



21 YEARS

04 ANNUAL REPORT



Mobile Telecommunications Company



**H.H. SHEIKH JABER AL-AHMED
AL-JABER AL SABAH**
Amir of the State of Kuwait



**H.H. SHEIKH SAAD AL-ABDULLAH
AL-JALEM AL SABAH**
Crown Prince



**H.H. SHEIKH SABAH AL-AHMED
AL-JABER AL SABAH**
Prime Minister



1983-1992

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1993-2001

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2002-2004

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1983

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1. BOARD OF DIRECTORS



MR. AHMED MOHAMMED AL-NASSAR
Chairman and Managing Director



MR. ASA'AD AHMED AL-BANWAN
Vice Chairman



SHEIKH AHMAD SALEM AL-ALI AL-SABAH
Board Member



MR. FAHED KHALED AL-ZAMAMI
Board Member



MR. ABDUL MOHSEN AL-FARIS
Board Member

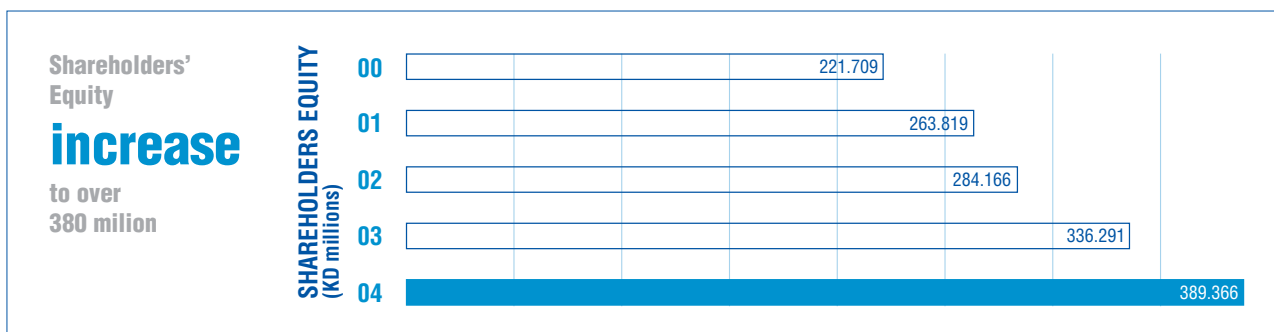
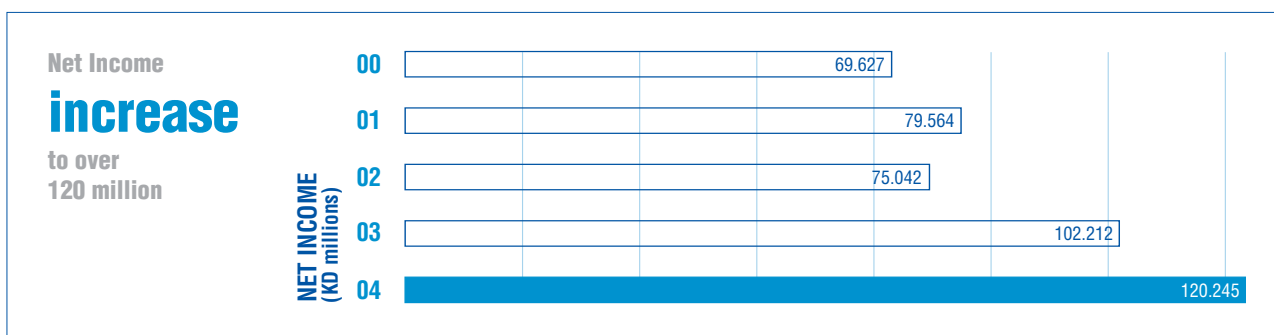
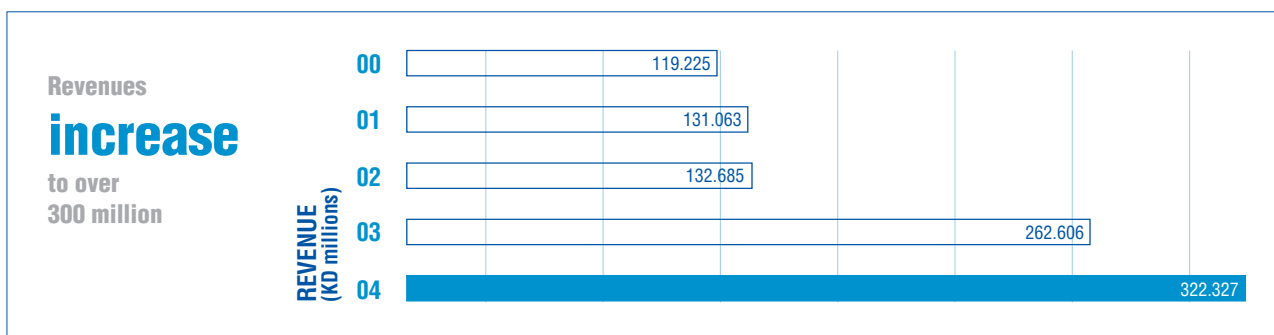
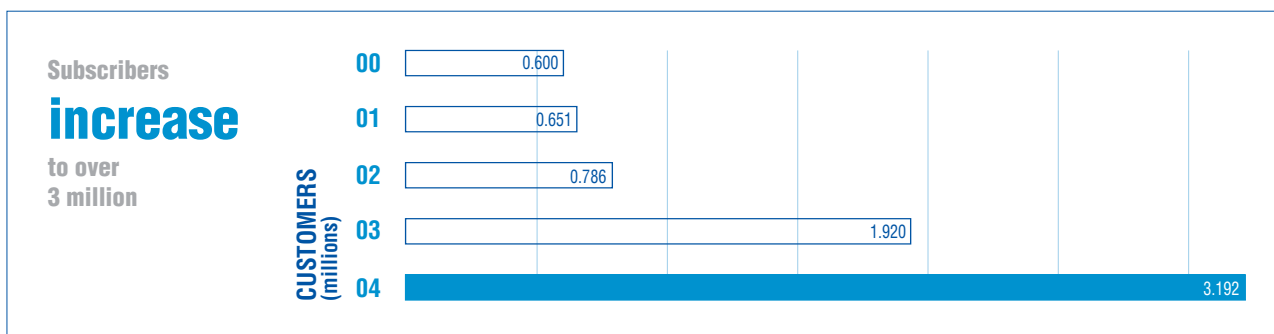


MR. MISHAL AL-HAMA'AD
Board Member



MR. JAMAL AHMED AL-KANDARY
Board Member

2. SELECTED FINANCIAL HIGHLIGHTS



The company has maintained its direct and indirect contributions in a variety of social, educational, health and charitable programs benefiting the local communities in which the company operates. We will pursue all efforts in order to preserve MTC's place in the hearts of its communities.



3. MESSAGE FROM THE CHAIRMAN

Dear Shareholders,

On behalf of the Board of Directors and the employees of MTC it is my pleasure to welcome you and invite you to review with us many of the major milestones and achievements of the company throughout the past three years mirroring the tenure of this Board.

It is with great pride that I share with you this report to Shareholders highlighting the company's activities and performance that confirm tangible success and growth. I am honored to report that in spite of an increasingly competitive environment, MTC expanded its local and regional leadership through the efforts of employees, the leadership of management, the guidance of the Board of Directors, and the confidence and commitment of shareholders.

On March 26, 2002, the current Board of Directors assumed the helm of MTC, and has carefully steered the company by applying the latest management systems and techniques to achieve success along its three major axes; of improving the customer experience, maximizing profits thereby increasing shareholder equity, and developing and retaining the most qualified human capital. Maximizing all stakeholders' returns has been the cornerstone of the company's success locally and internationally.

The customers of the five networks managed by MTC today grew 390% to reach 3.192 million on December 31, 2004. An increase of 2.541 million subscribers from 651 thousand subscribers in Kuwait only at year end 2001. During the same period, the MTC Vodafone Kuwait customer base reached 1.262 million an increase of 611 thousand or 94%. Our strategy of focusing on customer needs has been implemented with careful attention to Total Quality Management. This approach has been the driving force leading to the development of new sales and marketing strategies, the introduction of innovative services, the persistent upgrade of the networks to increase capacity and improve quality, and the focus on upgrading customer service centers. MTC entered into a network partnership agreement with Vodafone; the world's largest mobile community in September 2002. This agreement confirmed the company's commitment to continuous improvement and excellence in all areas and activities. It has established, unequivocally, that MTC will not accept second best and that the company will strive to provide customers with the latest technology and the best customer experience.

The acquisition of Fastlink in Jordan represented an important step in our commitment to expand regionally while confirming our equal focus on maximizing returns on investments. One of the key measures monitored by the Board has been the increase of Shareholders' Equity. MTC's Shareholders' Equity has reached 389 million K.D. at year end 2004 compared to 264 million K.D. on December 31, 2001 representing a 47% increase or an improvement of 125 million K.D. During the same time period, the company's earnings per share have increased from 157 Fils to 237 Fils for a 51% growth. Throughout that time, MTC's Board has been carefully managing the dividend policy thus providing shareholders with additional returns. MTC has paid 140 Fils per



3. MESSAGE FROM THE CHAIRMAN

CONTINUED

share for 2002 earnings, 150 Fils per share plus a 5% stock dividend for 2003 earnings, whereas we are proposing a dividend of 160 Fils on 2004 earnings plus a 7% stock dividend on 2004 earnings. These actions clearly confirm MTC's financial strength and performance.

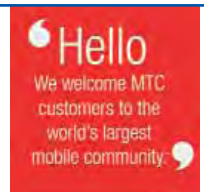
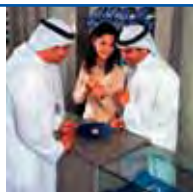
A year after the acquisition of Fastlink, and in line with MTC's vision of ultimately becoming a global player in the mobile telecommunications sector, on December 28, 2003 the company commercially launched its 3G / EDGE network; the most advanced mobile communication services, in Bahrain, making MTC Vodafone Bahrain the first nationwide 3G network. Simultaneously, during the fourth quarter of 2003, a consortium led by MTC was awarded a license to operate a network in the southern region of Iraq under the name of MTC Atheer. The company will expand during 2005 to provide service in central Iraq after meeting its license obligations and commitments in the southern region ahead of schedule.

The Board of Directors and employees of MTC are committed to pursue the challenges before them to achieve excellence in the mobile telecommunications industry, aspiring to be one of the global benchmarks by introducing world-class operations that will provide the Arab world a wider top of the line range of products and services, state of the art technology, and focused customer care. Ultimately, MTC's ambitions are to extend that philosophy beyond the borders of the region without compromising its commitment to its customers.

In line with providing best in class services to its customers, MTC has continued to implement its programs for human resources development in all its operations. In Kuwait, MTC has adopted and implemented the government's strategy of attracting, developing, and retaining local talent. MTC has maintained its leadership in this respect as it is regarded as the best Kuwaiti private sector company, having the highest ratio of local employees while taking into consideration that the company has one of the best training and development programs in Kuwait. MTC is currently exploring and studying additional measures to link employee compensation and rewards with the Company's performance to reinforce loyalty, thereby aligning individual and corporate goals; a cornerstone of the sought after corporate culture.

As a result of the implementation of MTC's expansion strategies, the company achieved a 166% increase in revenues, posting total consolidated revenues of KD 322 million for 2004 compared to KD 121 million in 2001. Net profit increased by 50% reaching KD 120 million for 2004 compared to KD 80 million in 2001. These results are a confirmation of the soundness of the company's strategies and the commitment of management and employees to MTC's sustainable growth and success. Expansion and excellence permeated the operations of the company as evidenced by the increase of customers in Kuwait where MTC ended the year with a 60% market share; an improvement of 6 points since the beginning of the year. We have an optimistic vision of a future filled with opportunity, and with the grace of Allah, see MTC on the path to mounting financial and operational performance.

MTC will retain its core goals and values while implementing its expansion. These goals are expressed when we say: "Our Customers Come First", "Total Quality of Service", and "Ensuring and Growing Shareholder Value." Through these values we strive to attain the satisfaction of all stakeholders.



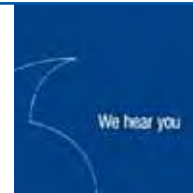
MTC takes to heart its corporate social responsibility especially given its position as one of the leading Kuwaiti private sector companies. The company has maintained direct and indirect contributions in a variety of social, educational, health, and charitable programs benefiting the local communities in which the company operates. We will pursue all efforts in order to preserve MTC's place in the hearts of its communities.

Finally, I take this opportunity on behalf of the Board of Directors, the employees of MTC, and myself, to thank our customers and our shareholders for placing trusting and supporting MTC. Their trust and support have been the major catalysts for our ability to achieve our targets and serve our cause. I pray to Allah that he protect Kuwait and its people providing them with peace and prosperity under the guidance of His Highness the Emir and His Highness the Crown Prince, wishing MTC and the new incoming Board of Directors and all the employees continued success and prosperity.



Ahmed Mohammed Al-Nasser

Chairman of the Board



4.1. FINDING OUR WAY



1983-1992

1983-1992 - Finding our way:

The establishment of Mobile Telephone Systems Company was spurred by the advances in technology coupled with the growing need for mobile telephony service and the global drive to deregulate and promote investment in this vital sector of the economy. In 1985 the name was changed to Mobile Telecommunications

Company K.S.C. (MTC). The company introduced Entalek; a mobile telephony service along with a pager service known as Marri. During that period, demand was strong with customers paying as much as KD 600 just to sign up for the services. Computers allowed the introduction of automation and MTC's managers made

every effort to introduce a completely automated system. MTC posted consistently healthy financial results during the early years, paving the road to the growth it exhibited in subsequent years.



At the time it was hard to fulfil the growing needs of the residents of Kuwait; it seemed that everyone wanted mobile telephony services as it presented both a social and functional advantage to have a mobile telephone or pager. We had to manually fill out the applications and then input the data on to the systems in the evenings"

On June 22, 1983 The Mobile Telephone Systems Company is formed with paid in capital of KD 24,999,819 to operate, maintain, and manage mobile communication systems in Kuwait.

Jun 1983

On May 28, 1985 the extraordinary general assembly of shareholders of The Mobile Telephone Systems Company agreed to change the commercial name of the company to Mobile Telecommunications Company K.S.C. This decision was ratified by decree No. 68/93 which was published in Kuwait Al-Youm.

May 1985

In 1988: MTC introduces Entalek 2 and 3 to complement its previous offer of Entalek 1. MTC offers its customers in Kuwait digital wide-area paging. MTC is negotiating with neighbouring countries offering the same technology to establish roaming agreements and allow customers access to other networks while traveling.

1988

MTC offers mobile phone rentals to those who wish to avail the service for short durations. MTC is providing mobile phone service to 19,297 subscribers on a network consisting of 35 base stations and 86 cells.

Dec 1989

Dec 1992



MTC along with the rest of Kuwait has recovered from the painful Iraqi invasion. The Company reintroduced mobile services after the liberation with GCC countries and has rebuilt its systems and network to serve 41,817 mobile customers and 78,418 paging customers.

The Liberation of the State of Kuwait came on February 26, 1991; it became MTC's mission to have telephony and pager services operational as soon as possible. The company reactivated services to the 41,817 mobile customers and 78,418 paging customers it had then in

a record time of five months, through the hard work and dedication of its management and team of engineers.

4.2. BEING THE FIRST



1993-2001 - Being the first:

The end of 1993 was the beginning of a new era when MTC committed to the implementation of a new technology GSM. MTC began work on the first phase at a cost of US\$ 31.7 million with a capacity of 50,000 subscribers expandable to 100,000 customers. MTC's

GSM service came online during the month of February 1994 ahead of schedule.

To keep pace with the growing demand of its expanding customer base, MTC created a customer care center,

where enquiries would be handled by the 108 and 107 customer service representatives. Initially customers had to wait up to a month to get new lines but management streamlined the processes and insisted on improved productivity allowing customers to get same



In order to maintain a leadership position whilst simultaneously providing the best telecommunications service in the State of Kuwait, MTC is constantly looking for many ways in which to enhance and implement both affordable and reliable services. MTC is particularly proud and honoured to have been awarded first place in the Gulf Region for employing its nationals and the company is looking forward to keeping this as a focal point for its current and future employee recruitments"

During February 1994 Kuwait witnessed the launch of GSM technology ahead of schedule at a cost of \$31.7 million with a capacity of 50,000 customers expandable to 100,000.

Feb 1994

MTC expands its branches and customer centers. The new building is now operating and the company introduces a new service 107 to complement the already existing 108 customer service number. The company signs roaming agreements with 12 countries.

1995

MTC services include WASAL and VOS. The company is the authorized distributor of Thuraya satellite communication services in Kuwait. GSM system has a capacity of 100 thousand customers and is currently serving 77 thousand.

1996

MTC network has 430 base stations and 2 new switches. MTC has roaming agreements with 69 operators in 46 countries and it has added to the services that it can offer its customers. The company introduces a new stock paging system allowing customers to keep track of the KSE share price movements.

1998

MTC earns ISO 9001 certification the first for a Kuwaiti company. MTC introduces new services including WAP, Mobidata, Mobifax, Smart Watch, MyInfo2Cell, and SMS Them. MTC launches a website to facilitate customer access.

2001



MTC employees number 331 persons and the company launched a new service 108, the number customers dial to get customer assistance.



MTC offers Telebanking and facilitates customer bill paying with the introduction of Knet payments. Vtracer service is offered to allow the location of automobiles.



The company has decided to contribute to the Kuwait society by donating a new Ear Nose and Throat Hospital



day activation. In 1996, MTC donated a new Ear, Nose and Throat Hospital confirming its social responsibility to the residents of Kuwait. The sale of half of the government stake in 2001 coupled with the earlier introduction of competition brought about more

change for the company. MTC started to lay the foundation that would ensure the company's continued success in the future.



2002-2004

2002-2004 - Giving it all:

In 2002, MTC's Board of Directors appointed Dr. Saad Hamad Al-Barrak as Director General of MTC. Dr. Saad Al-Barrak possesses extensive qualifications and experience, which he had employed in improving the MTC customer experience, in addition to entering into

a cooperation agreement with Vodafone, thus forming the basis for the company's growth plans.

This was followed by the purchase of Fastlink in Jordan in 2003.

Dr. Saad Al-Barrak formulated the 3x3x3 strategy for MTC Group; a vision which aims to transform MTC to a global mobile telecommunications company.



The Company has been able to achieve regional and international success, while seeking to provide its customers high value for money via technically advanced networks. By fulfilling the customers' needs, the Company has been able to outperform expectations in 2004. I expect 2005 to be a turning point in MTC's history during which the company will transform itself from a regional to an international mobile telecommunications company and to reinforce our vision of being more than just a telephone company."

MTC signed a ground-breaking cooperation agreement with Vodafone. This agreement has created an important foundation on which MTC can accomplish such objectives as presenting extra services and developing advanced marketing methods.

Sept 2002

An acquisition of 96.6% share equity in Fastlink, a Mobile service company in the Hashemite Kingdom of Jordan, one of the most promising markets in the field of telecommunications.

Sept 2002

Throughout the years, the company contributed to many varied fields , such as charity, culture, science and health.

Dec 2002

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.

Apr 2003

Dec 2003



Among the charity projects, the company supported elderly people by providing four mini-buses specially equipped with oxygen, devices, coolers, medical equipment and medicines.

MTC-vodafone Bahrain came as an extension of MTC's Partner Network Agreement with Vodafone and include a high level (40%) of investment by local Bahraini investors.

MTC celebrates its 20th birthday! The company holds its 20th anniversary at the Chamber of Commerce in Kuwait.

Through advanced human resources management techniques, MTC aims to implement its strategies by providing employees with the "Five F's": Future, Freedom, Fitness, Fortune, and Fun.



MTC seeks to attract qualified human capital by applying its human resources policies of development and growth. It is management’s belief that human capital is crucial to ensure MTC’s sustainable growth and success. MTC offers its employees extensive training in addition to implementing the “Culture Program” which aims to align personal and corporate goals. MTC also seeks to strengthen its ties with the communities in which it operates by hiring the most qualified local talent.

Dr. Saad Al-Barrak was awarded winner of the Arabian Business eBusiness of the Year. The Crown Prince of Dubai and UAE’s minister of Defence, His Highness Sheikh Mohammed Bin Rashid Al-Maktoum handed over the award recognising Dr. Saads’ outstanding achievement in harnessing technology for the benefit of the general public.

Dec 2003

2003

MTC celebrates its “One Millionth Customer” milestone, by inviting all its employees, their families and the Company’s commercial partners to a full day of fun and entertainment at Shaab Park. It was a day filled with fun and entertainment for the more than 4000 people who attended.

May 2004

MTC-Vodafone (Kuwait) celebrated Eid El Fitr by getting closer to the community, specifically with special needs children within the country.

Aug 2004

MTC-Vodafone (Kuwait’s) branches in Shuwaikh, Hawally, Salmiya and Jahra acquired a new look for the start of a new season. The look and feel of the branches were altered to cater for all MTC-Vodafone (Kuwait’s) customers.

2004



Fastlink’s fully sponsored basketball team outshone their competitors locally and regionally in 2003. They won the Jordan’s cup and returned from abroad with the Sharja Championship Cup for basketball.



MTC-Vodafone visited children with special needs at the Khalifa Private School and Al Amri Hospital’s Children’s Ward where many educational gifts and presents were distributed amongst the children.



4. OPERATIONAL HIGHLIGHTS

The products and services that MTC offers have become an integral part of life and the company has maintained its commitment to provide the highest quality of service, the best technology, and the most attractive financial proposition to all our stakeholders. In an era of increasing competition, the company has simultaneously expanded its operations and improved its bottom line performance. MTC has posted earnings of 237 Fils per share for the year 2004 an increase of 18% compared to last year and that represents an increase in Shareholders' equity from KD 336 million to KD 389 million or a 16% increase this year.

As of December 31st, 2004 MTC is serving a growing customer base of over 3.192 million active customers in Kuwait, Jordan, Bahrain, Iraq, and Lebanon reflecting an increase of 66% when compared to December 31st, 2003. MTC's Board of Directors and management are confident that the group will achieve its very ambitious target of serving 5 million customers by year end 2005. This target is one of the measures that quantifies phase one of the 3x3x3 strategy put in place by Dr. Saad Al-Barrak when he took the helm of the company and began its transformation to a leading regional wireless service provider in early 2003.

MTC has recorded full year 2004 consolidated revenues of KD 322.33 million (USD 1.1 billion) an increase of 23% over the same period of 2003. The consolidated EBITDA for 2004 improved by 15% to reach KD 175.27 million (USD 598 million) representing an EBITDA margin of 54.4%. MTC has announced consolidated net income of KD 120.24 million (USD 410 million) an increase of 18% over the 2003 figure of KD 102.21 million. This figure represents earnings per share of 237 Fils (81 cents) for 2004, an increase of 36 Fils compared to the results for 2003 of 201 Fils (68 cents) per share.

CUSTOMER	December 31st, 2004	December 31st, 2003	Increase
MTC Vodafone - Kuwait	1,262,417	975,414	29%
PELLA ; Fastlink - Jordan	1,139,191	939,830	21%
MTC Vodafone - Bahrain	105,068	4,738	2118%
MTC Atheer - Iraq	244,338	n/a	n/a
MTC Touch - Lebanon	441,211	n/a	n/a
TOTAL Active Customers	3,192,225	1,919,982	66%

FINANCIAL HIGHLIGHTS	Year ended December 31st, 2004		Year ended December 31st, 2003	
	KD	USD	KD	USD
Revenue	322.327	1,099	262.606	891
EBITDA	175.269	598	153.000	519
EBITDA margin	54.4%	--	58.3%	--
Net Income	120.241	410	102.212	347
Earnings per Share	Fils 237	81 cents	Fils 201	68 cents

(Consolidated KD and USD figures in millions)

4.4. OPERATIONAL HIGHLIGHTS

CONTINUED

KUWAIT

The total number of customers for MTC Vodafone reached 1.262 million at December 31, 2004. This is an increase of 29.42% during the year. MTC Vodafone has an estimated 60% market share while the penetration rate of mobile customers in Kuwait is approaching 85% of the total population. Postpaid customers account for 26.4% of our total customers. Blended ARPU for 2004 was USD 48.

MTC Vodafone Kuwait is reinforcing its leadership position in Kuwait by adopting customer driven marketing strategies. The successful roll out of Data, MMS, GPRS and EDGE services has allowed MTC Vodafone Kuwait customers to enjoy and benefit from the most technically advanced and commercially attractive offers in the region. The company is enhancing the customer experience through the application of world class solutions.

JORDAN

In Jordan, MTC's operating subsidiary PELLA (Fastlink) maintained its market leadership position by all financial and operating measures. Fastlink maintained an estimated 71% market share with 1.14 million customers posting an increase of 22.6% over last year. Total revenues increased by 17% when compared to 2003. Net profit improved during 2004 by 34% over last year reflecting the implementation of better management systems and efficiencies. Fastlink is facing increased competition in one of the most liberalized markets in the Middle East. Jordan currently has 3 wireless service providers with a new company expected to launch its services in June 2005.

BAHRAIN

During 2004, MTC Vodafone Bahrain has increased its active customer base by over 100,000 new customers. MTC Vodafone Bahrain had a 16% market share at the end of 2004. The company has deployed the latest 3G technology. Bahrain is the first country in the world to have national 3G coverage as a result of MTC Vodafone Bahrain's network. The company has established itself as an integral part of the Bahrain society. The company's proactive posture with the local community such as participation in the drive to provide University of Bahrain students access to laptop computers with wireless 3G access, is one of the main drivers in reaching the milestone of 100,000 active customers well ahead of budget and target.

IRAQ

MTC Atheer has been in operation for 10 months. As of December 31st, 2004 Atheer's total active customers reached 244,338 an increase of 71% over September 30, 2004. Prepaid customers account for 99% of the customer base. Atheer's management and employees are challenged to meet the demand for service and they will be well positioned to take advantage of the opportunity to expand beyond the

Southern region of Iraq. The company plans to expand the area it serves by providing service to the Central region of Iraq. This will force the company to accelerate network rollout increasing both capacity and coverage in order to accommodate more customers. Atheer's management and shareholders have adopted a policy of employing 100% Iraqi nationals in Iraq to strengthen the bonds between the company and the community it serves. The company is also committed to a very ambitious capital expenditure plan during 2005 in order to meet its goal of 1 million customers.

LEBANON

The most recent addition to the MTC Group is MTC Touch. The company has been in operation for 7 months. As of December 31st, 2004 the total number of customers served by the network has reached 441,211 representing a 4% increase over September 30th, 2004. The 48 month management contract awarded to MTC by the Lebanese government has allowed the MTC Group to expand its regional presence while enhancing and maximizing all stakeholders' interests and returns. MTC has introduced a new brand for the Lebanese network it operates. MTC Touch is the newest addition to the portfolio of Brands under the MTC umbrella.



5. CONSOLIDATED ANNUAL FINANCIAL STATEMENTS AND AUDITORS' REPORT

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5.1. AUDITORS REPORT

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Mobile Telecommunications Company KSC

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

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 2004, 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.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2004, and the consolidated results of its operations 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 2004 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
February 13, 2005



Awdah Jaber Al-Ali Al-Sabah
Licence No. 85 A
Kuwait Global Group
Moores Rowland International

5.2. CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2004

(Expressed in '000 Kuwaiti Dinars)

	Note	2004	2003
ASSETS			
Current assets			
Cash on hand and at banks		43,018	26,697
Short-term deposits with banks	3	108,454	71,590
Trade and other receivables	4	48,855	40,076
Inventories	5	1,568	3,153
Investments	6	11,818	31,677
Total current assets		213,713	173,193
Non-current assets			
Investments	6	130,292	109,857
Investment in associate	7	5,362	-
Property and equipment	8	219,580	216,935
Intangible assets	9	80,734	87,187
		435,968	413,979
Total assets		649,681	587,172
LIABILITIES, SHAREHOLDERS' EQUITY AND MINORITY INTEREST			
Current liabilities			
Trade and other payables	10	132,028	114,681
Due to banks	11	26,525	28,052
		158,553	142,733
Non-current liabilities			
Due to banks	11	85,804	96,553
Other non-current liabilities	12	13,952	8,668
		99,756	105,221
Minority interest		2,006	2,927
Shareholders' equity:			
Share capital	13	51,796	49,330
Treasury shares	14	(4,028)	(4,028)
Legal reserve	13	49,330	49,330
Voluntary reserve	13	44,733	44,733
Foreign currency translation reserve		(702)	(1,019)
Investment fair valuation reserve		30,080	24,108
Retained earnings		218,157	173,837
Total shareholders' equity		389,366	336,291
Total liabilities and shareholders' equity		649,681	587,172

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

These consolidated financial statements have been approved for issue by the Board of Directors on 13 February 2005 and signed on their behalf by:



Dr. Saad Hamad Al-Barrak
Director General



Ahmed Mohammed Al-Nassar
Chairman and Managing Director

5.3. CONSOLIDATED INCOME STATEMENT - YEAR ENDED 31 DECEMBER 2004

(Expressed in '000 Kuwaiti Dinars)

	Note	2004	2003
Revenues	15	322,327	262,606
Cost of sales		(47,521)	(42,561)
Gross profit		274,806	220,045
Distribution, marketing & operating expenses		(84,379)	(59,511)
General and administrative expenses		(23,777)	(16,538)
Depreciation and amortisation		(41,251)	(37,237)
Provision for impairment - trade and other receivables		(2,392)	(4,458)
Operating profit		123,007	102,301
Interest income		2,519	1,614
Investment income	16	9,682	12,288
Share of profit of an associate		277	-
Other income		2,484	162
Finance cost		(5,309)	(5,642)
Foreign currency revaluation (loss)/gain		(1,432)	1,012
Board of Directors' remuneration		(28)	(28)
Contribution to Kuwait Foundation for Advancement of Sciences		(1,236)	(1,054)
National Labour Support Tax	17	(2,403)	(2,109)
Profit for the year before income tax		127,561	108,544
Income tax expenses of subsidiaries	18	(10,297)	(7,890)
Profit for the year before minority interest		117,264	100,654
Minority interest		2,977	1,558
Net profit for the year		120,241	102,212
		Fils	Fils
Earnings per share	19	237	201

5.4. CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY - 31 DECEMBER 2004

(Expressed in '000 Kuwaiti Dinars)

	Share capital	Treasury shares	Legal reserve	Voluntary reserve	Foreign currency translation reserve	Investment fair valuation reserve	Retained Earnings	Total shareholders' equity
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 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	336,291
Cash dividends (2003 - 150%)	-	-	-	-	-	-	(72,498)	(72,498)
Issue of bonus shares (2003 - 5%)	2,466	-	-	-	-	-	(2,466)	-
Net profit for the year - 2004	-	-	-	-	-	-	120,241	120,241
Foreign currency translation differences	-	-	-	-	317	-	-	317
Realised gains on available-for-sale investments	-	-	-	-	-	(1,249)	(957)	(2,206)
Changes in fair value of available-for-sale investments	-	-	-	-	-	7,221	-	7,221
At 31 December 2004	51,796	(4,028)	49,330	44,733	(702)	30,080	218,157	389,366

5. CONSOLIDATED CASH FLOW STATEMENT - YEAR ENDED 31 DECEMBER 2004

(Expressed in '000 Kuwaiti Dinars)

	Note	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year before income tax		127,561	108,544
Adjustments for:			
Depreciation and amortization		41,251	37,237
Property and equipment (disposed)/written off		(301)	1,605
Interest income		(2,519)	(1,614)
Investment income		(9,682)	(12,288)
Share of profit of an associate		(277)	-
Finance cost		5,309	5,642
Operating profit before working capital changes		161,342	139,126
(Increase)/decrease in trade and other receivables		(6,264)	3,993
Decrease in inventories		1,586	322
Increase in trade and other payables		9,790	35,223
Increase in other non-current liabilities		5,284	2,933
Cash generated from operations		171,738	181,597
Payments:			
Income tax		(2,656)	(7,030)
Board of directors' remuneration		(28)	(28)
Kuwait Foundation for Advancement of Sciences		(1,054)	(765)
National labour support tax		(2,109)	(1,574)
Net cash from operating activities		165,891	172,200
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of investment		(42,947)	(12,484)
Acquisition of investment in associate		(5,312)	-
Proceeds from sale of investments		57,231	39,741
Acquisition of subsidiary		-	(108,847)
Acquisition of property and equipment		(38,269)	(65,254)
Proceeds from disposal of property and equipment		1,587	418
Acquisition of intangible assets		(57)	(195)
Interest received		2,519	1,614
Net cash used in investing activities		(25,248)	145,007
CASH FLOWS FROM FINANCING ACTIVITIES			
Due to banks		(12,701)	68,724
Minority interest		-	(4)
Dividends paid		(72,423)	(67,183)
Minority shareholder's capital contribution - Bahraini subsidiary		3,131	3,156
Finance cost		(5,345)	(5,642)
<i>Net cash used in financing activities</i>		(87,338)	(949)
Net increase in cash and cash equivalents		53,305	26,244
Effects of exchange rate changes on cash and cash equivalents		14	(313)
Cash and cash equivalents at beginning of year		98,023	72,092
Cash and cash equivalents at end of year	20	151,342	98,023

5.6. NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2004

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.

Subsidiaries

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 - Communications Company W.L.L.	100%
Foreign	
Pella Investment Company LLC, Jordan	96.516%
MTC Vodafone Bahrain B.S.C. (Closed), Bahrain	60%
Mobile Telecommunication Company Lebanon (MTC) S.A.R.L., Lebanon	100%

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

The Lebanese subsidiary was incorporated on May 11 2004 as a limited liability company to manage, operate and maintain mobile telecommunication systems and networks of Mobile Interim Company 2 SAL (a Company wholly owned by the Republic of Lebanon), from 1 June 2004 for a four year period under a management contract with the Ministry of Communication, Republic of Lebanon.

Associate

The Parent Company holds 30% of the share capital of Atheer Telecom Iraq Limited (Atheer), a Cayman Islands company incorporated with a capital of US\$ 60 million. Atheer holds the licence to operate a mobile telecommunications network in Southern Iraq for a period of two years from 22 December 2003. The network became operational on 1 March 2004.

2. Basis of preparation and significant accounting policies

2.1. Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention, as modified for the revaluation of financial assets held for trading and available for sale.

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.

As at 31 December 2004, the Bahraini subsidiary has a deficiency of equivalent KD 244,000 and its current liabilities exceeded its current assets by equivalent KD 10,816,000 (2003 - KD 11,870,000). The Bahraini subsidiary's accumulated losses as of 31 December 2004 have exceeded 75% of its share capital. In accordance with the Bahrain Commercial Companies Law, the Board of Directors have to convene an Extraordinary General Meeting of the shareholders if accumulated losses of the Company exceeds three-quarters of its share capital to decide if they wish to continue with the operations of the Company. The Board of Directors has resolved to convene this Extraordinary General Meeting to propose continuing the operations of the Company and to raise equivalent KD 7,827,000 each from additional capital call and long term financing from banks.

2.1. Basis of preparation (Contd.)

The Board of Directors of the Bahraini subsidiary is confident that the Company will be able to raise additional capital and loans to meet its liabilities as and when they fall due and will continue as a going concern in the foreseeable future. Consequently, the Bahraini subsidiary's financial statements have been prepared on a going concern basis.

2.2. Consolidation

Subsidiaries are those enterprises controlled by the group. Control exist when the group 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 on which control is transferred to the Group until the date that control 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.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses resulting from inter-company transactions are also eliminated unless cost cannot be recovered. 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.

2.3. Financial instruments

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

Financial instruments are classified as "held for trading", "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 provisions of the instrument. A financial asset is de-recognised when the obligation specified in the contract is discharged, is cancelled or expires.

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

2.4. 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 cash flow statement.

2.5 Inventories

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

2.6. Investments

Investments 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 the income statement.

5.6. NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2004

2.6. Investments (Contd.)

Available for sale investments 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 the income statement.

2.7. Investment in associate

Associated companies are those entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting.

2.8. Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated 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 the income statement.

2.9. 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 acquisition of subsidiaries; telecom licence fees; key money and software rights.

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets and liabilities of the acquiree at the date of the 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 fees are 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 intangible 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 the income statement.

2.10. Notes payable

Notes payable are stated at amortised cost. Discounts on notes payable are amortised over the period of their maturities.

2.11. Provisions for liabilities

Provisions for liabilities 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.

2.12. Post employment benefits

The Group is liable to make defined contributions to State Plans and lump sum payments under defined benefit plans, to employees at cessation of employment, in accordance with the laws of the place where they are deemed to be employed. The defined benefit plan is unfunded and is computed as the amount payable to employees as a result of involuntary termination on the balance sheet date. This basis is considered to be an approximation of the present value of the final obligation.

2.12. Post employment benefits (Contd.)

2.13. Treasury shares

The cost of the Parent Company's own shares purchased, including directly attributable costs, is classified under equity. Gains or losses arising on sale are separately disclosed under shareholders' equity and these amounts are not available for distribution. These shares are not entitled to cash dividends. 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.

2.14. 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 leases. Payments made under operating leases are charged to the income statement 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.

2.15. Revenue

Airtime revenue is recognized based on actual usage. Subscription income is recognized on a time proportion basis. Other revenues 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.

2.16. Foreign currencies

The functional currency of the Parent Company is the Kuwaiti Dinar. Foreign currency transactions are recorded at the rates of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Kuwaiti Dinars at the rates of exchange prevailing on that date. Resultant gains and losses are taken to the income statement.

Translation differences on non-monetary items, such as equities classified as available for sale financial assets are included in the investment fair valuation reserve in equity.

The income and cash flow statements 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 operation is sold, any resultant exchange differences are recognised in the income statement as part of the gain or loss on sale.

2.17. 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.

5.6. NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2004

(Expressed in '000 Kuwaiti Dinars)

3. Short-term deposits with banks

	2004	2003
Term deposits with original maturities of less than three months	108,454	71,590
	108,454	71,590

The effective interest rate on short-term deposits as of 31 December 2004 range between 1.85% and 5.13% per annum. (2003 - 2% and 3.25%).

4. Trade and other receivables

	2004	2003
Subscribers	42,751	45,905
Distributors	13,673	7,015
Provision for impairment	(21,039)	(19,238)
	35,385	33,682
Accrued income	3,847	451
Staff	947	719
Ministry of Communication	639	639
Due from associate	790	-
Prepayments, advances and deposits	7,247	4,585
	48,855	40,076

5. Inventories

	2004	2003
Handsets and accessories	3,322	8,455
Provision for obsolescence	(1,754)	(5,302)
	1,568	3,153

6. Investments

	2004	2003
Current investments		
<i>Held for trading</i>		
Quoted equities	8,751	20,515
Funds	3,067	11,162
	11,818	31,677
Non current investments		
<i>Available for sale</i>		
Quoted equities	80,795	70,749
Funds	42,695	35,876
Unquoted equities	8,566	4,994
Impairment loss	(1,764)	(1,762)
	130,292	109,857

Portfolio investments comprise of investments in quoted and unquoted equity securities and bonds.

(Expressed in '000 Kuwaiti Dinars)

6. Investments (Contd.)

Available for sale investments include unlisted securities with original cost of KD 7,503,000 (2003 – KD 5,427,000) carried at cost less impairment since it is not possible to reliably measure its fair value. During the year the Group recognized KD 7,221,000 (2003 – KD 23,855,000) in investment fair valuation reserve as net unrealized gain arising from fair valuation of 'available for sale' investments and transferred a profit of KD 1,249,000 (2003 – KD 199,000) from investment fair valuation reserve to the income statement arising from disposals.

7. Investment in associate

This represents the Parent Company's share of the investment in Atheer accounted for using the equity method.

	2004	2003
Capital contribution during the year	5,312	-
Share of profit for the year	277	-
Inter-company gains eliminated	(227)	-
	5,362	-

8. Property and equipment

	Land	Buildings	Cellular & other equipment	Projects in progress	Total
COST					
As at 31 December 2003	502	36,573	309,730	17,769	364,574
Additions	-	777	8,935	29,117	38,829
Transfers and adjustments	-	1,512	27,727	(29,239)	-
Disposals	-	(65)	(2,753)	(169)	(2,987)
As at 31 December 2004	502	38,797	343,639	17,478	400,416
DEPRECIATION					
As at 31 December 2003	-	11,849	135,790	-	147,639
Charge for the year	-	2,552	32,189	-	34,741
Disposals	-	(3)	(1,541)	-	(1,544)
As at 31 December 2004	-	14,398	166,438	-	180,836
NET BOOK VALUE					
As at 31 December 2004	502	24,399	177,201	17,478	219,580
As at 31 December 2003	502	24,724	173,940	17,769	216,935

During the year the Group fully depreciated purchases of cellular and other equipment amounting to KD Nil (2003 – KD 1,202,000).

Assets of the operating Jordanian subsidiary with a carrying value equivalent to KD 12,486,000 (2003 – KD 34,238,000) and those of the Bahraini subsidiary with a carrying value equivalent to KD 492,000 (2003 – KD 528,000) have been pledged against their borrowings.

Property and equipment include cellular equipment with a net book value equivalent to KD 4,535,000 (2003 – KD 6,492,000) held under a finance lease sale and lease back arrangement and vehicles with a net book value equivalent to KD 280,000 (2003 – KD 362,000) acquired under finance lease by the operating Jordanian subsidiary. It also includes buildings with a net book value equivalent to KD 872,000 (2003 – KD 349,000) acquired under finance lease by the Bahraini subsidiary.

5.6. NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2004

(Expressed in '000 Kuwaiti Dinars)

8. Property and equipment (Contd.)

Projects in progress comprise of:

	2004	2003
Buildings	108	249
Cellular & other equipment	17,370	17,520
	17,478	17,769

9. Intangible assets

	Goodwill	Licence fees	Others	Total
COST				
As at 31 December 2003	91,457	2,934	1,422	95,813
Additions	-	-	57	57
As at 31 December 2004	91,457	2,934	1,479	95,870
ACCUMULATED AMORTIZATION				
As at 31 December 2003	5,843	1,826	957	8,626
Charge for the year	6,097	196	217	6,510
As at 31 December 2004	11,940	2,022	1,174	15,136
NET BOOK VALUE				
As at 31 December 2004	79,517	912	305	80,734
As at 31 December 2003	85,614	1,108	465	87,187

Goodwill represents the excess of the cost of acquisition over the Parent Company's interest in the net 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.

10. Trade and other payables

	2004	2003
Trade payables	32,838	36,404
Deferred revenue	12,245	11,841
Due to roaming partners	1,999	3,655
Due to Government of Jordan	13,677	8,509
Provision for income taxes - foreign subsidiaries	10,822	3,181
Kuwait Foundation for the Advancement of Sciences	1,236	1,054
National Labour Support Tax	2,725	2,596
Dividend payable	4,829	3,605
Accrued expenses	42,689	38,513
Directors' remuneration	28	28
Unrealised losses on cash flow hedges	68	359
Other payables	8,872	4,936
	132,028	114,681

(Expressed in '000 Kuwaiti Dinars)

11. Due to banks

	2004	2003
<i>Parent Company</i>		
Long term loans	88,654	88,654
<i>Operating Jordanian subsidiary</i>		
Long term loans	3,829	13,318
Notes payable	5,030	16,357
Finance lease obligations	3,469	5,183
	12,328	34,858
<i>Operating Bahraini subsidiary</i>		
Bank overdraft	130	264
Long term loan	10,376	489
Finance lease obligations	841	340
	11,347	1,093
	112,329	124,605

The Parent Company's borrowings are in US Dollars from a Kuwaiti bank and that of subsidiaries in US Dollars and in their respective local currencies from banks in their countries.

These dues mature as follows:

	2004	2003
Less than one year	26,525	28,052
Between one and two years	18,327	34,632
Between two and five years	61,549	61,678
Over five years	5,928	243
	112,329	124,605

The effective interest rates as at 31 December 2004 range from 3.75% to 9.25% (2003 - 4% to 9.5%) per annum.

12. Other non-current liabilities

	2004	2003
Subscribers' deposits	5,703	5,589
Post employment benefits	3,671	2,994
Provisions from claims against the Jordanian subsidiary	4,578	-
Unrealised losses on cash flow hedges	-	85
	13,952	8,668

13. Share capital and reserves**Share capital**

The authorized, issued and fully paid up share capital as of 31 December 2004 consists of 517,963,522 shares of 100 fils each (2003 - 493,298,592 shares of 100 fils each).

Legal reserve

The legal reserve exceeds 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 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.

5.6. NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2004

(Expressed in '000 Kuwaiti Dinars)

Voluntary reserve

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 160 fils per share (2003 - 150 fils per share) and bonus share of 7% of the paid up capital (2003 - 5%) to the registered shareholders as of the date of the Annual General Meeting.

14. Treasury shares

	2004	2003
Number of shares	10,474,306	9,975,530
Percentage of issued shares	2.02%	2.02%
Market value (KD '000)	35,613	39,503
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.

15. Revenue

	2004	2003
Airtime and subscription	316,177	253,282
Trading income	6,150	9,324
	322,327	262,606

16. Investment income

	2004	2003
Gain from held for trading investments	2,993	7,855
Realised gains from available for sale investments	2,744	1,083
Dividend income	3,945	3,283
Income from held to maturity investment	-	67
	9,682	12,288

17. National Labour Support Tax

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

18. Income tax expense of subsidiaries

This represents estimated income tax liability of the operating Jordanian and Lebanese subsidiaries.

(Expressed in '000 Kuwaiti Dinars)

19. Earnings per share

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

	2004	2003
Net profit for the year	120,241	102,212
	Shares	Shares
Number of shares issued and paid-up	517,963,522	517,963,522
Weighted average number of treasury shares	(10,474,306)	(10,474,306)
	507,489,216	507,489,216
	Fils	Fils
Earnings per share	237	201

Earnings per share reported for the year ended 31 December 2003 was 211 Fils, before retroactive adjustment relating to the issue of bonus shares at 5% of the paid up capital approved by the General Assembly meeting dated 29 March 2004.

20. Cash and cash equivalent

	2004	2003
Cash on hand and at banks	43,018	26,697
Short-term deposits with banks	108,454	71,590
Bank overdraft	(130)	(264)
	151,342	98,023

21. Staff costs

At 31 December 2004, the Group employed 2,659 employees (2003 – 2,016). Staff costs for the year amounted to KD 25,187,000 (2003 - KD 19,296,000).

22. Financial instruments, risk management and fair values

The Group's use of financial instruments exposes 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 it 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 manages this risk by placing fixed and short term bank deposits 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 this 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.

5.6. NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2004

(Expressed in '000 Kuwaiti Dinars)

22. Financial instruments, risk management and fair valuesMarket (Contd.)

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 value of such forward contracts amount to USD 4,250,000, equivalent KD 1,254,000 (2003 - USD 25,265,000, equivalent KD 7,456,000) maturing on 30 June 2005. (2003 - 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. The Group managed this risk by monitoring on a regular basis that sufficient funds are available to meet maturing obligations.

Fair value of financial instruments

The fair values of financial instruments carried at amortised cost are not significantly different from their carrying values.

23. 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:

	2004	2003
ASSETS		
Current assets	173,367	140,484
Non current assets	406,027	376,946
Total	579,394	517,430
LIABILITIES		
Current liabilities	105,460	84,800
Non current liabilities	84,568	96,339
Total	190,028	181,139
Net assets	389,366	336,291
OPERATING RESULTS – INCOME AND EXPENSES		
Revenue	180,207	157,327
Net profit of the parent	91,172	77,528
Profit of Kuwaiti subsidiaries	437	6,389
Profit of foreign subsidiaries	28,632	18,295
Net profit of the Group	120,241	102,212

24. 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, Bahrain and Lebanon. This forms the basis of the geographical segments.

(Expressed in '000 Kuwaiti Dinars)

24. Segment information (Contd.)

	Kuwait	Jordan	2004 Bahrain	Lebanon	Total
Revenue	180,207	123,129	10,243	8,748	322,327
Segment result	91,609	33,546	(5,742)	828	120,241
Total assets	490,884	126,615	26,966	5,216	649,681
Total liabilities	166,032	65,346	25,408	3,529	260,315
Net assets	324,852	61,269	1,558	1,687	389,366
			2003 Bahrain	Lebanon	Total
Revenue	157,327	105,195	84	-	262,606
Segment result	83,917	21,813	(3,518)	-	102,212
Total assets	447,318	124,283	15,571	-	587,172
Total liabilities	163,448	74,333	13,100	-	250,881
Net assets	283,870	49,950	2,471	-	336,291

The functional currencies of the subsidiaries in Jordan, Bahrain and Lebanon are their respective national currencies.

25. Related party transactions

The Group has entered into transactions with related parties on terms approved by management. Transactions and balances with related parties (in addition to those disclosed in other notes) are as follows:

	2004	2003
Sale of equipment	1,801	-
Management fees (included in other income)	460	-

26. Commitments and contingencies

	2004	2003
Capital expenditure	22,444	31,214
Uncalled share capital of investee companies	2,606	8,487
Letters of credit	5,955	33
Letters of guarantee	5,936	3,573

The operating Jordanian subsidiary is a defendant in lawsuits and arbitration proceedings equivalent to approximately KD 14,567,000 (2003 - KD 14,197,000). Management considers the possibility of any material liability arising from these lawsuits to be remote.

27. Comparative figures

Certain prior year amounts have been reclassified to conform with current year presentation but with no effect on net profit or shareholders' equity.