures showed a noticeable increase of 38% to reach LE 1.1 billion.

Throughout 2003, work in support of national projects also continued. One of the most important projects initiated by TE was the "Computer for Every Home". TE expects to continue this project in which 65,000 computers have already been sold.

Another focus of TE's efforts during 2003 was development of its telephone exchanges and, thus, ending its waiting lists. TE boosted the capacity of its telephone exchanges to 12 million lines and was able to reduce the number of people on its waiting lists from over 2 million to only 99 thousand.

TE's current investment portfolio is diversified throughout the field of information and communications technology. The company now boasts majority shareholdings in four companies operating in Egypt, namely:

- TE Data, the largest Egyptian company which operates in the transfer of data through a strong local network and also has the ambition to expand regionally.

- Masreya Information Systems, which operates the Xceed customer contact centre. This is the largest in the Middle East & North Africa region and is equipped with the latest technology. The centre offers tailor-made solutions to problems of customers locally and worldwide, and streamlines communications to serve approximately nine million TE customers.

- Centra Technologies, a company specialized in selling locally assembled computers that contributes to the success of "Computer for Every Home" project.

- MERC, Middle East Radio Communications, a company specializing in establishing and operating wireless communication systems.

TE's investments also extend to the public phone sector, with small shares in Menatel and Nile Telecom. TE also invests in the field of manufacture of telephone sets and related equipment, having shares in Egyptian-German Telecommunication Industry (EGTI) and in the Egyptian Telephone Company (Quicktel). TE is the main client of both companies, purchasing much of their production, while part of their production is exported.

As an affirmation of its strong belief in the importance of its human resources for growth and development, TE gives top priority to its staff in all its plans. It restructured the salary scales for all its employees, who now enjoy highly competitive salaries. This was done in line with the need to retain high calibre staff. The company has also developed its organizational structure to enable it to meet the current and expected future challanges.

TE carried out a program to select people with leadership skills and designed a program in co-operation with USAID to develop its employees' skills so that they could become TE's future leaders. This program lasts for nine months and features practical training in top companies locally and internationally.

The above achievements, which are only the highlights of all that was accomplished during 2003, demonstrate TE's commitment and determination to continue to serve the national economy and provide the best communications services to the local market.

Akil Hamed Beshir
Chairman

Board
of Directors

Eng. Akil Hamed Beshir
Chairman

Eng Akil was appointed Chairman of Telecom Egypt in June 2000. Previously, Eng Beshir was a General Manager and Managing Director for Giza Systems Engineering from 1978 to 2000. He holds a B.Sc. in Communication Engineering from Cairo University and a Professional Diploma and MA in Management from the American University in Cairo.

Eng. Gamal Amin Shehata
Vice Chairman of Projects, Planning & Information

Eng Gamal was appointed Director in 1998. He is currently the Vice Chairman of Projects, Planning and Information at Telecom Egypt. He has been with the company in various managerial and technical positions since 1965, including Head of the Central Department for the Eastern Region from 1993 to 1997, Vice Chairman for Information and Plan Supervision from 1997 to 2003, and concurrently, Vice Chairman for Financial, Administrative and Commercial Affairs from January to December 1999. He holds a B.Sc. in Telecommunications Engineering from Assiut University, Egypt.

Mr Ali Gamal El Din Salama
Vice Chairman; Financial, Commercial & Administrative Affairs

Mr Salama was appointed Vice Chairman for Financial, Commercial and Administrative Affairs and a board member in 2000. Previously he was a consultant with KPMG Hazem Hassan, where he had been a Partner since 1993. Mr Salama holds an MBA in Finance from University of Washington, Seattle, USA, and an MPPAC, Master of Professional Accounting and Taxes from University of Washington, Seattle, USA. In 1998, he became a Certified Public Accountant (CPA) and in 1996, he became a Certified Management Accountant (CMA). Mr. Salama is a fellow of the Egyptian Association for Accountants and Auditors.

Eng. Azza Mohamed Torky
Vice Chairman; International Services, Backbone, New Services and Marketing

Eng Azza was appointed Vice Chairman for International Telecommunications and Backbones in 1999. She was also appointed Vice Chairman for Marketing and she became a board member in 2000. She has been with the company invarious managerial and technical positions since 1965, including General Manager for the Operation and Maintenance of Ground Stations from 1987 to 1997, and Head of the Central International Telecommunication Department from 1997 to 1999. Eng Torky holds a B.Sc. in Telecommunications Engineering from Cairo University.

Dr. Tarek Mohamed Kamel
Advisor - Ministry of Telecommunications & Information Technology

Dr. Tarek was appointed Director in June 2000. He is currently an Advisor to the Egyptian Minister of Telecommunications and Information Technology. Dr Kamel was VP and Trustee of the Internet Society (ISOC) in Virginia from May 1999. He is a member of the Board of Trustees of the African Network Information Center (for the management of IP addresses) since December 1998. He holds a Ph.D. in Communication and Networking from the Technical University of Munich, Germany.

Dr. Adel Rashad Danash
Telecommunications & Information Technology Specialist

Dr. Adel was appointed Director in June 2000. He is currently Chairman of Telecom Egypt Information Technology (Masreya). Previously he was Chairman of Bayanet, and Managing Director of Standardata Egypt from 1986 to 2000. Dr Danash holds a B.Sc. in Electronics from Cairo University, a Diploma in Computer Science from Paris 7 University, Paris, France.

Dr. Bahaa El Din Helmy
Banking Expert

Dr. Bahaa was appointed Director in June 2000. Previously, he was one of the Board of Directors of the Central Bank. He worked in Misr Bank in various managerial and technical positions from 1984, including Chairman and Member of the Board from 1994 to 2003. Dr Helmy holds a Ph.D. in Numerical Analysis from Assiut University, Egypt; a B.Sc. from Ain Shams University, Egypt, and a Diploma in Statistics and Computer Research from Cairo University, Egypt.

Dr. Mahmoud M. Mohieldin
National Democratic Party-Chairman of Economic Committee

Dr. Mahmoud joined the Board of Directors in Telecom Egypt in 2002. He is also a Board Member in EFG-Hermes, HSBC Bank Egypt SAE and the Diplomatic Institute - The Ministry of Foreign Affairs. Currently he is a Member of the Executive Committee of the Policies Secretariat & High Council for Policies of the National Democratic Party and, Associate Professor in Financial Economics, Department of Economics, Faculty of Economics & Political Science, Cairo University. He holds a Ph.D. in Economics from University of Warwick, England and, a M.Sc. in Economic & Social Policy Analysis from the University of York, England.

Mr Moataz Kamel Morsy
Legal Advisor

Mr. Morsy was appointed Legal Advisor to Telecom Egypt in 2002. He is the Vice-President of the State Council and a member of several legal entities such as Cairo Administrative Courts, the High Administrative Court, Technical Inspection Department, the Consultation Dept. of the following ministries; Industry, Electricity and metallurgy resources. Also, Mr Morsy is a member of the Delegated Authority of the State in the High Administrative Court, he was delegated in various consultancy positions in different ministries; he studied Law in Cairo University, graduated in 1962.

Mr Mostafa Hanafy Weheidy
Chief of Staff - Signal Corp.

Mr. Weheidy was appointed Chief of Staff of the Signal Corp. in 2001. He holds a B.Sc. of Military Science & a Major in Communications from Nasser Academy in 1991. He is also a fellow of the War Academy.

Mr Farghaly Bakry Seleem
Chairman of Telecom Egypt Employee Union

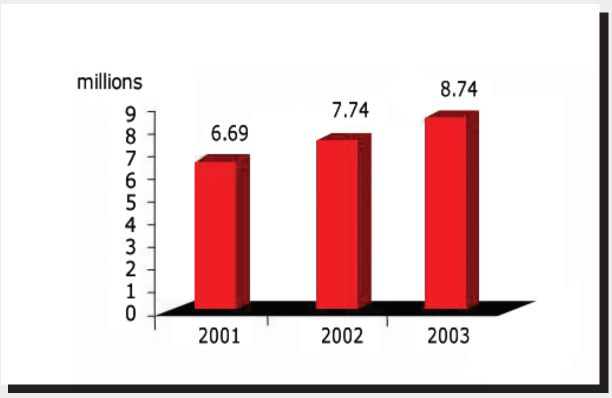
Mr. Seleem was appointed Director in 1999. From 1989 to 1999 he was General Engineering Supervisor at Telecom Egypt's Switching Station at Quina. Mr. Seleem holds a Diploma as a Telephone Engineering Technician from the Industrial Institute, Quina, Egypt.

Executive management

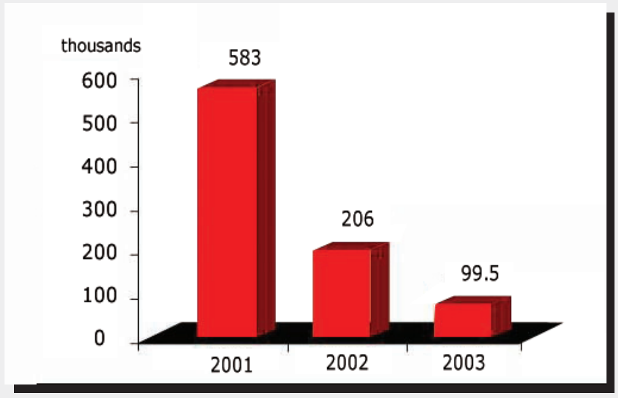
Eng. Akil Hamed Beshir	Chairman
Eng. Gamal Amin Shehata	Vice Chairman; Project Planning
Eng. Azza Mohamed Torky	Vice Chairman; International Services, Backbone, New Services & Marketing
Mr. Ali Gamal El Din Salama	Vice Chairman; Financial, Commercial & Administrative Affairs
Eng. Mohamed Hafez Montasser	Vice Chairman; Follow up & Technical Affairs
Eng. Mohamed Abdel Rehim Hassanein	Vice Chairman; Operations & Maintenance (Greater Cairo, Canal Area, Sinai & the Red Sea)
Eng. Ali Ahmed Awad	Vice Chairman; Operations & Maintenance (Alexandria & Delta Region)
Eng. Ahmed Aly El Gaaly	Vice Chairman; Operations & Maintenance (Upper Egypt)

Key performance
indicators

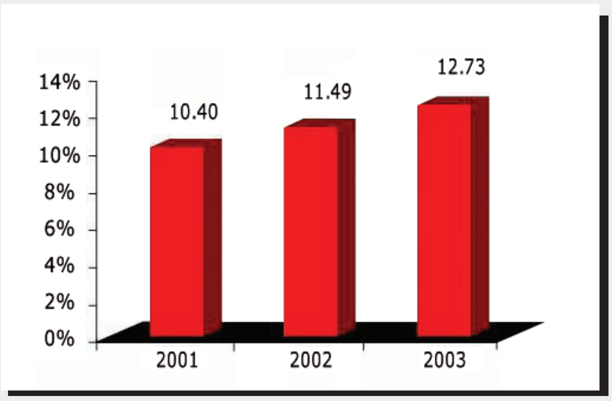
No. of Subscribers



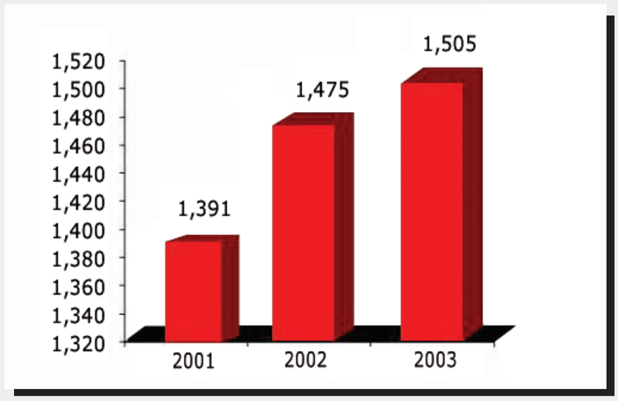
Waiting List



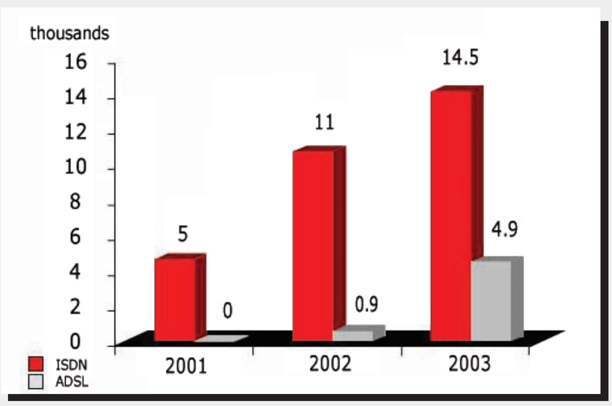
Teledensity



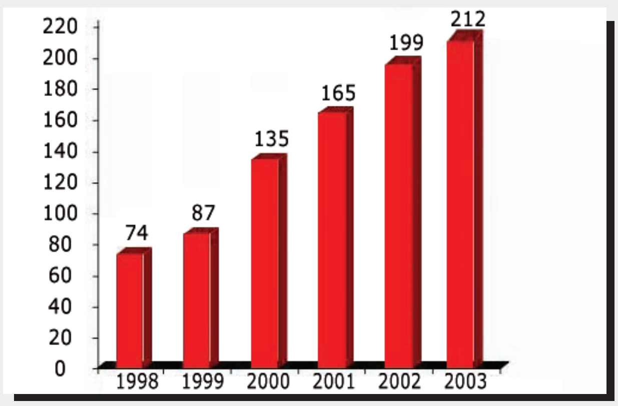
No. of Centrals



ISDN & ADSL Subscribers



Lines per Employee



Regional expansion

As one of the longest established and largest telecom operators in Africa and the Middle East, Telecom Egypt has often been called upon to support its regional neighbours. Over the years Telecom Egypt has offered consultancy services to many of the operators from managing international gateways to leading the push for international marine cables.

Recognising the need to expand its portfolio and add value to its shareholders, Telecom Egypt commenced its regional expansion strategy in 2003. Targeting diverse opportunities; Telecom Egypt formulated a team of its most experienced staff, international consultants and business partners, to aggressively forge the response and spearhead its timely delivery.

Telecom Egypt participated in multiple tenders in countries crossing the breadth of the region. Whilst the contracts have yet to be awarded. Telecom Egypt is confident that its extensive experience and dedication to this strategy will reap rewards in the future.

Extending our reach

During 2003, Telecom Egypt focussed on increasing its rate of penetration into many of the basic services in order to serve the needs of the community and maximise the rate of return on investment to its shareholders.

Facing fierce competition in the field of prepaid telephone calls, Telecom Egypt undertook a programme to reposition its own prepaid product, “Marhaba”. After careful assessment of customer requirements, Telecom Egypt invested in a new project serving the whole country and providing many enhancements to the existing products. It also extended the reach of the service by adding 5,000 more points of sale across the country and by using some of the largest distributors in the country to increase the sales channels.

In the other area of extreme competition, the payphone market, Telecom Egypt took aggressive measures to improve its service and invested in over 3,000 new payphones cabines which were installed across the country.

The summer migration of families to the North Coast offers opportunities to extend lines to many families in their summer cottages. Telecom Egypt exploited this opportunity through a highly visible campaign, supported by a discount on lines in the area. This campaign promoted the cost efficiency of rational calls across fixed lines. The same discounts were provided to other summer resorts as well as to rural areas.

The year 2003 witnessed a great push towards meeting Telecom Egypt’s universal access obligation. This was achieved by rapidly extending the rural network to more isolated communities as represented in the number of rural subscribers which increased from 1.5 million in 2002 to 1.9 milion in 2003.

In an effort to support Egypt’s national objective to increase PC penetration and internet access, Telecom Egypt (along with other IT business leaders) undertook an aggressive campaign to promote the “ Computer for Every Home” initiative. This initiative enables Telecom Egypt’s customers to purchase new PCs and to spread the cost over a three year period, making payments through Telecom Egypt’s facilities.

Nurturing
our assets

Telecom Egypt recognizes the contribuition of its employees in the development and improvement of the company. It nurtures the growth in expertise of each individual, and provides opportunities for greater and speedier development in order to face the challenges of the market.

A key element of the Human Resources Strategy is to provide an enhanced training environment for the managers of the future and for specialists, including training programmes especially designed to increase and extend their skills and, thus, enable the company to proceed with its transformation.

The Leadership Development Programme:

In 2003, Telecom Egypt introduced the Leadership Development Programme, a full time training programme for more than 25 key managers, lasting for 10 months. Candidates were rigorously screened to identify those with leadership potential; the successful candidates were then enrolled in the programme.

The programme aims to:

- Identify, train and develop managers capable of defining and implementing advanced organizational changes in line with the company's mission.
- Promote the company's mission & goals by linking training results to strategic objectives.
- Be a model of management and leadership excellence, fostering rational human resources development throughout the company.

The programme covers:
- Leadership skills.
- Management and financial skills.
- Change management.
- Workshops in many leading Egyptian companies.
- A one month internship with leading American telecommunications providers.

Skill based training

For the specialists and service based employees Telecom Egypt undertook over 200 different training programmes, attended by over 7,000 employees, and covering diverse subjects from technical enhancement courses to improved service delivery. These programmes are delivered by leading national & international organizations such as Alcatel and others.

A policy of competitive compensation

In 2003, Telecom Egypt implemented a salary restructuring programme with competitive remuneration enabling it to attract talented newcomers to the organization and to retain them. It recognizes exceptional performance by providing a bonus scheme that rewards excellence.

Telecom Egypt has also continued its early retirement programme that gives the employees the option to retire early with a high severance pay.

In addition to all these benefits, Telecom Egypt has an extensive range of social & cultural programmes to help foster the community spirit among the employees. Sports clubs, providing subsidised nurseries and organizing active cultural and social events, have been established throughout the country.

Through this balanced approach of providing competitive compensation programmes and appropriate specially designed training courses, Telecom Egypt's Human Resources policy supports the company's mission.

Serving the community

In 2004, Telecom Egypt will celebrate its 150th anniversary. Over those 150 years, Telecom Egypt has continually demonstrated its commitment, not only to the industry in which it operates, but also, to the continual success and development of Egypt. Each day, Telecom Egypt's network unites the lives and businesses of Egyptians both nationally and internationally. Just as the community contributes to Telecom Egypt's success, so must Telecom Egypt contribute to the community.

Under the "Egyptian Citizen" banner Telecom Egypt undertook a broad spectrum of activities in 2003.

Events:

- Egyptian International Economic Forum
- Cairo ICT 2003

By sponsoring these events, Telecom Egypt was able to raise the profile of Egypt both internationally and economically and to position Egypt as the hub of telecommunications for Africa and the Middle East.

Donations:

Telecom Egypt contributed to the development of medical and social institutions through donations to assist in giving the maximum benefit to the community:

- Education: Telecom Egypt made major donations to many universities & educational establishments. By recruiting graduates from these facilities, it completes the circle of development by providing secure and dynamic careers.

- Healthcare: Telecom Egypt is committed not only to the health of communications, but also to the health of all Egyptians. It contributes to many healthcare organisations and charities including those giving care to cancer sufferers and those suffering from liver diseases, among many others.

Auditor's report

KPMG Hazem Hassan
Public Accountants & Consultants

KPMG Building
Pyramids Heights Office Park
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Giza - Cairo - Egypt

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Telefax: (202) 539 23 03 - 539 23 05
E-Mail: egypt@kpmg.com.eg
Postal Code: (12556 Pyramids)

To The Shareholders' of Telecom Egypt Company,

We have audited the accompanying Balance Sheet of Telecom Egypt Company (An Egyptian Joint Stock Company) as of December 31, 2003 and the related Statements of Income, Cash Flows and Changes In Equity for the year then ended. These Financial Statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Egyptian Standards on Auditing and in the light of provisions of applicable Egyptian laws and regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We have obtained the information and explanations, which we deemed necessary for our audit. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above together with the notes attached thereto present fairly, in all material respects, the financial position of the company as of December 31, 2003 and the results of its operations and its cash flows for the year then ended, in accordance with Egyptian Accounting Standards, and comply with applicable Egyptian laws and regulations.

Without qualifying our opinion we draw attention to Note No. (27) to the financial statements with regards to the following tax matters:
-The Tax Department assessed taxes on the revaluation surplus of net assets of the Arab Republic of Egypt National Telecommunication Organization (ARENTO) on 26/3/1998 amounting to L.E 11.4 billions upon transforming ARENTO to become an Egyptian Stock Company under the name of Telecom Egypt Company on 27/3/1998. The company appealed against the Tax Department assessment, however the Appeal Commitee agreed with the Tax Department decision to subject the surplus arising from the revaluation of ARENTO net assets to corporate tax as per its decision rendered on 11/3/2004.

The company’s management and its advisors are of the opinion that such tax assessment is erroneous on the ground that transformation process is not a taxable activity and further there is no legal provision subjecting revaluation surplus per se to tax. The company is currently in the process to undertake the necessary actions to challenge the Tax Department regarding this issue before court. The ultimate outcome of this issue cannot presently be determined till a final court decision is rendered. Accordingly, the company has not formed any provision for this issue and also the company’s management and its advisors believe that even if a court final decision would be granted in favor of the Tax Department, the owner of the company will bear such taxes (The Egyptian Government represented by the Ministry of Finance).

There is a dispute with the Sales Tax Authority on whether the interconnection charges between the other licensed telecommunication networks in Egypt and the company’s network is subject to sales tax. The company’s management and its advisors believe that subjecting the interconnection charges to sales tax is not legal, as the total cost of the call has been already taxed and that the interconnect charges are just a portion of the calls. Based on the above, the company’s management and its advisors are of the opinion that the above claim does not represent any real liability on the company.

The company keeps proper accounting records, which include all that is required by law and the statutes of the company, and the accompanying financial statements are in agreement therewith. The inventories count was performed by the company's management in accordance with methods in practice.

The financial information contained in the report of the Board of Directors prepared in conformity with the company’s law No.159 for 1981 and its executive regulations is in agreement with the company’s accounting records within the limits that such information is recorded therein.

Hazem Hassan

(KPMG Hazem Hassan)

Cairo, 14 May, 2004

Member Firm of
KPMG International

Balance sheet

Year ended December 31, 2003	Note No.	31/12/2003 L.E. (000)	31/12/2002 L.E. (000)
Assets			
Long term assets			
Fixed assets (net)	(4)	23 970 699	22 117 028
Fixed assets under construction	(5)	1 300 823	1 954 484
Long term investments	(6)	871 483	230 094
Other assets (net)	(7)	154 739	183 980
Total Long Term Assets		26 297 744	24 485 586
Current assets			
Inventories	(8)	357 653	281 244
Trade receivables (net)	(9)	2 473 214	2 015 571
Debtors and other debit accounts (net)	(10)	3 456 728	3 009 108
Cash at banks and on hand	(11)	147 869	219 578
Total Current Assets		6 435 464	5 525 501
Total Assets		32 733 208	30 011 087
Shareholders’ Equity & Liabilities			
Shareholders’ Equity			
Authorized and paid up capital	(12)	17 112 149	17 112 149
Reserves		4 420 925	3 416 248
Retained earnings		218 571	968 307
Net profit for the year		1 087 305	790 871
Total Shareholders’ Equity		22 838 950	22 287 575
Long Term Liabilities			
Loans and facilities	(13)	4 264 593	3 461 265
Creditors and other credit balances	(16)	54 704	132 746
Total Long Term Liabilities		4 319 297	3 594 011

Balance sheet

Year ended December 31, 2003	Note No.	31/12/2003 L.E. (000)	31/12/2002 L.E. (000)
Current Liabilities			
Provisions for probable liabilities	(14)	1 548 299	1 248 218
Loans installments - due within one year	(13)	1 104 839	1 023 031
Credit banks		760 877	148 127
Suppliers	(15)	72 030	55 001
Creditors and other credit accounts	(16)	2 088 916	1 655 124
Total Current Liabilities		**5 574 961**	**4 129 501**
Total Liabilities		**9 894 258**	**7 723 512**
Total Shareholders' Equity and Liabilities		**32 733 208**	**30 011 087**

* The accompanying notes form an integral part of these financial statements.

Chairman	Deputy Chairman for Financial, Commercial & Administrative Affairs	Head of the Central Department of Financial Affairs
Eng. / Akil Beshir	Acc./Ali Salama	Acc./Ali Barakat

Auditor's Report "Attached"

(KPMG Hazem Hassan)

Hazem Hassan

Income statement

Year ended December 31, 2003	Note No.	31/12/2003 L.E. (000)	31/12/2002 L.E. (000)
Operating revenues			
Sales of services	(17)	6 971 859	6 012 658
Sales of telephone sets & directories		160 986	162 330
Other operating revenues		43 889	43 672
		7 176 734	6 218 660
Operating expenses			
Interconnection fees	(18)	1 044 937	1 010 726
Fuel		49 315	45 649
Spare parts		57 079	54 527
Maintenance		73 883	52 107
Satellite subscriptions		30 584	34 174
Depreciation & Amortization		2 235 167	1 991 500
Cost of telephone sets & directories sold		148 228	142 520
Other operating cost	(19)	750 767	593 110
		4 389 960	3 924 313
Gross operating profit		2 786 774	2 294 347
Other operating expenses			
General & administrative expenses	(20)	662 028	590 312
Provisions	(14)	646 860	420 444
		1 308 888	1 010 756
Operating profit		1 477 886	1 283 591

Income statement

Year ended December 31, 2003	Note No.	31/12/2003 L.E. (000)	31/12/2002 L.E. (000)
Other income (expenses)			
Interest income		6 698	30 189
Income from investments		25 777	13 595
Interest expenses		(389 712)	(262 581)
Other income / (expenses)	(21)	59 135	(86 618)
Foreign exchange losses		(106 419)	(145 221)
Impairment of long term investments		(10 542)	(21 158)
Profit (Loss) on disposal of fixed assets		24 482	(20 926)
		(390 581)	(492 720)
Net income for the year		1 087 305	790 871
Earnings per the share (L.E./Share)	(24)	5.52	4.29

* The accompanying notes form an integral part of the financial statements.

Statement of cash flows

Year ended December 31, 2003	31/12/2003 L.E. (000)	31/12/2002 L.E. (000)
Cash flows from operating activities		
Cash receipts from sales of services	5 860 387	5 773 855
Cash paid to suppliers	(653 963)	(763 452)
Cash paid to employees	(804 683)	(631 649)
Cash generated from operations	4 401 741	4 378 754
Interest paid	(364 029)	(197 178)
Payment to Tax Authority	(183 758)	(292 132)
Payment to Sales Tax Authority	(2 864)	(225 638)
Other (payments) / proceeds-net	(766 345)	(1 666 031)
Net cash provided by operating activities	3 084 745	1 997 775
Cash flows from investing activities		
Purchase of property, plant and equipment and project in progress	(1 815 286)	(1 952 787)
Payment purchase of investments	(30 764)	(72 408)
Interest received	9 431	24 444
Net cash used in investing activities	(1 836 619)	(2 000 751)
Cash flows from financing activities		
Payment of long-term loans	(1 540 861)	(1 478 798)
Proceeds from long-term loans	221 026	1 187 924
Net cash used in financing activities	(1 319 835)	(290 874)
Net decrease in cash and cash equivalents	(71 709)	(293 850)
Cash and cash equivalents at the beginning of the year	219 578	513 428
Cash and cash equivalents at the end of the year	147 869	219 578

* The accompanying notes form an integral part of these financial statements.

Statement of changes in equity

Year ended December 31, 2003

	Share Capital L.E.(000)	Legal Reserve L.E. (000)	Other Reserves L.E. (000)	Revaluation Reserve L.E. (000)	Retained Earnings L.E. (000)	Net Profit L.E. (000)	Total L.E. (000)
Balance as of 31/12/2001	17 112 149	161 061	3 166 020	22 254	-	1 337 611	21 799 095
Transferred to reserves	-	66 881	-	-	-	(66 881)	-
Dividends for the year ended 31/12/2001	-	-	-	-	-	(302 423)	(302 423)
Transferred to retained earnings	-	-	-	-	968 307	(968 307)	-
Added to other reserves	-	-	32	-	-	-	32
Net profit for the year 2002	-	-	-	-	-	790 871	790 871
Balance as of 31/12/2002	17 112 149	227 942	3 166 052	22 254	968 307	790 871	22 287 575
Transferred to reserves	-	39 543	968 307	-	(968 307)	(39 543)	-
Adjustment for the revaluation surplus for sold investments	-	-	-	(3 173)	3 173	-	-
Dividends for the year ended 31/12/2002	-	-	-	-	-	(535 930)	(535 930)
Transferred to retained earnings	-	-	-	-	215 398	(215 398)	-
Net profit for the year 2003	-	-	-	-	-	1 087 305	1 087 305
Balance as of 31/12/2003	17 112 149	267 485	4 134 359	19 081	218 571	1 087 305	22 838 950

* The accompanying notes form an integral part of these financial statements.

Appropriation account

Year ended December 31, 2003	2003 L.E. (000)	2002 L.E. (000)
Net profit for the year	1 087 305	790 871
Retained earnings brought forward from previous year	215 398	968 307
Amount transferred from reserves	3 173	-
Net profit available for distribution	1 305 876	1 759 178
Distributed as follows:-		
Legal reserve	54 365	39 543
General reserve	218 571	968 307
Shareholders' dividends	480 000	480 000
Employees' share in profit	140 929	55 930
Board of Directors bonus	1 996	-
Retained earnings carried forward to next year	410 015	215 398
	1 305 876	1 759 178

* The accompanying notes form an integral part of these financial statements.

Notes to the financial statements

Year ended December 31, 2003

1- BACKGROUND

- Establishment of the company

Arab Republic of Egypt National Telecommunication Organization (ARENTO) was established, pursuant to Law No.153 of 1980. Effective 27/3/1998 and by the issuance of law No.19 of 1998, the legal form of (ARENTO) was amended, after the revaluation of its assets on 26/3/1998, to become an Egyptian Joint Stock company under the name of Telecom Egypt Company (TE). Subject to the provisions of the company's law No.159 of 1981 and money market law No.95 of 1992.

- Purpose of the company

The main purpose of the company includes:
- Establishing telecommunications networks.
- Providing telecommunications services.
- Operating and maintaining the networks, equipment and machinery necessary to provide the services.
- Executing projects necessary to accomplish its purposes.
- Cooperating with international companies and organizations to connect the Arab Repuplic of Egypt with the world.

2- BASIS FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements are prepared under the historical cost method, in accordance with the Egyptian Accounting Standards, and in the light of provisions of applicable Egyptian laws and regulations.

3- SIGNIFICANT ACCOUNTING POLICIES APPLIED

3-1 Foreign currency translation

The company maintains its book of accounts in Egyptian pounds. Transactions denominated in foreign currencies are recorded at the declared exchange rates at the date of transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are re-translated at the exchange rates declared by the company's banks at that date. The exchange differences are recorded in the income statement.

During 2003, the Egyptian pound suffered a devaluation in its value against the foreign currencies, which caused foreign exchange losses. The company's management decided to apply the allowed alternative treatment according to paragraphs 20 & 47 of the Egyptian Accounting Standard No.(13), which allows to capitalize foreign exchange losses directly related to the acquisition of an asset acquired in foreign currency to the carrying amount of that asset. Thus, the company capitalized an amount of L.E. 407 414 K to fixed assets items and L.E. 384 019 K to fixed assets under construction during the current year.

Notes to the financial statments

Year ended December 31, 2003

3-2 Fixed assets and depreciation

Fixed assets are stated at historical costs. The assets are depreciated using the straight-line method over the estimated useful lives of each type of assets as follows:-

Description	Estimated Useful Life
Buildings & construction	10-50 years
Machinery & equipment	6-20 years
Means of transportation	5-10 years
Tools and supplies	1-8 years
Office furniture and fixtures	3-10 years
Other assets	10 years

3-3 Fixed assets under constructions

This item represents the amounts incurred for the construction of fixed assets till they are ready for use and transferred to fixed assets.

3-4 Borrowing cost

The borrowing costs are recognized in the income statement under the “Interest Expenses” account as incurred.

3-5 Long term investments

3-5-1 Investments in subsidiaries

Investments in subsidiaries are stated at cost. At each balance sheet date the company assess whether there is any indication that the value of each investment is impaired. If such indication exists, the value of the related investment is reduced by the impairment loss for each investment, and is charged to the income statement for the year.

3-5-2 Available-for-sale investments

Available-for-sale investments are recorded initially at cost and re-measured as follows:-

- The listed investments are re-measured at fair value (market value). Investments that are not listed in the stock exchange are re-measured at cost or computed value, calculated in light of an objective study of its recently approved financial statements. Any losses resulting from the decline in the market value or computed value of the investments than its cost is charged to income statement for the year.

- The inactive investments (do not have listed price in an active market, or its fair value can not be reasonably determined) are initially recorded at its acquisition cost. At each balance sheet date, if there are indications that the value of any of these investments is impaired, the value of the related investment is reduced by the impairment loss and charged to the income statement for the year.

3-6 Held for trading investments

Financial investments classified as held for trading are recorded initially at cost. At the end of each financial year, these investments are re-measured at their fair value (market value), the revaluation differences are charged to the income statement for the year.

Notes to the financial statments

Year ended December 31, 2003

3-7 Inventories

Inventories of goods purchased for resale are valued at the lower of cost or net realizable value. Inventories of spare parts and materials are valued at cost. Cost is determined using the weighted average method. Obsolete or slow moving items are written down to their replacement value.

3-8 Grants

Grants are recorded on a regular basis as deferred revenues and taken to the income statement for the year in proportion with the related costs incurred.

3-9 Revenue recognition

- Revenues from sales of services are recognized when services are rendered in accordance with accurals basis.
- Income from investments is recognized when dividends of investees are declared.

3-10 End of service indemnity

The company social insurance contributions to the Social Insurance Authority for the benefit of its personnel in pursuance to the Social Insurance Authority law No. 79 of 1975 and its amendments are recorded in the " Wages and Salaries account ". In addition to the early retirement scheme which applied from 1/9/2001 (Note No.22).

3-11 Capital lease agreements

The accrued lease payments and maintenance expenses, in relation to the leased assets are recognized as expense in the income statement for the year. At the end of the lease agreement if the company exercised its rights to purchase the leased assets, their costs are determined at the amount of the purchase bargain option depreciated over the remaining estimated useful lives.

3-12 Cash flows statement

The Cash Flows statement is prepared using the direct method.

3-13 Deferred taxes

Due to the nature of the Egyptian tax law and legislations, applying the principles of the deferred taxes according to the International Accounting Standards "Taxes on Income" will not usually result in material deferred tax liabilities. Further, if this application results in deferred tax assets it will be recognized in the financial statements whenever there is a sufficient comfort that these assets will be realized in the foreseeable future.

Notes to the financial statements

Year ended December 31, 2003

4- FIXED ASSETS (NET)

	Note No.	Land L.E. (000)	Buildings & construction L.E. (000)	Machinery & equipment L.E. (000)	Means of transportation L.E. (000)	Tools supplies L.E. (000)	Office furniture & fixtures L.E.(000)	Total L.E. (000)
Cost								
Cost as of 1/1/2003		4 059 112	13 540 665	11 945 654	84 857	31 770	316 824	29 978 882
Additions for the year		12 539	1 453 573	2 243 744	11 322	7 652	21 565	3 750 395
Capitalized foreign exchange losses	(3-1)	-	107 755	299 659	-	-	-	407 414
Disposals for the year		-	(309)	(288 893)	(2 328)	(681)	(81 562)	(373 773)
Total cost as of 31/12/2003		4 071 651	15 101 684	14 200 164	93 851	38 741	256 827	33 762 918
Accumulated depreciation								
Accumulated depreciation as of 1/1/2003		-	3 081 682	4 534 264	40 779	24 263	180 866	7 861 854
Depreciation during the year		-	772 411	1 413 004	15 192	2 482	38 421	2 241 510
Previous year adjustments - depreciation		-	-	55 251	61	-	-	55 312
Accumulated depreciation of disposals		-	(23)	(282 032)	(2 201)	(680)	(81 521)	(366 457)
Accumulated depreciation as of 31/12/2003		-	3 854 070	5 720 487	53 831	26 065	137 766	9 792 219
Carrying value as of 31/12/2003		4 071 651	11 247 614	8 479 677	40 020	12 676	119 061	23 970 699
Carrying value as of 31/12/2002		4 059 112	10 458 983	7 411 390	44 078	7 507	135 958	22 117 028

Depreciation for the year is charged as follows:-	L.E(000)
Operating expenses	2 205 922
General & administrative expenses	35 588
	2 241 510

Notes to the financial statements

Year ended December 31, 2003		31/12/2003 L.E. (000)	31/12/2002 L.E. (000)

5 - FIXED ASSETS UNDER CONSTRUCTION

	31/12/2003 L.E. (000)	31/12/2002 L.E. (000)
Land	-	2 209
Buildings and construction *	84 953	544 076
Machinery and equipment *	881 540	1 092 096
Means of transportation	7 173	1 955
Tools and supplies	11 527	4 588
Office furniture and fixtures	32 124	5 612
Advance payments	243 153	290 686
Letters of credit	40 353	13 262
	1 300 823	1 954 484

* Building & construction and machinery & equipment items include an amount of L.E 83 456 K and L.E 300 563 K respectively which represents a capitalized foreign exchange losses as disclosed in note No. (3-1).

6 - LONG TERM INVESTMENTS

Investments in subsidiaries	Participation %	31/12/2003 L.E. (000)	31/12/2002 L.E. (000)
- Middle East Radio Communication (MERC)	51	3 825	3 825
- T.E. Information Technology	92.5	9 250	2 312
- T.E. Data	92.5	55 500	55 500
- Centra Technologies	51	6 191	3 012
		74 766	64 649
Available for sale investments			
Participations in foreign satellites companies & organizations		95 278	93 434
Investment in Vodafone Egypt		619 227	-
Investments in other local companies		82 212	72 011
		796 717	165 445
		871 483	230 094

Notes to the financial statements

Year ended December 31, 2003

INVESTMENT IN VODAFONE - EGYPT

First Stage

The company bought 20 640 000 shares representing 8.6% of Vodafone - Egypt's shares as per CIBC invoice dated 21/12/2003 at L.E. 32.5 per share including a coupon of L.E. 2.5 per share.

All of these shares have been pledged in favor of Misr Banque in its capacity as a representative of the lending banks as a guarantee and collateral for the joint medium term loan amounting to L.E. 670.8 million granted for financing the purchase of these shares. These shares have been kept in the custody of Misr for Clearing, Settlement and Central Depositories in favor of the said bank.

Second Stage

In accordance to the the company's board of directors decision dated 20/12/2003 Telecom Egypt would buy 40 560 000 shares which represent 16.9% of the shares owned by Vodafone International Co., (PLC) at L.E. 19.875 per share to be paid in the equivalent U.S. Dollars amount as agreed.

This transaction has not been yet executed till the seller and the buyer fulfill the procedures necessary for this transaction and transfer the ownership of the shares. Pursuant to the agreement concluded between the company and some local banks on 21/12/2003, acquisition of these shares shall be financed from a loan amounting to U.S.$ 132 million.

Third Stage

Upon the completion of the first and the second stages the company would then transfer the ownership of 61 200 000 shares representing 25.5% of Vodafone Egypt shares to a newly established company "Wataneya for Telecommunication". The new company shares would be equally owned by Telecom Egypt and Vodafone International Co. (PLC). Accordingly 51% of Vodafone Egypt's shares (122 400 000 share) shall be transferred to the newly formed company.

Notes to the financial statements

Year ended December 31, 2003	31/12/2003 L.E. (000)	31/12/2002 L.E. (000)
7 - OTHER ASSETS (NET)		
Usufruct for land occupied by TE	18 870	18 870
Leased circuits	82 683	82 509
Right of way (Flag cable)	82 618	82 618
Right of way (SMW2, SMW3, Elitar cables)	114 544	114 784
	298 715	298 781
Less: Accumulated amortization at year end	143 976	114 801
	154 739	183 980

	31/12/2003 L.E. (000)	31/12/2002 L.E. (000)
8 - INVENTORIES		
Spare parts	159 483	144 981
Materials supplies	2 307	1 307
Telephone sets and directories	51 024	37 357
Others - cables and supplies	132 154	79 638
	344 968	263 283
Add: Letters of credit	12 685	17 961
	357 653	281 244

Notes to the financial statements

Year ended December 31, 2003	31/12/2003 L.E. (000)	31/12/2002 L.E. (000)
9 - TRADE RECEIVABLES (NET)		
Governmental sector	289 357	345 724
Private sector	2 369 862	1 957 763
Foreign telecommunication companies and organizations	858 078	513 504
	3 517 297	2 816 991
Less: Provision for doubtful debts	1 044 083	801 420
	2 473 214	2 015 571

	31/12/2003 L.E. (000)	31/12/2002 L.E. (000)
10 - DEBTORS & OTHER DEBIT ACCOUNTS (NET)		
Suppliers - debit balances	34 609	43 745
Deposits with others	2 854	969
Employees loans	2 101	2 522
Customs Authority - deposits	3 172	826
Accrued revenues	33 810	1 177
Tax Authority	50 182	34 599
Employees loyalty grant (Note No. 22)	47 974	85 822
Other debit accounts*	3 390 456	2 879 312
	3 565 158	3 048 972
Less: Provision for doubtful debts	108 430	39 864
	3 456 728	3 009 108

Notes to the financial statements

Year ended December 31, 2003

*Other debit accounts include the following amounts:-

Description	31/12/2003 L.E. (000)	31/12/2002 L.E. (000)
- Payments on account to the National Telecommunication Regulatory Authority for the license of Wataneya for Telecommunication (Note 23).	1 975 000	1 757 600
- Payments of 10% for capital contribution in Wataneya for Telecommunication - under establishment - Telecom Egypt owns 98% of the share capital.	9 800	9 800
- Advances for the new building paid on behalf of the Wataneya for Telecommunication for the company building, designs and engineering services.	59 572	32 094
- Payments on account of corporate tax	1 002 020	880 210
	3 046 392	2 679 704

Notes to the financial statements

Year ended December 31, 2003	31/12/2003 L.E. (000)	31/12/2002 L.E. (000)

11 - CASH ON HAND AND AT BANKS

Banks - time deposits	79 148	182 414
Banks - current accounts	62 853	31 112
Cash on hand	5 868	6 052
	147 869	219 578

Time deposits as of 31/12/2003 include an amount of L.E 14 145 K blocked in favor of some banks as a guarantee the letters of credit granted to the company (against L.E 98 260 K as of 31/12/2002)

12 - SHARE CAPITAL

The company's authorized, issued and fully paid up capital is determined at L.E 17 112 149 K represented in 171 121 490 shares of L.E 100 each and owned by the Egyptian government.

13 - LOANS AND FACILITIES

	31/12/2003 L.E. (000)	31/12/2002 L.E. (000)
Local loans and local suppliers' facilities	1 706 513	1 028 591
Governmental loans	1 006 843	925 599
Foreign loans	1 556 284	1 042 992
Bank and foreign suppliers' facilities	1 099 792	1 487 114
	5 369 432	4 484 296
Less: Installments due within one year	1 104 839	1 023 031
	4 264 593	3 461 265

Notes to the financial statements

Year ended December 31, 2003

	Balance as of 1/1/2003 L.E. (000)	Addition during the year L.E. (000)	Reclassification L.E. (000)	Used during the year L.E. (000)	Balance as of 31/12/2003 L.E. (000)
14 - PROVISIONS					
Provisions for contingent liabilities					
Tax provision	1 172 329	153 554	10 000	(35 550)	1 300 333
Claims and contingencies	36 477	-	172 077	-	208 554
Others	39 412	-	-	-	39 412
	1 248 218	153 554	182 077	(35 550)	1 548 299
Provisions for doubtful debts					
Trade receivables	801 420	424 740	(182 077)	-	1 044 083
Debtors and other debit accounts	39 864	68 566	-	-	108 430
	841 284	493 306	(182 077)	-	1 152 513
Provisions for obsolete inventory items	18 297	-	-	-	18 297
	2 107 799	646 860	-	(35 550)	2 719 109

* Provision for obsolete inventory items are netted against their related type of inventory balances.

Notes to the financial statements

Year ended December 31, 2003	31/12/2003 L.E. (000)	31/12/2002 L.E. (000)
15 - SUPPLIERS		
Local - suppliers	68 903	52 106
Foreign - suppliers	3 127	2 895
	72 030	55 001

16 - CREDITORS AND OTHER CREDIT ACCOUNTS	31/12/2003 L.E. (000)	31/12/2002 L.E. (000)
Tax authority	102 022	187 766
Deposits from others	531 902	497 355
Fixed assets suppliers	288 250	262 299
Accrued interest	133 880	93 143
Accrued expenses	51 420	61 091
Social insurance authority	18 215	13 848
Customers - credit balances	150 722	156 816
Dividends payable	241 637	243 000
Other credit accounts	287 903	272 552
Deferred revenues*	337 669	-
	2 143 620	1 787 870
Less: Tax payments due after one year	54 704	132 746
	2 088 916	1 655 124

* Deferred revenues are represented in the value of the grant presented by the USAID to finance some of the company's projects.

Notes to the financial statements

Year ended December 31, 2003	31/12/2003 L.E. (000)	31/12/2002 L.E. (000)
17 - SALES OF SERVICES		
Domestic call revenues		
Local calls	1 403 874	1 064 110
Long distance calls (excluding mobile revenue)	371 375	427 467
Local telegram and telex	10 522	10 119
Total domestic call revenues	1 785 771	1 501 696
Mobile domestic revenues		
Fixed to mobile revenue	959 444	1 110 712
Mobile to fixed interconnection revenue	139 862	91 782
Total mobile revenues	1 099 306	1 202 494
Other local revenues		
Connection fees	464 012	504 915
Subscription fees	925 545	670 290
Leased lines	46 941	49 360
Others	690 486	633 402
Total other revenues	2 126 984	1 857 967
International revenues		
International calls (excluding mobile to international)	419 910	407 892
Revenue from international operators	1 069 344	671 493
Mobiles international revenues	468 228	367 164
International telegram and telex	2 316	3 952
Total international revenues	1 959 798	1 450 501
Total revenues from sales of services	6 971 859	6 012 658

Notes to the financial statements

Year ended December 21, 2003	31/12/2003 L.E. (000)	31/12/2002 L.E. (000)

18 - INTERCONNECTION FEES

Fixed to mobile interconnection fees	802 229	815 951
Payments to international operators (telephone)	240 869	192 317
Payments to international operators (telegram & telex)	1 839	2 458
	1 044 937	1 010 726

19 - OTHER OPERATING COSTS

	31/12/2003 L.E. (000)	31/12/2002 L.E. (000)
Salaries	668 282	527 558
Electricity & water	13 017	10 876
Stationery & printing	47 325	33 752
Transportation cost	11 447	9 894
Business telephone cost	10 696	11 030
	750 767	593 110

20 - GENERAL & ADMINISTRATIVE EXPENSES

	31/12/2003 L.E. (000)	31/12/2002 L.E. (000)
Salaries	448 808	373 275
End of service compensation - early retirement program	9 684	61 284
Depreciation	35 588	22 865
Bad debts	68	36
Tax and customs duty	11 261	5 691
Bank charges & commissions	30 548	18 443
Others	126 071	108 718
	662 028	590 312

Notes to the financial statements

Year ended December 31, 2003	31/12/2003 L.E. (000)	31/12/2002 L.E. (000)
21 - OTHER INCOME / (EXPENSES)		
Rent income	929	861
Fines (net)	(6 402)	6 182
Sundry revenues	31 525	46 902
Prior years' (expenses) / income (net)	33 083	(140 563)
	59 135	(86 618)

22 - EARLY RETIREMENT SCHEME

- The company's board of directors approved in its meeting on May 9, 2001 an early retirement scheme for its employees. This plan was implemented during the twelve months ended 31/8/2002 (First phase). The cost of these compensations is financed by a Bank loan granted to the company. The principle loan will be repaid from employees' loyalty fund however, the interest will be charged as expenses when incurred.

- The company's board of directors approved in its meetings on March 20, 2002 and December 30, 2002 to finance an amount of L.E 65 000 K and L.E 35 000 K respectively to the employees loyalty fund in order to facilitate financing of the retired employees compensation (the second and third phases). These amounts would be refunded from employees loyalty fund upon their legal retirements.

- The actual compensations charged to income statement for the year 2003 and paid to the retired employees amounted to L.E. 9 684 K.

- The amounts to be refunded during the year 2004 amounted to L.E 8 446 K (the current portion) and the amounts to be refunded starting from January 2005 and up to the year 2011 is L.E 39 528 K (the long term portion).

Notes to the financial statements

Year ended December 31, 2003

23 - WAIVER OF THE LICENCE OF THE THIRD MOBILE NETWORK

- The company obtained a licence to establish the third mobile phone network against an amount of L.E. 1 975 million paid to the National Telecommunication Regulatory Authority (NTRA). However, due to the current recession in the market, the company decided to waive its right in this license and recover the license fees paid to NTRA.

- Pursuant to the memorandum of understanding dated December 20, 2003, concluded between Telecom Egypt and both Vodafone Egypt Co. and Mobinil, the parties agreed that the two mobiles operators would pay to NTRA cash installments in order to obtain the frequency band 1800 MHTZ previously granted to Telecom Egypt and waived to the two mobile operators.

- The company requested NTRA to transfer its right in the cash installments paid by the two mobiles operators within the agreed payment conditions and time schedule to Misr Bank in its capacity as a lender and a representative of the lenders to the company towards its acquisition of 25.5% of Vodafone Egypt Shares. The company obtained the approval from NTRA regarding this transfer of right on December 22, 2003.

24 - EARNING PER SHARE

	For the year ended 2003 L.E. (000)	For the year ended 2002 L.E. (000)
Net profit for the year (L.E. 000)	1 087 305	790 871
Less:		
Employees' share in profit	140 929	55 930
Board of Directors' bonus	1 996	-
	944 380	734 941
Number of outstanding shares	171 121 490	171 121 490
Earning per share for the year (L.E. / share)	5.52	4.29

Notes to the financial statements

Year ended December 31, 2003

25 - CAPITAL COMMITMENTS

The company's capital commitments for the unexecuted portion of contracts amounted to L.E. 12 million (L.E. 39 million at 31/12/2002).

26 - CONTINGENT LIABILITIES

In addition to the amounts included in the balance sheet, as of December 31, 2003 the company had the following contingent liabilities:

	31/12/2003 L.E. (000)	31/12/2002 L.E. (000)
- Letters of guarantee issued by the company's banks on its behalf	51 490	178 000
- Letters of credit	280 066	418 787
- Uncalled installments in investees share capital	14 475	23 037

27 - TAXATION

- Corporate tax

- The tax period up to 26/3/1998 was inspected and assessed by the Tax Department and the company accounted for that tax liabilities according to the tax department assessment.

- The tax years from 27/3/1998 and up to 30/6/2000 were inspected and the company received Form No. 18 and 19. The company appealed the tax assessment before the internal appeal committee on due dates and certain disputed items were raised to the higher appeal committee. The aggregate disputed amount approximated L.E. 12.8 billions mainly includes L.E. 11.4 billions arising from the revaluation of ARENTO net assets as of 26/3/1998 transferred to Telecom Egypt Company on 27/3/1998 in accordance with law No. 19 for the year 1998.

  The Appeal Committee on 11/3/2004 agreed with the Tax Department decision to subject the surplus arising from the revaluation of ARENTO net assets to corporate tax. The company's management and its advisors are of the opinion that such tax assessment is erroneous on the ground that, transformation process is not a taxable activity according to the tax law and the public authorities are subject to corporate tax in respect to taxable activities only. Further, there is no legal provision subjecting revaluation surplus per se to tax.

  The company is currently in the process to undertake the necessary actions to challenge the Tax Department regarding this issue before court. The ultimate outcome of this issue cannot presently be determined till a final court decision is rendered. Accordingly, the company has not formed any provision for this issue and also the company's management and its advisors believe that even if a court final decision would be granted in favor of the Tax Department, the owner of the company will bear such taxes (The Egyptian Government represented by the Ministry of Finance).

Notes to the financial statements

Year ended December 31, 2003

The company formed the adequate provisions for tax liabilities in relation to the other corporate tax disputes transfered to the Appeal Committee.

- The tax period from 1/7/2000 till 31/12/2001 was inspected and the company received the tax department assessment in Form 18. The company appealed against this assessment on due dates and the appeal was transferred to the internal appeal committee, which decided to file the disputed matters to the Higher Appeal Commitee. The company formed the adequate provisions for tax liabilities in relation to the disputed matters.

- The year 2002 has not been inspected yet by the tax department and the company submitted the tax return on due dates.

- Sales tax

There is a recent dispute between the Sales Tax Authority and the company as of May 2003 on whether the interconnection charges between the company's network and the other licensed telecommunication networks in Egypt is subject to sales tax.

The Sales Tax Authority notified the mobile operators that the interconnection charges between the other licensed telecommunication networks in Egypt and the company's network is subject to sales tax based on the assumption that this charge is work performed on behalf of others (Rental and use of equipment). The tax on this revenue, as included in the sales tax department letter amounted to approximately L.E. 226 million for the period since inception to December 31, 2001 without the additional sales tax.

The mobile operators would claim the due sales tax relating to the interconnection charges from fixed to mobile phones from the company. In case the company would receive a claim from the sales tax department for interconnection charges from mobile to fixed phones it would also claim it from the mobile operators.

The company's management believes that subjecting the interconnect charge to tax is not legal, as the total cost of the call has already been taxed and that the interconnect charges are just a portion of the call. Accordingly, the company has not formed any provision in this regard.

The company was inspected for sales tax till the year ended December 31, 2002 and settled all the sales tax and the additional tax assessments except for the interconnection charges from fixed to mobile phones and as mentioned in the preceding paragraph.

Five year financial summary

Year on year key figures in LE Millions (except per share data)	Jun-99	Jun-00	Dec-00*	Dec-01	Dec-02	Dec-03
Sales Revenue	4.437	5.672	3.182	6.008	6.219	7.177
Gross Profit	3.419	4.105	2.126	4.215	4.286	5.022
EBITDA	2.827	3.076	1.772	3.418	3.298	3.713
EBIT	1.520	1.570	963	1.709	1.283	1.478
NPBT	1.450	1.557	885	1.338	791	1.087
NPAT	835	1.557	885	1.338	791	1.087
Total Current Assets	2.437	3.263	3.915	4.581	5.526	6.435
Fixed Assets (Net)	21.019	19.575	19.626	19.567	22.117	23.971
Other Assets	2.504	3.073	3.456	4.054	2.368	2.327
Total Assets	25.960	25.911	26.997	28.202	30.011	32.733
Total Current Liabilities	2.824	2.783	3.681	3.740	4.129	5.575
Total Long Term Liabilities	2.942	3.369	2.671	2.663	3.594	4.319
Total Liabilities	5.766	6.152	6.352	6.403	7.723	9.894
Owners Equity	20.194	19.759	20.645	21.799	22.288	22.839
EPS (LE)	4.37	9.10	5.17	7.82	4.62	6.35

* 6 months starting July 2000 until December 2000.
NB: Fiscal year end was changed from June to December as of 2000

Joint ventures & investments

Company Name	% Ownership	Country of Operation
TE Data	92.5%	Egypt
TE Information Technology	92.5%	Egypt
Centra Technologies	51.2%	Egypt
Middle East Radio Communication	51%	Egypt
IT Incubator Fund	40%	Egypt
Nile Online	27.3%	Egypt
Egynet	19.5%	Egypt
Ideavelopers	18.8%	Egypt
Arab Company for PC manufacturing	10%	Egypt
EGTI	10%	Egypt
Quicktel	10%	Egypt
Civil Information Technology Company	10%	Egypt
Vodafone Egypt	8.6%	Egypt
Menatel	2%	Egypt
Nile Telecom	2%	Egypt
Arabsat	1.6%	Regional
Thuraya	0.65%	International
Intelsat	0.46%	International
New Skies	0.48%	International
ICO	0.43%	International

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