







**H. H. Sheikh Jaber Al-Ahmed
Al-Jaber Al Sabah**
Amir of the State of Kuwait



**H. H. Sheikh Saad Al-Abdullah
Al-Salem Al-Sabah**
Crown Prince



**H. H. Sheikh Sabah Al-Ahmed
Al-Jaber Al Sabah**
Prime Minister

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Board of Directors



Mr. Ahmed Mohammad Al-Nassar
Chairman & Managing Director



Mr. Asa'ad Ahmed Al-Banwan
Vice Chairman



Mr. Abdul Mohsen Al-Faris
Board Member



Sheikh Ahmad Salem Al-Ali Al-Sabah
Board Member



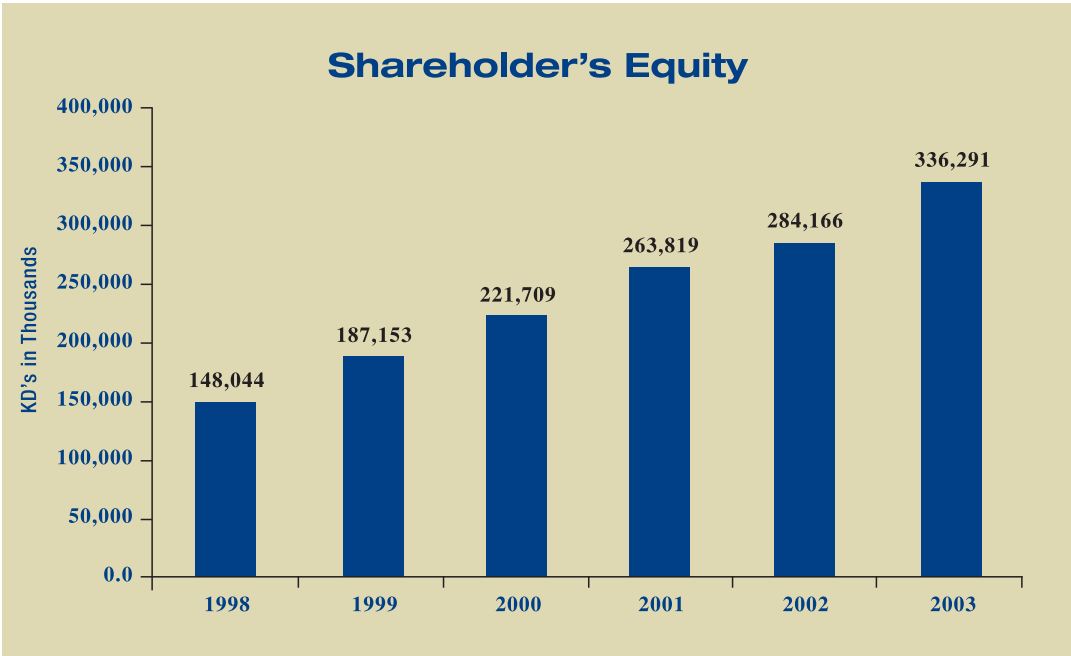
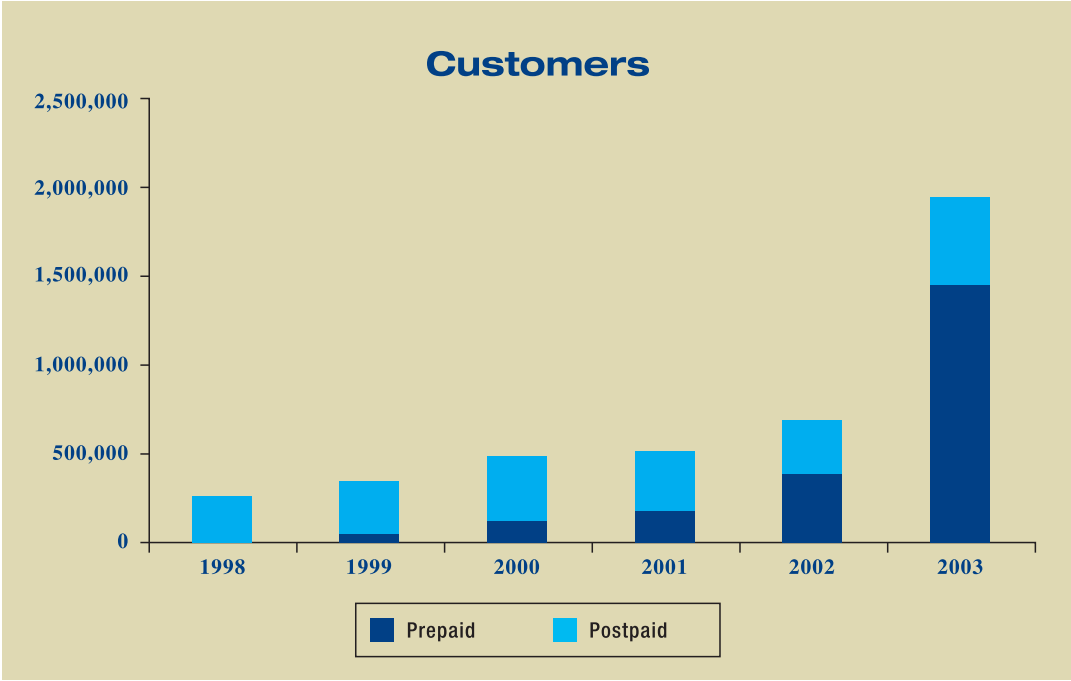
Mr. Fahed Khaled Al-Zamami
Board Member



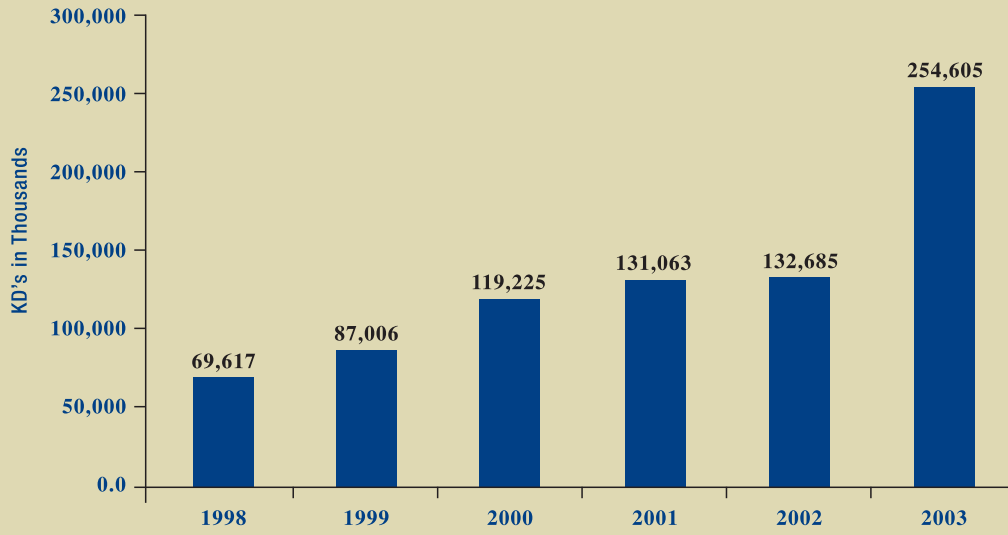
Mr. Mishal Al-Hama'ad
Board Member



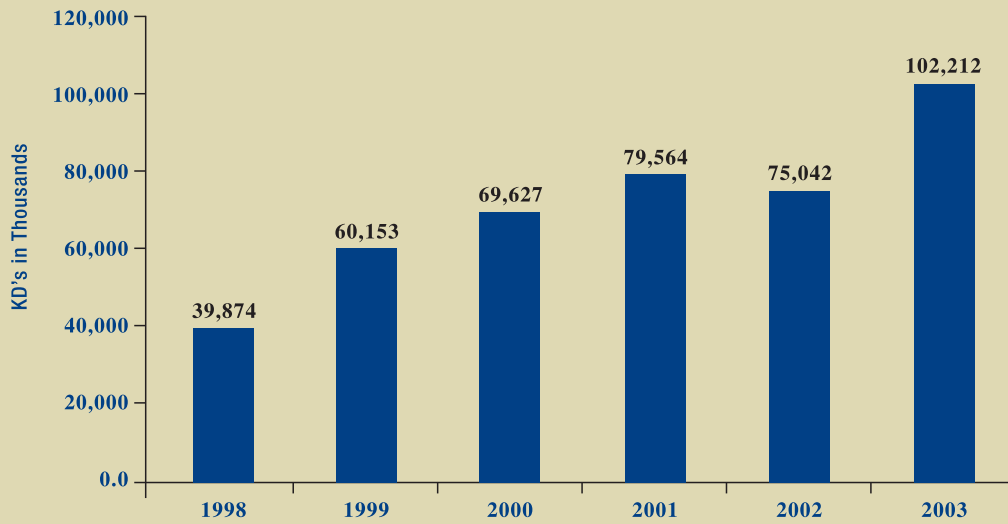
Mr. Jamal Ahmed Al-Kandary
Board Member



Revenue



Net Profit





Dear Shareholders,

On behalf of the Board of Directors and the employees of The MTC Group, it is my pleasure to welcome you and invite you to review with us, throughout this report, the major accomplishments of MTC during 2003.

It is with great pride and satisfaction that the Board of Directors, whom you have elected and entrusted, share with you our Report to Shareholders reflecting the Company's activities and performance during 2003, confirming tangible success and growth. Year 2003 also saw the Company celebrating 20 successful years of providing high quality services to our customers in Kuwait. I am honoured to report that as a result of the selection of our customers, the efforts of our employees, the guidance of the Executive Management Team together with the confidence and commitment of our shareholders, the Company exceeded its objectives and targets during 2003 and maintained its local and regional leadership. Reflecting on the increased local and regional competition in our sector, while assuring you that MTC is taking full advantage of its financial acumen, it gives me added pleasure to confirm MTC's excellent operational and financial performance, as evidenced by the increase of its share price by over 100%.

To take advantage of anticipated economic growth resulting from the recent improvement in regional stability, the Board of Directors maintained its commitment to regional expansion as initially implemented through the purchase of Fastlink in Jordan during 2002. MTC-Vodafone Bahrain launched commercial services on December 28th, 2003 and Atheer Telecom, MTC's Iraqi operation, was awarded a licence to operate in Southern Iraq on December 22nd, 2003. Atheer will look to operate in the other two zones of Northern and Central Iraq after it meets its obligations in the Southern region.

Under the vigilant guidance of the Executive Management and as a result of the productivity of its employees, MTC-Vodafone in Kuwait maintained its regional leadership by offering its customers one of the lowest tariffs in the region, while MTC-Vodafone Bahrain is introducing the most advanced 3G and EDGE technologies. The Company's focus on customer service and relationship management, while introducing innovative sales and marketing concepts has helped it maintain its leadership position in its major markets, while providing a platform for the introduction of best practices and corporate cultures focused on customer satisfaction in its expansion projects. In line with offering its customers the best services, the Group continued its focus and commitment to its employees in the form of the best in class recruiting, training and retention. These commitments to Human Resources were further bolstered by the introduction of employee incentive schemes that align employee benefits to corporate objectives, targets and performance. MTC-Vodafone in Kuwait additionally maintained its commitment to its heritage and people through the development of the Kuwaiti labour force, ensuring its maximum participation in the achievements and development of the company.

MTC-Vodafone in Kuwait has now surpassed one million customers taking the total number of customers served by the Group to over two million. From this expansive platform the MTC Group achieved a 92% increase in revenues posting total revenues of KD 255 million for 2003. Additionally, the MTC Group exceeded its profitability objectives as established in the approved budget. Net income for 2003 increased by 36% to reach KD 102 million (211 fils per share compared to 155 fils last year). The Company's excellent financial and operational results during 2003 have led to an 18% increase in shareholder rights reaching KD 336 million.

The MTC Group's commitment to social and civic responsibility is incumbent especially since the Company is the leader in both the Kuwaiti and Jordanian markets. MTC-Vodafone was the main sponsor of the 16th Gulf Cooperation Council Football Tournament in Kuwait. MTC-Vodafone also took an active role in funding a series of educational videos developed by Dida Vision in conjunction with the Kuwaiti Ministry of Education. This program reflects MTC-Vodafone's commitment to future Kuwaiti generations receiving their middle and high school education. The Company's commitment to medical and physical treatment extends through its funding of the Physiotherapy Center in the Al-Fahd Hospital.

During the launch of MTC-Vodafone Bahrain, the team publicly auctioned "unique numbers" to raise some BD 97,000 for local charities focusing on special needs and children. In continuing to build relationships with the local community, MTC-Vodafone Bahrain has also entered into a partnership agreement to support the Muharraq Club working with their links into football, other sports and their community-focused activities. We have also leveraged our relationship with Vodafone by supporting the Ferrari Formula One Racing Team in the forthcoming F1 event in the Kingdom by offering customers and employees the opportunity to take part and enjoy this event as it takes place for the first time in our region.

In Jordan, the Group continued its emphasis on social responsibility. Fastlink contributed to the community it serves by providing a mobile pediatric clinic; supporting the collection of contributions for the King Hussein Cancer Institute; and with contribution to and financial support for educational programs at various levels in addition to sponsoring several sports teams and activities throughout the Kingdom.

Reflecting on 2003 results, I am proud to report that we exceeded the targets and objectives that were established at the beginning of the year. As we celebrate the launching of the services of Atheer on March 3rd, we look forward to the future, *In Shaa Allah*, with confidence due to the Company's vision and a strategy that takes into account the Regional uncertainty plus ambitions of the Company, and translates them into performance and actions that will enhance the Company's financial position ensuring continued success and growth. We remember that MTC has a 20-year history of delivering on its promises and we will strive to maintain that record under the various mottos such as "Our Customers Come First", "Total Quality of Service", and "Ensuring and Growing Shareholder Value."

Before concluding, I hope you will join me in commemorating our departed brother Salman Youssef Al-Roumi. Salman was a member of the founding Committee of MTC in 1983 when he was also selected as a member of the first Board of Directors. He became Chairman in 1999 and his contributions were key in the evolution of MTC. We pray for our lost friend and colleague may his soul rest in peace.

Finally, I take this opportunity on behalf of the Board of Directors, the employees of MTC Group, and myself, to thank the customers of the Group and our shareholders. Placing their trust and support behind MTC has been the major catalyst for our ability to achieve and exceed our targets.

Ahmed Al-Nassar
Chairman of the Board



It is with pleasure that the Board of Directors of the MTC Group presents to its shareholders, the members of its General Assembly, its report for the year 2003.

As you surely know, the Company entered its stage of regional expansion this year, and has moved forward on that path with the completion of the acquisition of the leading Jordanian telecommunications company, Fastlink, in the beginning of 2003 where it bought a 91.6% share of the company on January 15th, making MTC's total holding in that company 96.5%. To further bolster its regional position as a leading telecommunications company, and to keep apace of its history of growth and increasing shareholder equity, the Company proceeded to rapidly deploy its services in Bahrain, where MTC-Vodafone Bahrain launched its operations in the Kingdom on December 28th. The Company was also capable of obtaining a licence to manage a telecommunications network in Southern Iraq, where operations have commenced in the beginning of March 2004 and we pray to Allah today to help us in providing the best service to the Iraqi people, as we pray for the neighbouring country to meet success in its efforts at reconstruction, and for the Company as it moves forward on its path of expansion and excellence.

To provide our customers with the best services and in support of the Company's reputable position locally and regionally, the branding contract with Vodafone was completed, providing our customers with the best telecommunications services globally through the largest network in the world. And in response to our customers needs, the Company proceeded to expand on its service offerings through the MTC-Vodafone WoW service, adding to it the services of Dizlee and M-Chat, introducing its customers to the most advanced technological capabilities for integrating mobile and internet networks and improving the capability of sending text and picture messages through them.

The Company also strived to complete an interconnection agreement with its subsidiary Fastlink, enabling customers of both networks to exchange picture messages across their networks, an agreement considered the first of its kind in the Middle East. Proceeding on the same path, the Company also arrived at a contractual arrangement with the National Company for Mobile Telecommunications (Wataniya), enabling the customers of both networks to share MMS messages across the two local networks. In addition, by providing Vodafone's "Virtual Home Environment" services to its customers, the Company provided them with the convenience of all the local services they enjoy, as they travel abroad; enabling them to access the Company's Call Center and check their voice mail without having to dial any long distance numbers.

By relaunching new talk-time packages at MTC-Vodafone under the tile of "Lana" or for you, the Company provided its customers with savings of up to 50% by allowing them to select the plan that meets their needs and budgets, and providing them with free air time and monthly savings plans.

"Miss U" service provides customers with the capability to identify missed calls even when their mobiles are turned off or are out of service areas, keeping customers in touch with their businesses and loved ones at all times.

The Company has also arrived at an agreement with the National Bank of Kuwait, providing customers with the ability to pay their bills through the internet and for eeZee's prepaid service customers the ability to recharge their cards by adding credits without visiting a store or buying a card.

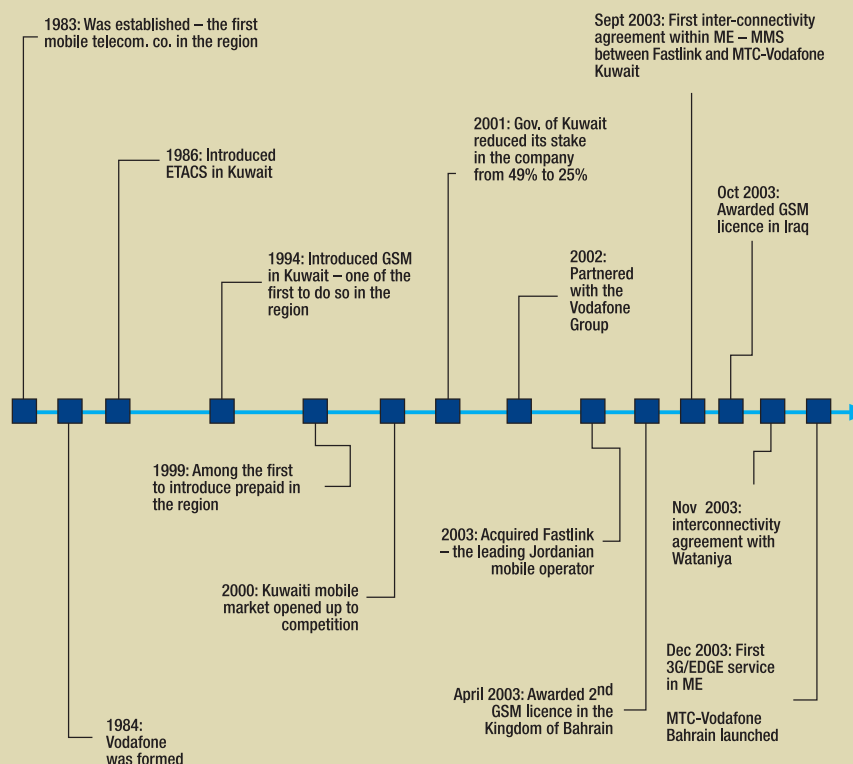
As a result of the Company's efforts throughout the year, it was able to increase its customer base in 2003 by 32.4% arriving at 914,985 mobile customers in Kuwait; to increase revenues by 91.89% to KD 255 million; and to reach Net Profits of KD 102 million, a 36.21% increase in that figure. Additionally, the Company was able to increase its total assets by 70%, reaching KD 587 million, and to increase Shareholder's Equity to KD 336 million, achieving a growth rate of 18.3%.

Looking to the future, the Company intends to continue on its path of advancement and development, improving its network, systems, and stations by leveraging its association with world class suppliers such as Nokia, Siemens, Motorola and others to implement the most advanced facets of network technology to respond to customers' needs and desires.

In conclusion, the Company wishes to assure its shareholders that no efforts will be spared on the parts of its employees and directors to continue on its path of progress and prosperity, maintaining its dominance in the telecommunications field by providing its clients with the services they deserve and have come to expect, and by maintaining its leading position in the financial market, as we transform "we hear you" to the regional motto of telecommunication in the near future, and a global symbol for the field in the future, In Shaa Allah.

Board of Directors

Key Milestones of MTC Group of Companies a Key Player in the Middle East





Vision and Strategy

Whilst 2002 was a year of review and strategic change, 2003 is likely to be seen as a year of radical change, both within the Middle East telecoms sector and within the MTC Group. The Board empowered Dr. Saad Hamad Al Barrak, Director General, to deliver his vision and strategy for MTC as a whole. His further review of the corporate vision and strategies resulted in the creation of the “three by three by three” vision of progressive development, moving MTC from a single entity to a global player in the telecoms sector in three stages - regional, international and global in each successive three year, ultimately achieving the first stage in the Company’s vision of providing services to a customer base of over 5 million by 2005.

The Partner Network Agreement established in Q3 of 2002 with Vodafone fully supports the Company’s vision. Vodafone is the world’s largest mobile community and has over 130 million proportionate customers (over 325 million venture customers) in 26 countries across five continents. By partnering with the leading, world class operator, Vodafone, MTC is able to gain invaluable business knowledge and practices. As a business, MTC understands that telecommunications have forever changed the way people communicate and interface with their environments; mobile phones are rapidly becoming a way of life rather than a simple means of communicating and within the telecoms sector, companies wishing to really serve and retain their customers have to also hear and understand their customer.

Delivering the Vision

The MTC Group today consists of a number of individual profit centres or units:

- MTC in Kuwait rebranded at the start of 2003 to become MTC-Vodafone reflecting a partner network agreement with the world’s largest mobile community, Vodafone
- Fastlink, Jordan’s leading mobile telecoms provider and reputed to be the Middle East leader in implementing new technologies and delivering the best services for its customers and shareholders

- MTC extended the Partner Network Agreement with Vodafone into Bahrain and, in collaboration with Bahraini investors, developed and launched the 2nd GSM service together with the leading edge technologies of third generation (3G) and EDGE in the Kingdom
- Atheer Telecommunications in Iraq, to be operated and managed by MTC, is due to launch in early 2004.

The aim in 2004 is to continue to expand the MTC Group in the Company's drive towards it ultimately achieving the first stage in the Company's vision of providing services to a customer base of over 5 million by 2005.

Acknowledging the Visionary

The emergence of the MTC vision and Dr. Saad Al Barrak as a key leader in the telecoms sector has been well noted within the business community, resulting in Dr. Saad being chosen as the winner of the Arabian Business eBusinessman of the Year Award in 2003. Dr. Saad Al Barrak received the award from His Highness Sheikh Mohammed Bin Rashid Al Maktoum, Crown Prince of Dubai and UAE's Minister of Defence, in recognition for outstanding achievement in harnessing technology for the benefit of the general public.



MTC and its People

MTC has steadily transformed from a public sector monopoly operating at a national level to a private sector operator with a presence at a regional level. Executive Management has recognized the need for radical changes, not just in the company strategy, but also in the corporate culture and ways of working and in business practices, to transform the vision into reality. The Executive Management, in promoting human relations and resourcing as change catalysts with the introduction of a foundation strategy containing five clear themes is striving to align individual development plans and performance measures with corporate visions and goals. The themes being applied within MTC are:

- Future – MTC will vigorously pursue its vision of a leading global company in the telecommunications industry.
- Freedom - Corporate Culture will promote openness where employees can work and express their views without fear.
- Fitness – MTC will achieve the agility and the flexibility to adapt to the external challenges and the changing needs for growth and expansion.
- Fortune – MTC will be a 'company of choice' for all due to the development and growth opportunities offered to employees and thereby continually adding value to all its assets.
- Fun – Corporate culture will be conducive to an enjoyable work environment for all employees.

New Performance Management techniques are gradually being introduced, department by department, supporting the corporate vision and underlying goals of the MTC Group's foundation. The complete roll out of the new performance management system is expected by early 2004.



Kuwait

No. of employees: 1,052

Kuwaitisation: 44.9%

**No. of customers
as at December 31st, 2003:**
914,985

MTC-Vodafone remains the key mobile telecoms leader in the State of Kuwait, in terms of market share and profitability, as well as the introduction of creative customer focused services. As customer numbers (active accounts) grew from 690,946 to 914,985, MTC-Vodafone's market share in Kuwait is now 53.4%; the balance between the type of customers shifted with the prepaid customer continuing to capture a greater slice of the MTC-Vodafone market. MTC-Vodafone prepaid network expanded to serve a total of 624,569 customers, a 61.18% increase over year end 2002 numbers, and a sufficient growth rate to compensate for the 4.29% decline in the number of customers served by its post paid network, where the number declined from 303,442 in 2002 to 290,416 customers now. The combination of the above structural changes in MTC-Vodafone's customer base in Kuwait allowed it to achieve a 32.42% growth rate in its GSM customer

base. Adding the 60,429 pager customer, the total number of customers at MTC Vodafone Kuwait reached 975,414 in 2003.

These key milestones, achieved in Kuwait in 2003, started with the implementation of the re-branding of the MTC service, collateral and merchandising points, moving from the "Voice of Kuwait" of MTC into the new "We hear you" of MTC-Vodafone.

Benefits for the Customer leveraged from the Vodafone relationship

As a Partner Network, MTC offers Vodafone and its Partners' customers seamless access to Vodafone's international services whilst travelling in Kuwait. MTC customers in return enjoy the benefits of Vodafone's existing services and its innovative service pipeline, enabling easy access and service delivery.

Getting the Look right

A review of the MTC brand highlighted a need to reflect the growing modern theme of the company. In changing the traditional original MTC logo, the MTC Board of Directors agreed and approved the development of a modern version of "MTC". This has become the signature for The MTC Group of Companies. However in key markets such as Kuwait and Bahrain, where the relationship with Vodafone would be extended, the Executive Management made the decision to bring the two logos together as part of the Partner Agreement. As a business the Company knows that communications, and communicating, is driven by people. In the telecoms sector, companies wishing to really serve and retain their customers have to also hear and understand their customers. The Company's advertising carries the slogan: **"MTC-Vodafone. We hear you"**, indicating the commitment to provide services customers say they really want.

The emergence of the MTC-Vodafone brand into the Kuwait and Pan-Arab market has been clearly recognized by both the business and community audience. The brand has retained its historic ties with Kuwait by maintaining the strong darker blue of MTC and the introduction of a lighter blue reflecting the State's affinity with the sea, while using the red colour to reflect the agreement with Vodafone.

The advertising and marketing also reflected, through the partnership with Vodafone, that MTC was opening up the world to its customers. Friends or business colleagues travelling throughout the world would be able to use their MTC-Vodafone services with the best and easiest of connections and services. A clear reflection of the narrowing of boundaries brought about by modern telecommunications, transforming the peoples of distant lands into neighbours.

Keeping the balance

Whilst great emphasis was being placed on moving into new territories, MTC's Executive Management also wanted to protect and build its base in Kuwait. As a natural starting point for development, the Executive Management wanted to ensure that the Kuwait operation was ready for the challenges ahead in an increasingly competitive local market, resulting in an investment of more than US\$ 41 million (representing around 19% of 2003 Capital Expenditure) into its local network through various partnership agreements with leading global suppliers such as Motorola, Nokia, Siemens and Logica CMG. The overall aim was to enable more creative applications; provide better customer care; increase capacity in the network; and improve network performance and coverage. Additionally, with demand increasing for MTC-Vodafone's General Packet Radio Service (GPRS) there was a need to increase data transfer speeds within the Kuwait market. MTC-Vodafone in Kuwait now has capacity for 140% of the current customer base allowing for 365,000 additional customer growth in the local market. Key performance indicators (KPIs) show that network maximum congestion is 2%, in line with international benchmarks; drop call rate is down to 0.55% (cf. international benchmark: 1%); handover success rate is up to 96% (cf. international benchmark: 95%); meantime between drops increased, reaching 11,000 seconds, 53% higher than the international benchmark of 7200 seconds.

With the liberation of Iraq and the influx of expatriates looking to use Kuwait as their base due to its proximity to Iraq, MTC-Vodafone witnessed a 5% increase in demand for roaming. Therefore during 2003, MTC-Vodafone in Kuwait expanded the footprint of its international roaming service to include 191 operators in 80 countries across six continents to meet the exacting needs of international travellers.





Providing the Right Services at the Right Time

Following the successful launch of MTC-Vodafone WoW, MTC's multimedia service, in December 2002, the company continued in 2003 to grow the service with additions being made throughout the year, including Dizlee and M-Chat.

M-Chat, a service totally new to the Middle East, in unifying the internet customer with the GSM mobile customer in an integrated chat setting, has proved to be highly successful and very well received by customers who wished to chat in Arabic or English. On average, the service has seen over 6 million messages per month since launch, a significant milestone confirming M-Chat as the most popular and widely used messaging service in Kuwait.

The Dizlee service, which is part of MTC-Vodafone WoW, adds a new dimension to how the customer uses his mobile. Customers can exchange pictures and graphics, change background images, access email away from their desk and access the MMS Portal with enhanced image quality and ease.

An interconnectivity agreement with Fastlink in Jordan enabled MMS customers to exchange picture messaging between Jordan and MTC-Vodafone in Kuwait. A first of its kind within the Middle East.

In listening to customers needs, a 'first for the Gulf' agreement was also signed with Wataniya to provide interconnectivity for multimedia messaging between the two operators for the benefit of the joint customer base. Previously, MTC-Vodafone and Wataniya customers were unable to communicate across the two networks via MMS messaging.

Introduction of Vodafone's Virtual Home Environment (VHE) provides customers travelling abroad with the same services they are used to using at home on a daily basis. Aimed at making life easier for customers, it enables them to dial directly into MTC-Vodafone's customer care 107 and listen to voice mails without having to dial extensive international numbers and digits.

Relaunching MTC-Vodafone's talk time packages, under the title of "Lana" or "For You" brought home significant savings of up to 50% for some customers. Lana gives customers flexibility and choice in monthly saving plans, offering free talk time and price-discounted minutes.

Miss U service enables customers to identify all missed calls even when the mobile has been switched off or is out of the coverage area. A keen valued added service, Miss U keeps customers in touch with their business interests, families, and friends whatever the circumstance.

For the prepaid eeZee customer, agreements with National Bank of Kuwait (NBK) brought forward easier ways of paying bills and recharging on-line without having to queue in retail outlets or at vending machines.

Providing for, and Working With, the Community

Early 2003 witnessed the 'liberation' of Iraq. To support MTC-Vodafone's Kuwait customer base during the difficult time of military action in Iraq, the Company worked with the Ministry of Defence and Communication through various key emergency awareness campaigns and put in place contingencies to support an expected high level of usage during the height of security activities in Iraq. MTC-Vodafone's advanced network was capable of supporting heavy traffic reaching 4 million messages an hour, a testament to its capacity and ability to contribute to the growing need for reliable communications.

Involvement in the community also extended into the continued sponsorship of works, from regional events and local involvement to activities that supported the protection of the environment, such as the sponsorship of the 16th GCC Football Championships involving over 350 players from across the GCC and Yemen football scene; involvement in employment seminars and exhibitions for the youth of Kuwait and universities; plus the continued support of the Kuwait Diving Team in their role in protecting and preserving the Kuwait environment and maritime heritage. MTC-Vodafone in Kuwait showed continued commitment to its charity work with a further contribution in support of the Al Fahed Center in the Physiotherapy Hospital reflecting the immense benefits and relief the Center brings to many within the Community at large.

Educational support was delivered in many ways with direct involvement with local schools and universities. By working and supporting the Ministry of Education, MTC-Vodafone was able to deliver 350 interactive, multimedia educational tool packs to schools across Kuwait.

During the Holy month of Ramadan, over 500 meals per day were provided for the needy as part of breaking fast. A full programme of activities was also undertaken within the community to raise awareness of MTC-Vodafone and its services.





Maintaining a Majority Market Share Through Leadership in Marketing

The start of 2003 saw the official conclusion of the transfer of the majority equity interest of Fastlink to MTC, with an increase of its share ownership in Fastlink to approximately 96.5%. Worth US\$ 423.9 million, this acquisition represented the largest single buy out in the Gulf/Middle East area and the largest private sector investment in Jordan by a GCC private sector company, clearly reflecting strong investor confidence in the Jordanian economy, especially after recent economic reforms implemented by the Jordanian government.

During 2003, Fastlink maintained its position as the largest telecommunications company in Jordan with a share of the mobile telecommunications market exceeding 73%, with more than 930,000 customers served by the country's most extensive distribution network that includes more than 15,000 points of sale spread throughout the Kingdom.

In April of the same year, the Board of Directors of Fastlink introduced Mohammed Saqer as President and CEO of Fastlink. Mohammed Saqer's experience in the telecommunications field spans 22 years including his previous

five-year post as Vice-CEO of the Lebanese "LibanCell" mobile telecommunications company.

An early significant change was the creation of the specialist department (Commercial Strategic Planning) aimed at setting out the Company's strategic direction by providing key analysis of local and regional market trends and opportunities.

The new department set out a clear strategic vision forecasting progressive development in mobile technologies and market changes. The most important aspects of this strategy included diversification of the business and building on core competencies and established elements of success.

An Enhanced Network That Exceeds International Quality Benchmarks

One of the primary objectives within the strategy set for 2003 was the increase in network capacity and upgrade quality in line with international benchmarks for performance and service levels. To achieve this the Executive Management approved an extensive program of investment in the network to attain its targets in quality. With the completion of two important phases, Fastlink's network enhancement program has seen the installation



Acquisition completed:
January 15th, 2003

No. of employees: 850

Commitment to Jordanisation:
approximately 100%

Number of customers
as at December 31st, 2003: 930,000



and commissioning of more than 150 cell sites distributed in the Greater Amman area and other provinces.

Fastlink's network now has excessive capacity providing for 150% of the current customer base (allowing for 0.5 million additional customers). Performance and quality indicators have been improved as follows: network maximum congestion is down to 0.5% (cf. international benchmark: 2.0%); drop call rate is down to 0.75% (cf. international benchmark: 1.0%); handover success rate is up to 96.3% (cf. international benchmark: 95%); mean time between drops increased, reaching 20% higher than the international benchmark of 7200 seconds.

In relation to international coverage, the Company expanded the footprint of its international roaming service to include 90 operators in 200 countries across six continents. It also expanded the scope of the service making it available to all customers. The Company was the first to introduce the concept of advanced data services in the Middle East region.

Breaking the Sound Barrier with Increased Investments in Data Services

The Company maintained its leading position in the Middle East regarding data services.

Fastlink's spread and rising awareness of data services in the Jordanian community provoked an increase in revenues of data services from 8% in 2002 to 10% in 2003. This is considered the highest among all Arab countries.

Fastlink developed its GPRS technology into an Internet cloud covering Jordan in its widest sense giving customers access to the World Wide Web from any location regardless of the available infrastructure. The Company promoted the use of this technology by cancelling monthly subscriptions and limiting the cost to actual use.

The Company carried out pioneering experiments to test international roaming of the GPRS and MMS services, regionally. In cooperation with a number of regional operators, Fastlink operated the services for the benefit of customers (the GPRS service operated between Jordan and UAE and the MMS service between Jordan and Kuwait). In October, Fastlink launched the first live demonstration of the 3G technology for the ICT sector, university and school students, as well as Fastlink's customers.

Furthermore, Fastlink led the region's operators to provide its customers with the chance to vote and interact with television stations. Customers became aware of the value of this



accomplishment through their success in elevating the singer Diana Carazon to fame in the Arab world.

New Mobile Services and Opening the biggest Customer Care Center

The Company responded to the needs of new customer segments by providing innovative offers that included Student Package "101", nominated for the GSM Association Award in February 2003.

At the beginning of the year Fastlink reduced KC talktime package subscription fees and created simpler and lower-priced tariffs. It also provided customers with hundreds of free additional minutes. In addition, it granted the prepaid card customers added value on their credit several times during the year.

Creative promotional campaigns and prizes characterized the year 2003. They included a series of cash and in-kind grand prizes for KC and prepaid customers with special prizes for customers using international roaming.

In a significant bid to take customer care service to new heights, Fastlink operated the largest and most advanced IP-based Contact Center (IPCC) in the Middle East. The new customer service center, seeking to provide high customer satisfaction levels, can handle more than 500,000 calls a day and employs 200 representatives to serve customers.

Nurturing Local Talent and Doubling Investments in Jordanian Human Resources

Fastlink is proud to depend on a workforce that is nearly 100% Jordanian. It increased its staff to reach 850 Jordanian employees.

The Company's team contributed to designing and implementing projects for the parent company, Mobile Telecommunications Company (MTC) and also participated in deploying and operating networks in Bahrain, Iraq, Algeria and Tunisia.

During 2003, Fastlink's employees participated in around 1,000 international, local and online courses at an average of at least 40 hours of training per employee. On the wider community scene, a total of 300 students were trained at Fastlink's departments throughout the year. They received high technical, managerial, and marketing expertise. Fastlink's schools program, School Link, provided training and information to thousands of students.

Serving the Jordanian Community Hand in Hand

Fastlink contributed to educational initiatives including INJAZ, a program for the development of economic opportunities for Jordanian youth; sponsored the Little League Basketball tournament at schools; and sponsored Amman's league under-14 football team, which won Dubai's cup.

In promoting academic excellence, the Company sponsored the Scientific Days programs at the University of Jordan, Jordan University of Science and Technology and Applied Sciences University. It also sponsored the distinction awards for students from several Jordanian universities, as well as built and equipped two computer laboratories at the Arab Academy for Banking and Financial Sciences.

The Company provided several development programs including equipping a new business incubator at Jabel Al Taj with the latest computers to train women on the international computer driving licence program (ICDL).

The Company supported events highlighting Jordan's regional and international presence, including: support for the Third Annual Meeting for the Private Sector at the Dead Sea, which was organized by the International Telecommunication Union (ITU) – Arab Regional Office; supporting the celebration of International Telecommunications Day, which was organized by the Telecommunications Regulatory Commission (TRC); and sponsoring the Extraordinary Annual

Meeting of the World Economic Forum (WEF), which was held at the Dead Sea in June.

In marking the holy month of Ramadan, three Ramadan tents were erected in Amman and Zarqa to receive the fasting guests during the entire month.

King Hussein Cancer Foundation and Fastlink launch fund raising campaign

Fastlink launched a campaign entitled "Towards Life" to gather donations for the benefit of cancer patients in the Kingdom. The campaign included providing direct cash support to the center and enabling citizens to give donations through SMS.

Children's Mobile clinic roams the Kingdom

Fastlink's mobile clinic for pediatrics continued its daily visits in several villages across the Kingdom, where doctors supervised the medical treatment and gave free medication to more than 3,000 children, in addition to conducting follow-up checks on the patients.

Bringing Jordanian Sport to the Fore and Lifting the Competitive Spirit

Fastlink's basketball team continued to shine locally and regionally. The team, fully sponsored by Fastlink, won Jordan's cup for basketball and in its first participation abroad, brought back to life the glories of Jordanian basketball, as it returned from Sharja with the Sharja Championship Cup for Basketball.

In 2003, Fastlink committed itself to sponsoring the national basketball teams of all age groups with the continued support of the Jordanian Basketball Federation in raising the awareness and skill levels of basketball locally and internationally through the support provided to the national teams.

The Company also sponsored sports championships including the 15th Festival for the Arab Horse in Jordan, organized by the Jordanian Federation for Horseback Riding.

An Advanced Credit Rating That Consolidates the Company's Financial Standing and its Attractiveness to Investors

Fitch Ratings upgraded the credit rating of Fastlink's capability for repayment in long-term foreign currency from B+ to BB- while its local currency rating remained steady at BBB-. This rating is considered high compared with local and regional companies.

The rating upgrade is both a clear sign of Fastlink's solid trading and financial standing as well as an indication of the general improvement of the economy in Jordan.

The rating reflects Fastlink's position as Jordan's biggest telecommunications operator with its highly recognized brand name and, despite the entry of a competitor, its strong customer growth, which resulted in mobile customers outnumbering fixed line users.





Bahrain

Licence awarded: April 22nd, 2003

Network deployment commenced:
June 2003

**No. of employees
as at 31st December 2003:**
208

Bahrainisation:
82% (ahead of the 75% threshold set
by the Bahrain TRA)

Service commenced: November 15th,
2003 (soft launch);
December 28th, 2003 (official launch)

On April 22nd 2003, Bahrain's Telecommunications Authority formally announced the outcome of the tender process and appointed MTC-Vodafone Bahrain to develop the 2nd GSM network to service the Kingdom of Bahrain. MTC-Vodafone Bahrain came as an extension of MTC's Partner Network Agreement with Vodafone and included a high level (40%) of investment by local Bahraini investors.

MTC-Vodafone – a legal entity

The Company was capitalized at BD 20 million with 40% of the shares owned by Bahraini individuals or companies within 90 days of the licence date; and in accordance with Bahraini Law, MTC-Vodafone Bahrain will be listed on the Bahrain Stock Exchange after three years.

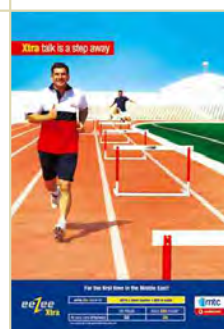
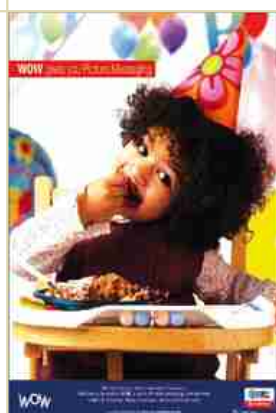
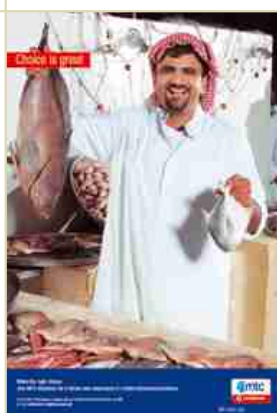
Committing to the people of Bahrain

From the outset, MTC-Vodafone Bahrain announced a key investment plan of \$120

million into network development over the forthcoming three years utilizing leading edge systems and pioneering the introduction of 3G and EDGE, placing Bahrain ahead of the rest of the Middle East in terms of implementation of mobile technologies.

When MTC-Vodafone Bahrain announced this core investment it also highlighted that the contributions it would make to the people of Bahrain were not going to be just financial. Great emphasis would be placed on customer benefits such as innovative services and keen pricing; additionally, employment, training, and personal development particularly would also be driven by the Company's own need for skilled, technology based expertise.

In committing to the community, MTC-Vodafone Bahrain set out to achieve a high level of local employment to ensure that 75% of all those employed would hold Bahraini Citizenship. To enhance this the Company



pledged to contribute a further \$ 2 million towards education, and knowledge exchange, of an international standard. The Company also committed to supporting secondary and tertiary employment through a large number of local contracts that MTC-Vodafone Bahrain would extend to Bahraini suppliers and contractors. On the launch date, the Company had far exceeded the 75% Bahraini employee threshold with 82% of the 208 employees coming from the local market.

Making a Difference With Cutting Edge Technologies. Giving People a Choice.

The service in Bahrain was a significant step in the MTC Group's move towards creating a wider regional position. In bringing the Bahrain service to market by the end of 2003, MTC-Vodafone not only broke a long held monopoly and gave local people a choice but also set, and broke, numerous records in the telecoms

world and introduced many cutting edge technologies to the Middle East region.

Within months of the award of the licence, MTC-Vodafone Bahrain was awarded full certification of its membership to the GSM Association - a further milestone achieved in the evolution of the Bahrain service. The MTC Group's commitment to developing best practice and introducing cutting edge world-class technologies to the region corresponds closely with the GSMA's standards.

During the development and deployment of the new network in Bahrain, MTC-Vodafone drew on the extensive experience within The MTC Group of Companies and its partner, Vodafone. It also called on experts from the stable of preferred partners of Nokia, Siemens, and ITS to bring state-of-the-art technologies to bear in the development of the Bahrain network.



MTC-Vodafone service in Bahrain, the company launched the service at its Mobile Fair with dignitaries from across the world in attendance.

MTC-Vodafone Bahrain Launches Fastest Deployed Service in Middle East

When MTC-Vodafone launched its service in Bahrain, it was the fastest deployment in the Middle East, from the date of the licence being awarded to the commencement of full service. The service broke many records previously set in the Middle East and of course, in Bahrain, from high quality voice through to high-speed data at a higher-level speed than previously seen. MTC-Vodafone also brought its very successful **eeZee** prepaid service and the data **World of WoW**, multimedia services to the Kingdom. MTC-Vodafone introduced its acclaimed 'value for money' postpaid service, **Hewar**, with customers having access to the full range of MTC-Vodafone services from voice, SMS, MMS and high-speed mobile data services whether they have chosen eeZee or Hewar.



The MTC-Vodafone service stretches further than just focusing on today. The Company, in wanting to bring the best and latest technology to Bahrain and the Middle East, also introduced third generation (3G) and EDGE technologies, on a commercial basis, to the region for the first time. 3G and EDGE are seen as the way of the future as the technologies take multimedia to the next level, by enabling video streaming whereby customers can watch video content, live and pre-recorded, hear and see the other caller, and achieve high speed downloads of large data such as sales documents, presentations, and audio clips.

In building anticipation for the launch in mid-December 2003, MTC-Vodafone Bahrain showcased their revolutionary 3G and EDGE commercial network. In anticipation of the high level of interest and demand for the

Working in a different way

International and regional experience was introduced in the training and personal development of numerous graduates employed directly from the colleges and universities of Bahrain. Through relentless focus on excellence, gaining value addition from all employees and highest levels of customer service, the management team at MTC-Vodafone Bahrain is convinced the customer will be the winner at every turn. By promoting open communications in all directions the team is convinced that true and full adoption of empowerment and

ownership will result in accountability and commitment to deal with any issue or customer complaint; plus through leadership at all levels, teamwork will develop at a greater pace and recognition of achievers will result in greater outputs.

Working with and for the Community

To commence its connection with the community in Bahrain, MTC-Vodafone signed a sponsorship deal with the Bahrain based Unstoppabulls Racing Team. The Unstoppabulls, a well known go-karting and drag racing team with a long history of success and officially the top ranking go-karting team in the Middle East, portrayed the MTC-Vodafone's team dedication, energy and determination to lead the field and provide entertainment along the way. The stunning blue and red racing suits and emblazoned karts have been seen regularly around Bahrain and the Middle East as the Unstoppabulls undertook their racing programme. The first few races in the programme included the 24-hour endurance races in Dubai, Oman, and Abu Dhabi before returning to Bahrain.

As part of MTC-Vodafone's commitment to Bahrain's community, the Unstoppabulls were also contracted to lead a Road Safety campaign throughout Universities and schools in the Kingdom.





Now

Atheer Telecommunication
provides you with full
coverage in southern Iraq
for all mobile services.



وحدات (مناطق التغطية)
للخدمات المتنقلة



Supporting the People of Iraq

In May 2003, The MTC Group was granted authority by the Joint Communications Authority Board of Iraq and the Ministry of Defence of the United Kingdom (MoD) to install and operate a GSM network within Southern Iraq aimed at supporting the Coalition's reconstruction and security efforts and non-government organizations (NGOs) as they delivered humanitarian aid to key locations.

As the drive towards returning Iraq to prosperity commenced across the Middle East, the MTC Group took part in a number of key conferences highlighting its neighbour's needs. In June 2003, at a conference held under the patronage of His Excellency Sheikh Ahmed Al Fahed Al Ahmed Al Sabah, MTC highlighted the need for strong connected communications to support the reconstruction

and re-emergence of Iraq as a truly economically strong country; and that with a widely spread population of approximately 24 million, post-war Iraq required a quick, reliable, logical telecoms solution to compensate for the lack of landline facilities.

Creating a Mobile Telecom Service in Iraq

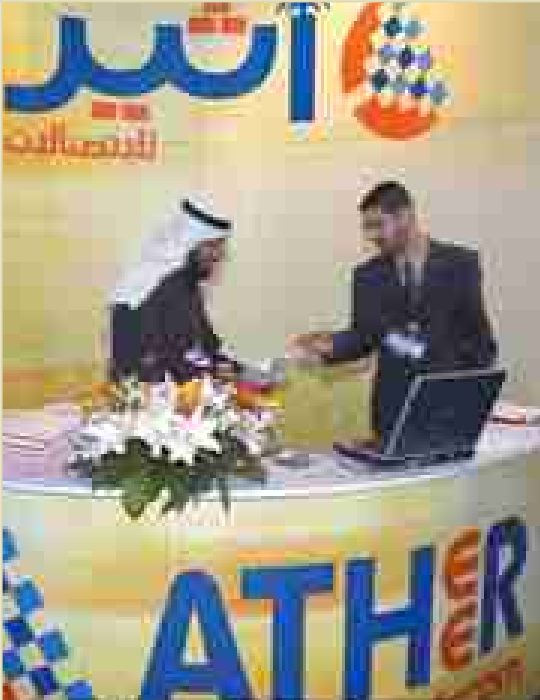
Following an extensive bidding situation in Iraq, the month of October 2003, saw the Coalition Provisional Authority (CPA) announce that Atheer Telecommunications had been selected to provide a mobile telecoms network in Southern Iraq. Atheer Telecommunications is to be operated and managed by The MTC Group.

Development of the network is underway, with the service expected to be live for the use of the people of Iraq by early Spring 2004.

Licence formally awarded:
December 22nd, 2003

Network deployment commenced:
immediately

Service due to commence:
early Spring 2004



2003

Consolidated Annual Financial Statements and
Auditors' Report

31 December 2003

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Mobile Telecommunications Company KSC

Auditors' Report to the Shareholders

Bader & Co.
PricewaterhouseCoopers

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KUWAIT GLOBAL GROUP

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Associated with
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P.O. Box 21111 Safat 13081 Kuwait
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We have audited the accompanying consolidated balance sheet of Mobile Telecommunications Company KSC (the Parent Company) and subsidiaries (collectively called "the Group") as at 31 December 2003, the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

The consolidated financial statements include assets, liabilities and results of operations of Jordanian and Bahraini subsidiaries amounting to KD 139,854, KD 87,433 and KD 18,295 respectively. For the purpose of consolidation, we have solely relied on the audited financial statements of these subsidiaries audited by other auditors under their reports dated 16 February 2004 and 12 February 2004 respectively.

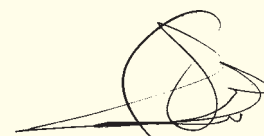
In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2003, and the consolidated results of its operations, changes in shareholders' equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Furthermore, in our opinion, proper books of accounts have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Board of Directors relating to these consolidated financial statements are in agreement therewith. We further report that we obtained all the information and explanations, that we required for the purpose of our audit and the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended and by the Parent Company's Articles of Association; that an inventory was duly carried out and that to the best of our knowledge and belief, no violations of the Law of Commercial Companies of 1960 or of the Parent Company's Articles of Association have occurred during the year ended 31 December 2003 that might have had a material effect on the business of the Group or its consolidated financial position or results of its operations.



Bader A. Al Wazzan
Licence No. 62 A
PricewaterhouseCoopers

State of Kuwait
03 March 2004



Awdah Jaber Al Ali Al Sabah
Licence No. 85 A
Kuwait Global Group
Moore's Rowland International

Consolidated Balance Sheet as of 31 December 2003

	Note	2003	2002 KD'000
ASSETS			
Current assets			
Cash on hand and at banks		26,697	12,615
Short-term deposits with banks	3	71,590	59,477
Trade and other receivables	4	40,076	33,816
Inventories	5	3,153	2,174
Investments	6	31,677	29,240
Total current assets		<u>173,193</u>	<u>137,322</u>
Non-current assets			
Investments	6	109,857	103,210
Property and equipment	7	216,935	109,061
Intangible assets	8	87,187	-
		<u>413,979</u>	<u>212,271</u>
Total assets		<u>587,172</u>	<u>349,593</u>
LIABILITIES, SHAREHOLDERS' EQUITY AND MINORITY INTEREST			
Current liabilities			
Trade and other payables	9	120,270	63,219
Due to banks	10	28,052	-
		<u>148,322</u>	<u>63,219</u>
Non-current liabilities			
Due to banks	10	96,553	-
Other non-current liabilities	11	3,079	2,208
		<u>99,632</u>	<u>2,208</u>
Minority interest		2,927	-
Shareholders' equity:			
Share capital	12	49,330	49,330
Treasury shares	13	(4,028)	(4,028)
Legal reserve	12	49,330	49,330
Voluntary reserve	12	44,733	44,733
Foreign currency translation account		(1,019)	-
Investment fair valuation reserve		24,108	10,640
Retained earnings		<u>173,837</u>	<u>134,161</u>
Total shareholders' equity		<u>336,291</u>	<u>284,166</u>
Total liabilities and shareholders' equity		<u>587,172</u>	<u>349,593</u>

These financial statements have been approved by the Board of Directors on 3 March 2004 and signed on their behalf by:

Dr.Saad Hamad Al Barrak
Director General

Ahmed Mohammed Al Nassar
Chairman and Managing Director

The accompanying notes are an integral part of these consolidated financial statements

Consolidated Statement of Income – Year ended 31 December 2003

	Note	2003	2002
		KD'000	
Revenues	14	254,605	132,685
Direct costs		(103,338)	(52,147)
Gross profit		151,267	80,538
General and administrative expenses		(38,503)	(8,638)
Provision for doubtful debts		(4,458)	(1,806)
Amortisation of goodwill		(5,843)	-
Operating profit		102,463	70,094
Interest income		1,614	2,085
Investment income		12,288	5,229
Finance cost		(5,642)	-
Foreign currency revaluation gains		1,012	1
Board of Directors' remuneration		(28)	(28)
Contribution to Kuwait Foundation for Advancement of Sciences		(1,054)	(765)
National Labour Support Tax	15	(2,109)	(1,574)
Profit for the year before income tax		108,544	75,042
Income tax	16	(7,890)	-
Profit for the year before minority interest		100,654	75,042
Minority interest		1,558	-
Net profit for the year		102,212	75,042
		Fils	Fils
Earnings per share	17	211	155

The accompanying notes are an integral part of these consolidated financial statements

Consolidated Statement of Changes in Shareholders' Equity - 31 December 2003

	Share capital	Treasury shares	Legal reserve	Voluntary reserve	Foreign currency translation account	Investment fair valuation reserve	Retained earnings	Total
								KD '000
At 31 December 2001	49,330	(4,028)	44,733	44,733	-	2,731	126,320	263,819
Cash dividends (2001 - 130%)	-	-	-	-	-	-	(62,832)	(62,832)
Net profit for the year - 2002	-	-	-	-	-	-	75,042	75,042
Transfer to reserves	-	-	4,597	-	-	-	(4,597)	-
Realised (gains) /losses on available-for-sale investments	-	-	-	-	-	(144)	228	84
Changes in fair value of available-for-sale investments	-	-	-	-	-	8,053	-	8,053
At 31 December 2002	49,330	(4,028)	49,330	44,733	-	10,640	134,161	284,166
Cash dividends (2002 - 140%)	-	-	-	-	-	-	(67,665)	(67,665)
Net profit for the year - 2003	-	-	-	-	-	-	102,212	102,212
Foreign currency translation differences	-	-	-	-	(1,019)	-	-	(1,019)
Reclassification of investment fair valuation reserve	-	-	-	-	-	(5,388)	5,388	-
Transfer of reserve pertaining to investment in subsidiary	-	-	-	-	-	(4,800)	-	(4,800)
Realised gains on available-for-sale investments	-	-	-	-	-	(199)	(259)	(458)
Changes in fair value of available-for-sale investments	-	-	-	-	-	23,855	-	23,855
At 31 December 2003	49,330	(4,028)	49,330	44,733	(1,019)	24,108	173,837	336,855

The accompanying notes are an integral part of these consolidated financial statements

Consolidated statement of cash flows – year ended 31 December 2003

	2003	2002
		KD '000
Cash flows from operating activities		
Profit for the year before income tax	108,544	75,042
Adjustments for:		
Depreciation	30,964	13,289
Impairment loss	-	3,640
Amortisation of goodwill	5,843	-
Amortisation of licence fees	430	-
Provision for post employment benefits	866	823
Gain on disposal of property and equipment	(4)	-
Property and equipment written off	1,609	-
Interest income	(1,614)	(2,085)
Investment income	(12,288)	(5,229)
Finance cost	5,642	-
Operating profit before working capital changes	139,992	85,480
Decrease in trade and other receivables	3,993	4,910
Decrease/(increase) in inventories	322	(502)
Increase in trade and other payables	37,371	9,456
Cash generated from operations	181,678	99,344
Post employment benefits paid	(81)	(314)
Income tax paid	(7,030)	-
Board of directors' remuneration paid	(28)	(28)
Paid to Kuwait Foundation for Advancement of Sciences	(765)	(1,635)
National labour tax paid	(1,574)	(783)
<i>Net cash from operating activities</i>	172,200	96,584
Cash flows from investing activities		
Deposits maturing after three months withdrawn from banks	-	39,199
Purchase of investments	(12,484)	(18,942)
Proceeds from sale of investments	39,741	13,599
Acquisition of subsidiary (Note 21)	(108,847)	-
Payment for acquiring intangible assets	(195)	-
Purchase of property and equipment	(65,254)	(25,257)
Proceeds from disposal of property and equipment	418	-
Interest received	1,614	1,826
<i>Net cash (used in)/from investing activities</i>	(145,007)	10,425
Cash flows from financing activities		
Due to banks	68,724	-
Minority interest	(4)	(12)
Dividends paid	(67,183)	(62,187)
Minority shares in the share capital of Bahraini subsidiary	3,156	-
Finance cost	(5,642)	-
<i>Net cash used in financing activities</i>	(949)	(62,199)
Net increase in cash and cash equivalents	26,244	44,810
Effect of foreign currency translation	(313)	-
Cash and cash equivalents at beginning of year	72,092	27,282
Cash and cash equivalents at end of year (Note 18)	98,023	72,092

The accompanying notes are an integral part of these consolidated financial statements

1. Incorporation and activities

The Mobile Telecommunications Company KSC (the Parent Company) is a Kuwaiti shareholding company incorporated in 1983 in accordance with the Law of Commercial Companies. Its shares are traded on the Kuwait Stock Exchange.

The registered office of the Parent Company is at P.O. Box 22244, 13083 Safat, State of Kuwait.

The principal subsidiaries are as follows:

Name of the subsidiary	Percentage of ownership
Kuwait	
Communication & Information Consultancy Group Company K.S.C. (Closed)	100%
Etisalat Plus Company K.S.C. (Closed)	100%
E - Communication Company W.L.L.	100%
Foreign	
Pella Investment Company LLC, Jordan	96.516%
MTC Vodafone Bahrain B.S.C. (Closed), Bahrain	60%

The Parent Company and its subsidiaries ("the Group") provide mobile telecommunication services under licence from the Governments of the countries in which they operate and purchase, deliver, install, manage and maintain mobile telephone and paging systems and invest surplus funds in investment securities.

On 15 January 2003 the Parent Company acquired an additional 91.596% shares of Pella Investment Company LLC, a limited liability company registered in Jordan – "Jordanian subsidiary" (which wholly owns Jordan Mobile Telephone Services Company – "operating Jordanian subsidiary" that operates one of the two national mobile telecommunications network in Jordan) taking its total holding to 96.516%.

On 19 April 2003 the Parent Company's Bahraini subsidiary obtained the licence to provide telecommunication services in the Kingdom of Bahrain. Commercial operations commenced on 28 December 2003.

In 2003, the Parent Company signed a subscription and shareholders agreement for the incorporation of Atheer Telecom Iraq, a Cayman Islands company. On 22 December 2003, Atheer Telecom Iraq obtained a licence to operate a telecommunication network in Southern Iraq for two years. The network is expected to become operational in the first quarter of 2004.

2. Basis of preparation and Accounting Policies

2.1. Basis of preparation

These consolidated financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS) under the historical cost basis of measurement except for investments "held for trading" and "available for sale"; and the assets and liabilities of the subsidiaries acquired during the year, which are stated at their fair values.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that may affect the amounts reported in these financial statements.

Subsidiaries are those enterprises controlled by the parent. Control exists when the parent has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements on a line-by-line basis, from the date that control effectively commences until the date that control effectively ceases. Equity and net income attributable to minority shareholders' interests are shown separately in the balance sheet and statement of income respectively. At the acquisition date, the minority interests are measured by the proportion of the pre-acquisition carrying amounts of the identifiable assets and liabilities of the subsidiaries.

Significant accounting policies (contd.)

Intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances based on latest audited financial statements of the subsidiaries.

2.2. Financial instruments

In the normal course of business the Group uses financial instruments, principally cash, deposits, investments, receivables, due to banks, payables and derivatives.

Financial instruments are classified as "held for trading", "held to maturity", "loans and receivables originated by the enterprise" or "available for sale". Derivative instruments are classified as "held for trading" unless they are designated as effective hedging instruments. Financial liabilities, which are not held for trading are classified as non-trading financial liabilities. Management determines the appropriate classification of each instrument at the time of acquisition.

A financial asset or a financial liability is recognized at cost on the trade date when the Group becomes a party to the contractual provision of the instrument. A financial asset is de-recognised when the obligation specified in the contract is discharged, cancelled or expired.

Fair values of listed instruments are based on quoted closing bid prices or using the current market rate of interest for that instrument. Fair values for unlisted instruments are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Equity investments whose fair values cannot be reliably measured are carried at cost and adjusted for any impairment.

2.3. Cash and cash equivalents

Cash on hand, demand and time deposits with banks whose original maturities do not exceed three months are classified as cash and cash equivalents in the statement of cash flows.

2.4. Inventories

Inventories are stated at the lower of weighted average cost and net realizable value.

2.5. Investments

Investments of the Group are classified as under :

Held for trading are those investments, which are acquired principally for the purpose of generating a profit from short term fluctuations in price and are subsequently measured and carried at fair value. Resultant unrealised gains and losses arising from changes in fair value are included in statement of income. This includes derivative financial instruments.

Held to maturity investments are those with fixed and determinable payments and fixed maturity, where the management has the positive intent and ability to hold them to maturity, but excludes financial assets originated by the Group. These are subsequently re-measured and carried at amortised cost using the effective yield method, less any provision for impairment. The impairment loss is recognised in statement of income.

Significant accounting policies (contd.)

Available for sale investments are those which are not classified as above, and are principally those acquired to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates or equity prices. These are subsequently measured and carried at fair value. Any resultant unrealised gains and losses arising from changes in fair value are taken to investment fair valuation reserve in equity. When the "available for sale" asset is disposed off or impaired, any prior fair value adjustments earlier reported in equity is transferred to statement of income.

2.6. Investment in associate

Associated companies are those undertakings in which the Group has a long term investment comprising of voting powers between 20% and 50%, and over which it exerts significant influence, but which it does not control. Investment in associate is accounted for using the equity method of accounting using the latest available audited financial statements.

2.7. Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses.

Property and equipment are depreciated on a straight-line basis over their estimated economic useful lives, which are as follows:

	Years
Buildings	8 – 50
Cellular and other equipment	4 – 12
Furniture	1 – 12

These assets are reviewed periodically for any impairment. If there is an indication that the carrying value of an asset is greater than its recoverable amount, the asset is written down to its recoverable amount and the resultant impairment loss is taken to statement of income.

2.8. Intangible assets

Identifiable non-monetary assets acquired in connection with the business and from which future benefits are expected to flow are treated as intangible assets. Intangible assets comprise of goodwill arising from the acquisition of the Jordanian subsidiary; telecom licence fees; key money and software rights.

Goodwill represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of subsidiaries at the date of acquisition. The amortisation period of goodwill is determined based on the best estimate of the period during which future economic benefits are expected to flow from the acquisition. For acquired network businesses whose operations are governed by fixed term licences, the amortisation period is determined primarily by reference to the unexpired licence period and the conditions for licence renewal. Telecom licence fee is amortised on a straight line basis over the life of the licence. Other intangible assets are amortised on a straight line basis over a period of five years.

If there is an indication that the carrying value of an asset is greater than its recoverable amount, the intangible asset is written down to its recoverable amount and the resultant impairment loss is taken to statement of income.

2.9. Notes payable

Notes payable are stated at amortised cost. Discount on notes payable is amortised over the period of its maturities.

2.10. Provisions

Provisions are recognized when as a result of past events it is probable that an outflow of economic resources will be required to settle a present legal or constructive obligation; and the amount can be reliably estimated.

Significant accounting policies (contd.)

2.11. Post employment benefits

The Group is liable under labour laws of the countries in which they operate to make payments under defined benefit plans to employees on completion of employment. This liability, which is unfunded, represents the amount payable to employees as a result of involuntary termination on the balance sheet date, and approximates the present value of the final obligation.

2.12. Treasury shares

Treasury shares consist of the Parent Company's own shares that have been issued; subsequently acquired by the Parent Company and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. The cost of the shares reacquired is classified under equity. When the treasury shares are sold, gains are credited to a separate account in shareholders' equity (gain on sale of treasury shares), which is not distributable. Any realized losses are charged to the same account to the extent of the credit balance on that account. Any unabsorbed losses are charged to retained earnings, then reserves. Gains realized subsequently on the sale of treasury shares are first used to offset any previously recorded losses, to reserves, to retained earnings and then to gain on sale of treasury shares account, in that order.

No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

2.13. Accounting for leases

Where the Group is the lessee

Operating leases

Leases of property and equipment under which, all the risks and benefits of ownership are effectively retained by the lessor are classified as operating lease. Payments made under operating leases are charged to statement of income on a straight line basis over the period of the lease.

Finance leases

Leases of property and equipment where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are recognised as assets in the balance sheet at the estimated present value of the related lease payments. Each lease payment is allocated between the liability and finance charge so as to produce a constant periodic rate of interest on the balance of liability outstanding.

2.14. Revenue

Airtime revenue is recognized based on actual usage. Subscription income is recognized on a time proportion basis. Other revenue primarily comprising of handset equipment and simcard starter pack sales are recognized upon delivery to customers. Interest income is recognized on a time proportion basis and dividend income is recognized when the right to receive payment is established.

2.15. Foreign currencies

The functional currency of the Parent Company is the Kuwaiti Dinar. Foreign currency transactions are recorded at rates of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currency at the balance sheet date are translated to Kuwaiti Dinars at rates of exchange prevailing on that date. Resultant gains and losses are taken to statement of income. Statement of income and cash flows of foreign entities are translated into the Parent Company's reporting currency at average exchange rates for the year and their balance sheets are translated at exchange rates ruling at the year-end. Exchange differences arising from the translation of the net investment in foreign entities and of borrowings and other currency instruments designated as hedges of such instruments, are taken to shareholders' equity. When a foreign entity is sold, any resultant exchange differences are recognised in the statement of income as part of the gain or loss on sale.

Significant accounting policies (contd.)

2.16. Contingencies

Contingent assets are not recognised as an asset till realisation becomes virtually certain.

Contingent liabilities are not recognized as a liability unless as a result of past events it is probable that an outflow of economic resources will be required to settle a present, legal or constructive obligation; and the amount can be reliably estimated.

3. Short-term deposits with banks

	2003	2002
	<u>KD'000</u>	
Term deposits maturing within three months	71,590	59,477
	<u>71,590</u>	<u>59,477</u>

The effective interest rate on short-term deposits range between 2% and 3.25% per annum.
(2002 - 1.50% and 3.38%)

4. Trade and other receivables

	2003	2002
	<u>KD'000</u>	
Subscribers	45,905	38,985
Distributors	7,015	5,132
Provision for doubtful debts	(19,238)	(13,539)
	<u>33,682</u>	<u>30,578</u>
Accrued income	451	420
Staff	719	430
Ministry of Communication	639	600
Prepayments, advances and deposits	4,585	1,788
	<u>40,076</u>	<u>33,816</u>

5. Inventories

	2003	2002
	<u>KD'000</u>	
Handsets and accessories	8,455	6,646
Provision for obsolescence	(5,302)	(4,472)
	<u>3,153</u>	<u>2,174</u>

6. Investments

	<u>2003</u>	<u>2002</u>
		KD'000
Current investments		
<i>Held for trading</i>		
Portfolio investments	20,515	11,990
Funds	<u>11,162</u>	<u>17,250</u>
	<u>31,677</u>	<u>29,240</u>
Non current investments		
<i>Available for sale</i>		
Portfolio investments	64,190	56,331
Listed equities	6,559	4,260
Funds	35,876	32,041
Unlisted equities	4,994	11,485
Impairment loss	<u>(1,762)</u>	<u>(1,907)</u>
	109,857	102,210
<i>Held to maturity</i>		
Bonds	-	1,000
	<u>109,857</u>	<u>103,210</u>

Portfolio investments comprise of investments in listed and unlisted equity securities and bonds.

Available for sale investments include unlisted securities with original cost of KD 5,427,000 (2002 – KD 4,973,000) carried at cost less impairment since it was not possible to reliably measure its fair value.

During the year the Group recognized KD 23,855,000 (2002 – KD 8,053,000) in investment fair valuation reserve as net unrealized gain arising from fair valuation of 'available for sale' investments and transferred a profit of KD 458,000 (2002 – loss of KD 84,000) from investment fair valuation reserve to statement of income arising from disposals.

An amount of KD 5,388,000 was transferred from investment fair valuation reserve to retained earnings to recognize gains on disposal made during 2001 when IAS 39 became first applicable.

7. Property and equipment

	Land	Buildings	Cellular & other equipment	Projects in progress	Total
					KD '000s
Cost					
As at 31 December 2002	-	11,934	170,699	14,846	197,479
Assets of the acquired subsidiary	510	23,683	78,885	4,128	107,206
Additions	-	2,652	19,445	43,157	65,254
Transfers and adjustments	-	(1,289)	43,911	(44,243)	(1,621)
Disposals	-	(45)	(1,741)	-	(1,786)
Foreign currency translation adjustment	(8)	(362)	(1,469)	(119)	(1,958)
As at 31 December 2003	<u>502</u>	<u>36,573</u>	<u>309,730</u>	<u>17,769</u>	<u>364,574</u>
Depreciation					
As at 31 December 2002	-	4,657	83,761	-	88,418
Accumulated depreciation on subsidiary's assets	-	5,353	24,877	-	30,230
Charge for the year	-	2,710	28,254	-	30,964
Adjustments	-	(774)	762	-	(12)
Disposals	-	(3)	(1,369)	-	(1,372)
Foreign currency translation adjustment	-	(94)	(495)	-	(589)
As at 31 December 2003	<u>-</u>	<u>11,849</u>	<u>135,790</u>	<u>-</u>	<u>147,639</u>
Net Book Value					
As at 31 December 2003	<u>502</u>	<u>24,724</u>	<u>173,940</u>	<u>17,769</u>	<u>216,935</u>
As at 31 December 2002	<u>-</u>	<u>7,277</u>	<u>86,938</u>	<u>14,846</u>	<u>109,061</u>

Depreciation has been allocated as follows :

	2003	2002
	KD'000	
Direct costs	28,098	11,418
General and administrative expenses	2,866	1,871
	<u>30,964</u>	<u>13,289</u>

During the year the Group recognized KD Nil (2002 – KD 3,640,000) in statement of income as impairment loss of cellular and other equipment and fully depreciated purchases of such items amounting to KD 1,202,000 (2002– KD 3,628,000).

Assets of the operating Jordanian subsidiary with a carrying value of equivalent KD 34,238,000 and those of the operating Bahraini subsidiary with a carrying value of equivalent KD 528,000 have been pledged against their borrowings.

Property and equipment include cellular equipment with a net book value of equivalent KD 6,492,000 acquired under finance lease with "sale and lease back" arrangement and vehicles with a net book value of equivalent KD 362,000 acquired under "finance lease" by the operating Jordanian subsidiary.

8. Intangible assets

	2003	2002
	KD'000	
Goodwill – Note 21	91,457	-
License fees	2,934	-
Key money, Software rights, license fees and other	1,422	-
	95,813	-
Less: Accumulated amortization	(8,626)	-
	87,187	-

Goodwill represents the excess of cost of acquisition over the Parent Company's interest in the fair value of the identifiable assets and liabilities of Pella Investment Company, Jordan. The telecom licence of its wholly owned subsidiary is valid up to 1 November 2009. Renewal is not automatic and must be renegotiated. The Board of Directors of the Parent Company has determined a period of fifteen years to be appropriate for amortising goodwill by reference to the unexpired licence period as well as matters factored into the valuation of the acquisition by independent experts.

9. Trade and other payables

	2003	2002
	KD'000	
Trade payables	36,404	21,902
Deferred revenue	11,841	8,007
Subscribers' deposits	5,589	3,441
Due to roaming partners	3,655	4,014
Due to Government of Jordan	8,509	-
Accrued expenses	38,513	18,805
Directors' remuneration	28	28
Kuwait Foundation for the Advancement of Sciences	1,054	765
National Labour Support Tax	2,596	2,061
Provision for income and sales taxes - Jordan	5,287	-
Dividend payable	3,605	2,813
Unrealised losses on cash flow hedges	359	-
Other payables	2,830	1,383
	120,270	63,219

10. Due to banks

	2003	2002
		KD'000
<i>Parent Company</i>		
Long term loans	88,654	-
<i>Operating Jordanian subsidiary</i>		
Long term loans	13,318	-
Notes payable	16,357	-
Finance lease obligations	5,183	-
	34,858	-
<i>Operating Bahraini subsidiary</i>		
Bank overdraft	264	-
Long term loan	489	-
Finance lease obligations	340	-
	1,093	-
	124,605	-

The Parent Company has borrowed from a Kuwaiti bank in US Dollars and the subsidiaries in US Dollars and in their respective local currencies from banks in their countries.

These dues mature as follows:

	2003	2002
		KD'000
Less than one year	28,052	-
Between one and two years	34,632	-
Between two and five years	61,678	-
Over five years	243	-
	124,605	-

The effective interest rates ranges from 4% to 9.5%.

11. Other non-current liabilities

	2003	2002
		KD'000
Post employment benefits	2,994	2,208
Unrealised losses on cash flow hedges	85	-
	3,079	2,208

12. Share capital and reserves

Share capital

The authorised, issued and fully paid up share capital as of 31 December 2003 consists of 493,298,592 shares of 100 fils each (2002 – 493,298,592 shares of 100 fils each).

Legal reserve

In 2002 the legal reserve reached 100% of share capital and as permitted by its Articles of Association, the Parent Company resolved in the General Assembly meeting held on 22 March 2003 to discontinue appropriations to legal reserve. This reserve can be utilised only for distribution of a maximum dividend of 5% in years when the retained earnings are inadequate for this purpose.

Voluntary reserve

In 2002 the voluntary reserve exceeded 50% of share capital and as permitted by its Articles of Association, the Parent Company resolved in the General Assembly meeting held on 22 March 2003 to discontinue appropriations to voluntary reserve. There is no restriction on distribution of this reserve.

Proposed dividend

The Board of Directors, subject to approval of shareholders, recommends distribution of a cash dividend of 150 fils per share (2002 - 140 fils per share) and bonus shares of 5% of the paid up capital (2002 - Nil) to the registered shareholders as of the date of the Annual General Meeting.

13. Treasury shares

	2003	2002
Number of shares	9,975,530	9,975,530
Percentage of issued shares	2.02%	2.02%
Market value (KD '000)	39,503	20,151
Cost (KD '000)	4,028	4,028

These shares were acquired based on an authorization granted to the Board of Directors by the shareholders and in accordance with Ministerial Decrees No.10 of 1987 and No. 11 of 1988. Reserves equivalent to the cost of treasury shares held are not distributable.

14. Revenue

	2003	2002
		KD'000
Airtime and subscription	243,570	121,081
Trading income	11,035	11,604
	<u>254,605</u>	<u>132,685</u>

15. National Labour Support Tax

This is the tax payable to the Kuwait's Ministry of Finance under National Labour Support Law No. 19 of 2000.

16. Income Tax

This represents estimated income tax liability in Jordan of the operating Jordanian subsidiary.

17. Earnings per share

Basic earnings per share based on weighted average number of shares outstanding during the year is as follows:

	2003	2002
		KD'000
Net profit for the year	102,212	75,042
	Shares	Shares
Number of shares issued and paid-up	493,298,592	493,298,592
Weighted average number of treasury shares	(9,975,530)	(9,975,530)
	<u>483,323,062</u>	<u>483,323,062</u>
Earnings per share	Fils	Fils
	211	155

18. Cash and cash equivalents

	2003	2002
		KD'000
Cash on hand and at banks	26,697	12,615
Short-term deposits with banks	71,590	59,477
Bank overdraft	(264)	-
	<u>98,023</u>	<u>72,092</u>

19. Staff costs

At 31 December 2003, the Group employed 2,016 employees (2002 – 1,042). Staff costs for the year amounted to KD 19,296,000 (2002 - KD 12,177,000).

20. Financial instruments, risk management and fair values

The Group's use of financial instruments expose it to a variety of financial risks such as credit risk, market risk and liquidity risk. The Group continuously reviews its risk exposures and takes measures to limit its risk exposure to acceptable levels. The significant risks that the Group is exposed to are discussed below:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. Financial assets, which potentially subject the Group to credit risk, consist principally of fixed and short notice bank deposits, bonds and receivables. The Group's fixed and short notice bank deposits are placed with high credit rating financial institutions. Credit risk with respect to receivables is limited due to dispersion across large number of customers and by using experienced collection agencies.

Market risk

Market risk comprising of price risk, interest rate risk and currency risk arises due to movements in market prices of assets, interest rates and foreign currency rates. The Group manages market risk by setting limits on exposures on investments, currency and counterparty and transacting business in Kuwaiti Dinars and other major currencies with counterparties of repute. Hedging transactions are used to manage currency risks. .

The operating Jordanian subsidiary has entered into cash flow hedges by purchasing foreign currency forward contracts of US Dollars against Jordanian Dinars. The hedged item is the notes payable denominated in US Dollars.

The total of such forward contracts amount to USD 25,265,000 (equivalent KD 7,456,000) with maturity dates ranging from 25 April 2004 to 30 June 2005

Liquidity risks

Liquidity risk is the risk that the Group may not be able to meet its funding requirements. This is managed by monitoring on a regular basis that sufficient funds are available to meet maturing obligations.

Fair value of financial instruments

At 31 December 2003, the fair values of financial instruments are not significantly different from their carrying values.

21. Acquisition of Jordanian subsidiary

On 15 January 2003, the Parent Company acquired 91.596% of the share capital of Pella Investment Company (a limited liability company registered in Jordan) for a total consideration of USD 418,900,000 (equivalent KD 125,597,000). An amount of USD 388,900,000 was paid up to 31 December 2003 and the balance is payable. The fair values of the assets and liabilities acquired (as evaluated by independent valuers), goodwill arising upon acquisition and related cash flows were as follows :

	<u>15 January 2003</u>
	<u>KD'000</u>
Assets acquired	118,702
Liabilities assumed	(79,544)
Fair value of net assets	39,158
Less: Minority interest	(3,291)
Fair value of net assets acquired	<u>35,867</u>
Less: Cost of acquisition :	
Purchase consideration	125,597
Other direct costs related to acquisition	1,626
	<u>127,223</u>
Goodwill arising upon acquisition	91,356
Add: Goodwill arising on 4.92% shares acquired earlier	101
Total Goodwill (Note 8)	<u>91,457</u>
Cash flows upon acquisition of Jordanian subsidiary	
Cash payment	116,506
Other direct costs related to acquisition	1,627
Cash and cash equivalents of Jordanian subsidiary acquired	(9,286)
	<u>108,847</u>

22. Parent Company – Financial position and results

The Parent Company's unconsolidated condensed financial position and operating results using the equity method of accounting is as follows:

	2003	2002
		KD'000
Assets		
Current assets	136,242	110,063
Non current assets	372,833	235,032
Total	<u>509,075</u>	<u>345,095</u>
Liabilities		
Current liabilities	81,146	58,926
Non current liabilities	91,638	2,003
Total	<u>172,784</u>	<u>60,929</u>
Net assets	<u>336,291</u>	<u>284,166</u>
	2003	2002
		KD'000
Operating results – Income and expenses		
Revenue	157,604	88,346
Net profit of the parent	83,917	42,148
Profit of Kuwaiti subsidiaries	-	32,894
Profit of foreign subsidiaries	18,295	-
Net profit of the Group	<u>102,212</u>	<u>75,042</u>

During the year, the activities of Kuwaiti subsidiaries were transferred to the parent.

23. Segment information

The Parent Company and its subsidiaries operate in a single business segment, telecommunications and related services. Apart from its main operations in Kuwait the Parent Company also operates through its foreign subsidiaries in Jordan and Bahrain. The commercial operations in Bahrain commenced on 28 December 2003. This forms the basis of the geographical segments.

	2003			
	Kuwait	Jordan	Bahrain	Total
				KD '000
Gross revenues	157,604	96,917	84	254,605
Segment result	<u>83,917</u>	<u>21,813</u>	<u>(3,518)</u>	<u>102,212</u>
Total assets	447,318	124,283	15,571	587,172
Total liabilities	163,448	74,333	13,100	250,881
Net assets	<u>283,870</u>	<u>49,950</u>	<u>2,471</u>	<u>336,291</u>

The functional currencies of the subsidiaries in Jordan and Bahrain are their respective national currencies. Previous year comparatives are not given since Kuwait was the only geographic segment in that year.

24. Commitments and contingencies

At the balance sheet date, the Group has the following capital commitments and contingent liabilities:

	2003	2002
		KD'000
Capital expenditure	31,214	17,959
Uncalled share capital of investee companies	8,487	4,481
Letters of credit	33	2,702
Letters of guarantee	3,573	655

The operating Jordanian subsidiary is a defendant in lawsuits and arbitration proceedings amounting to around equivalent KD 14,197,000. The management considers the possibility of any material liability arising from these lawsuits to be remote.

25. Comparative figures

Certain prior year amounts have been reclassified to confirm with current year presentation.

