



A new era
A new beginning

10 ANNUAL
REPORT



A still from Unity and Solidarity, one of a series of TV commercials produced to mark 50 years of Kuwaiti Independence on February 25. The flowers represent the children of Kuwait who are the future of national growth.



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



H.H. Sheikh Nawwaf Al-Ahmed Al Sabah
Crown Prince



H.H. Sheikh Nasser Al-Mohamed Al Sabah
Prime Minister



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Mr. Asaad Ahmed Al Banwan
Chairman



Mr. Abdulaziz Yaqoub Al Nafisi
Deputy Chairman



Mr. Saleh Yousef Al Saqoubi
Board Member



Mr. AbdulMohsen Ibrahim Al Fares
Board Member



Sheikha Aida Salem Al-Ali Al Sabah
Board Member



Sheikh Khalifa Ali Al-Khalifa Al Sabah
Board Member



Jamal Shaker Al Kazemi
Board Member



Mr. Jamal Ahmed Al Kandary
Board Member

Dear Shareholders,

On behalf of my fellow members of the Board of Directors, it gives me great pleasure to welcome shareholders to the Annual General Assembly, in which we review the most important activities and achievements of the Zain Group during what was an exceptional year in terms of performance and new strategic initiatives.

Despite the global financial crisis and its repercussions on the region's markets, the telecommunications sector has presented itself as a major force in the global economic recovery process, and IT industry has gained considerable interest in this context. Zain was among the first companies that rushed to embrace modern technologies and managed to strengthen its capacities and competitive edge in the Middle East markets in which it operates.

This period witnessed the renewal of Zain's pledge to provide the latest and most advanced innovative services and to become the choice among telecommunication service providers. This has strengthened the Group's determination to continue its journey of excellence and distinction, which has shown a level of performance that is consistent with the level of growth and excellent financial results.

2010 was both a crucial and record year for the company as it represented a turning point in the Group's operational and strategic plans. It witnessed a series of decisions that led to the sale of the Group's 15 African mobile operations, reaping the fruits of the Group's investments on the continent and accomplishing the desired results of Zain's successful expansion strategy embarked on back in 2003.

That Zain won the 'TelecomFinance Deal of the Year' award for its Africa assets sale validates our decision to capitalize on our investments in these assets.

This decision of divesting the African assets has helped the Group settle its financial obligations and invest a large part of the financial gains in its main and cash generative Middle East markets where the focus will be going forward. It also highlights the significant value and wealth creation that has been provided to shareholders by the Group actions. Our priority is first and foremost the interests of shareholders when making any decision.

Following this crucial step, the Group has launched comprehensive restructuring initiatives, and has made extensive changes at the level of all its various executive departments and sectors to align its operations with new strategic directions.

These steps have helped modify the Group's operational model and made it more consistent with the pace and level of competition through the implementation of a number of initiatives to improve the return on investment and raise efficiency levels, all of which has reflected positively on our operational performance.

The Group's customer base in the Middle East amounted to 37.2 million customers by the end of 2010, an increase of 23% compared to 30.3 million customers in 2009.

If we look at the Group's financial results, we find that most of Zain's country operations have turned in more efficient performances, with the consolidated revenues for the fiscal year ended December 31, 2010 exceeding US\$ 4.719 billion (KWD 1.35 billion), an increase of 7% compared to the previous 12 months.

Consolidated Net Income reached US\$ 3.675 billion (KWD 1.063 billion) including the exceptional profit from the proceeds of the sale of Zain's Africa assets of US\$2.653 billion, (KWD 770 million), an increase of 445% compared to 2009, which totaled US\$675 million (KWD 195 million). If the capital gain from the Africa Assets sale is not taken in account, net income reached US\$1.022 billion (KWD 293 million) for the year, representing a notable 50% increase on 2009 net income of US \$675 million (KWD 195 million).

Zain's EBIT reached US\$ 1.571 billion (KD 449 million), an increase of 4% compared to US\$1.505 billion (KD 434 million) in 2009. The company's consolidated EBITDA for the same period reached US\$2.151 billion (KD 616 million), an increase of 6% from 2009 when the Group recorded EBITDA of US\$2.025 billion (KD 583 million).

These positive results have contributed to increasing the shareholders' equity to a total of KWD2.748 billion, an increase of 11 % from the end of the previous year.

The earnings per share for (EPS) for the same period stood at US\$0.95 (275 fils), compared to an EPS of US\$0.18 (51 fils) for 2009.

The telecommunications industry has become an integral part of our social and economic fabric, and it now represents the backbone of all sectors. With this in mind, Zain has reformulated its business and marketing operations to be in line with this concept, taking advantage of the Group's broad base of creative services.

Being one of the major economic entities in the region, the Group has not ignored its corporate social responsibilities

and duties. It has launched a series of initiatives and programs to enhance its partnership with the communities it serves through providing support and care in all areas.

Out of a strong belief that human resources are the compass on which major organizations rely to determine the direction of their operational strategy, the Group has selected its people very carefully. It has been keen to attract national cadres, and has worked to provide the latest career development programs in accordance with international standards.

We are confident that the Group can provide highly sophisticated telecommunications services to meet the aspirations and hopes of our customers through our highly qualified professional employees who are constantly committed to providing the best value for our customers.

I would like to take this opportunity to express my deep appreciation of the trust placed in all our investment decisions by Zain's shareholders. This trust has allowed the management to propel the company to its current position. I am also pleased to extend my deep thanks and gratitude to my fellow members of the Board of Directors and executive management for their outstanding efforts, which have enabled the Group to achieve these goals.

In conclusion, on my own behalf, and on behalf of all my fellow members of the Board of Directors and the executive management, as well as all the employees of the Group, it gives me pleasure to offer our deepest gratitude and appreciation to His Highness the Emir of Kuwait Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah; His Highness the Crown Prince Sheikh Nawaf Al-Ahmad Al Jaber Al- Sabah; His Highness the Prime Minister Sheikh Nasser Mohammad Al-Ahmad Al-Sabah and to the members of our government for their continued support to Kuwait's companies and organizations.

Asaad Ahmed Al-Banwan
Chairman, Board of Directors



A year of change, a year of success

2010 marked a turning point in the history of Zain. We successfully completed the divestiture of our African operations to Bharti Airtel, which now enables us to focus on fewer, but highly cash-generative markets in the Middle East. Being in one region with many commonalities allows us greater opportunities for cross-pollination and cost synergies among our operations.

We maintain a formidable scale, being one of the largest mobile operators in the Middle East with over 37 million customers. Our footprint now covers a licensed population of 115 million people with over 9,150 network sites, across seven adjacent countries, made up of a balanced range of markets at various stages of maturity. Our exponential growth will essentially come from Iraq, Sudan and Saudi Arabia while we maintain value and healthy growth from our established and relatively highly-penetrated operations in Bahrain, Jordan and Kuwait, as well as Lebanon where we manage the operation on behalf of the local government. In fact, Zain is the market leader in five of the seven countries in which it operates.

Despite the significant changes affecting the Group in 2010, it was a landmark year in terms of financial and operational results. With a 23% increase in our Middle East customer base over 2009, our consolidated revenues amounted to US\$ 4.719 billion (KWD1.352 billion) and we reached an EBITDA of US\$2.151 billion (KWD 616 million) with a margin of 46%. Our net profit for the year increased an impressive 445% to US\$3.675 billion (KWD 1.063 billion), while our net operating profit increased 4% to US\$1.571 billion (KWD 449 million). These results are in line with a profitable growth strategy that we are confident will increase in the coming years with the expected significant revenue upside.

These results and the challenges faced by each of our operations make for an exciting business mix. In our parent operation, Kuwait, competition is fierce yet we have managed to strengthen our market leader position in all key financial indicators as well as by customers by being at the forefront of products and services innovation.

Our operation in Iraq solidified its position as growth driver for the Group, not only in terms of customers but also in EBITDA contribution. The Sudan operation continues to

dominate the local market with the biggest customer share and is a healthy contributor to the Group, especially in terms of revenues and EBITDA contribution.

In Jordan, we face a very competitive environment, but we have been able to maintain our market lead with an increase in most of the relevant metrics.

In Bahrain, although 2010 marked the entry of an aggressive third mobile operator, we were able to maintain our ARPU levels and commercial strength.

Although being the third entrant in Saudi Arabia where penetration levels were in the vicinity of 100% when we launched, our operation in the Kingdom has exceeded expectations and hit many landmark targets in only its second year of commercial activities, most notably achieving a positive EBITDA and serving 8.4 million customers.

This success is founded on the solid basis of our assets and capabilities. The Zain brand remains strong and recognizable and it has been ranked as one of the top 500 brands by Brand Finance Global with brand equity valued at US\$2.9 billion. This year, our brand was once again awarded several international prizes and has garnered many plaudits. It maintains its emotional, multicultural and aspirational attributes, and serves as the best exponent of our "wonderful world" approach to the customers we serve.

Technology is also key enabler of our success. We have continued to improve our Network and IT performance, accelerating the deployment of data technology and leveraging customer analytics to help us create products and services tailored to customer's needs. Over US\$ 1.3 billion of network capital expenditure was invested in our Middle East operations between 2008 and 2010 to provide a strong base for future growth enabling us to be at the forefront of mobile technology in the majority of the markets in which we operate.

Finally, we have shown proven management capabilities, leveraging a highly experienced team with significant telecoms experience. It adheres to strong corporate governance values and is backed up by an independent and experienced Board of Directors. Thanks also must go to our 6,000 employees who have contributed to Zain's position as a regional powerhouse and to being the biggest company in terms of market capitalization on the Kuwait Stock Exchange. The group has improved the qualifications of, and significantly invested in its people and we are confident that we can tackle all future challenges.

Opportunities ahead

Our successes and achievements in 2010 are a great catalyst and base from which to continue challenging ourselves to pursue higher goals in the years to come. These are as diverse as ensuring the growth in certain markets, deploying new technologies and being at the forefront of products and services innovation. This is the Zain tradition.

Capturing the growth means our Iraqi, Sudanese and Saudi operations must attract an increasing number of new customers entering the mobile market, and for all the other operations to maintain their client base by always offering superior products and services. Meanwhile, our innovation objectives involve deploying the latest technologies, coupled with products and services that facilitate our customers' lives on a daily basis.

To realize our business aspirations, we have devised an integrated strategy that will hopefully aid us, through organic growth, to reach 52 million customers, generate 6.3 billion in revenues, increase the EBITDA to US\$ 3.4 billion – while improving the EBITDA margin to 53% - and more than double our net profit to US\$ 2.1 billion by 2014.

But our 2014 vision of leadership goes beyond the creation of shareholder value. It creates value for all stakeholders of our business. We want our customers to be connected to 'A wonderful world'; our employees should see us as the employer of choice for industry talent; the community must know that we are an active member on all fronts; our shareholders must be confident that we are committed to transparency, good governance, and maximization of value and our remaining partners must see us as a successful driver of value-accretive collaborations.

Finally, I would like to thank all our stakeholders for their continuous support over the past years, and I am sure that the Zain Group will continue to provide the reasons for your backing in the years to come.

Nabeel Bin Salamah
Zain Group CEO




Winner of the 'Best Brand' at the 4th Annual Telecoms World Awards, Middle East

37.2 million customers

10.4 million+ customers in Sudan

Hallvarsson & Halvarsson's awards www.zain.com Best Corporate Website in the Middle East; Best Website in Kuwait; Best Website for Media and Best Website for Social Media

115 million+ people under license

6,000 employees

5.5 million+ km² under license

One Network in 23 countries across the Middle East and Africa

#1 operator in 5 out of 7 markets

12 million customers in Iraq

'Zap' wins the inaugural GSMA's 2010 'Mobile Money for the Unbanked Service' award

308 million daily total calls

44 million daily total SMS

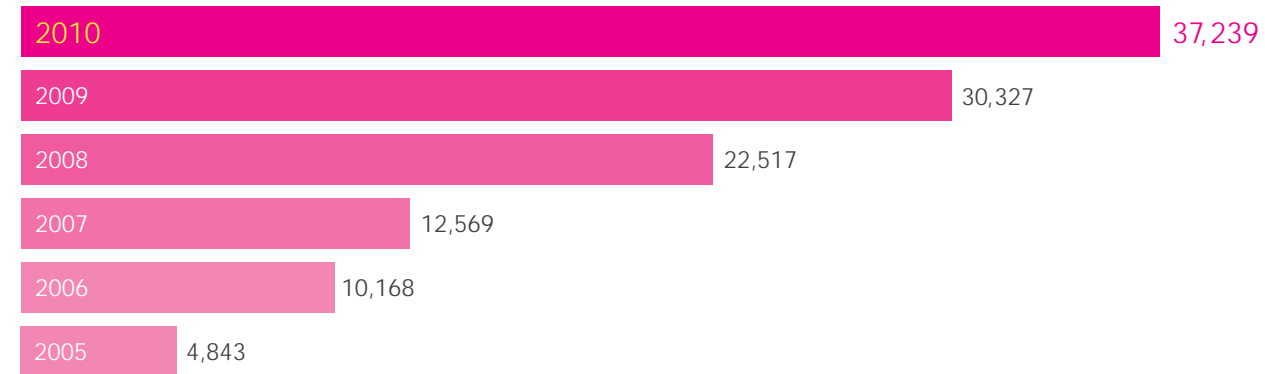
31 million GB of daily data usage

US\$ 4.72 billion in revenues, a 7% increase

US\$ 2.15 billion EBITDA, a 6% increase

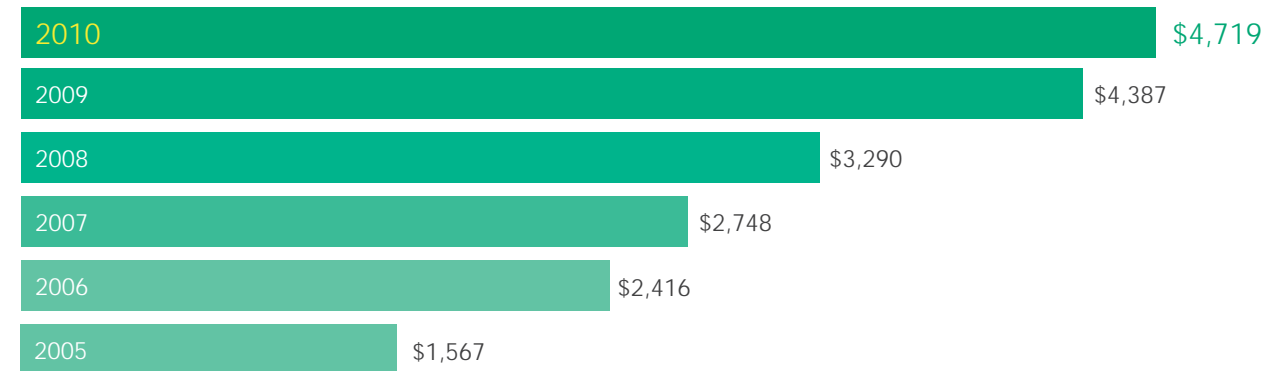
Customers (000s)

CAGR 50%



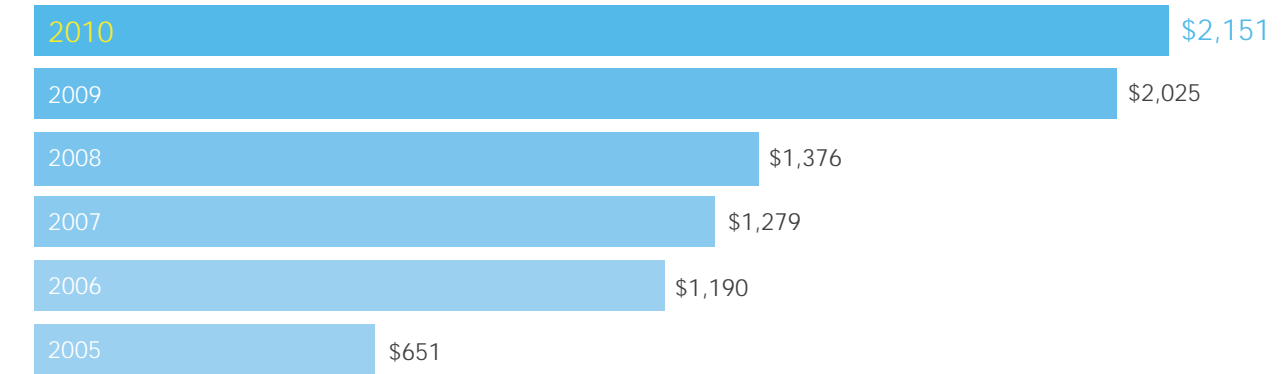
Revenues (in million dollars)

CAGR 25%



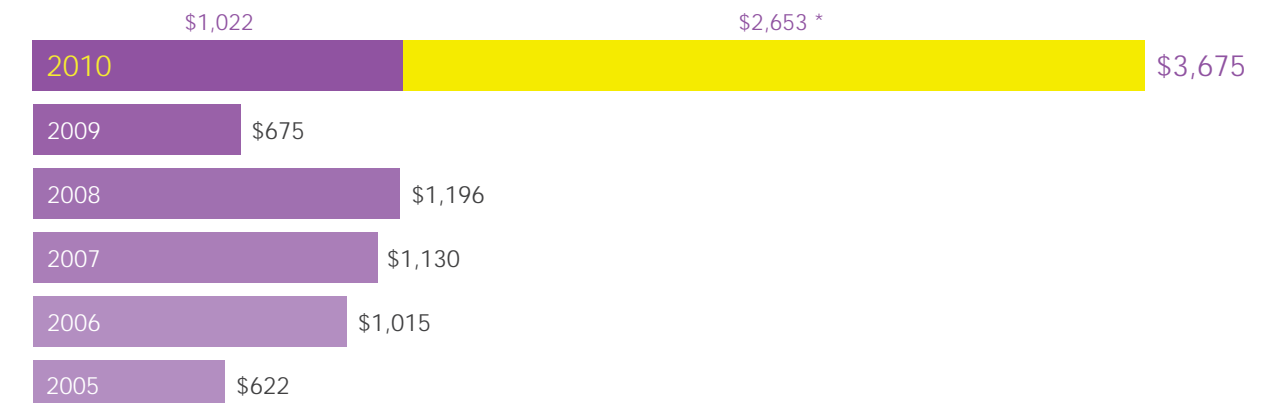
EBITDA (in million dollars)

CAGR 27%



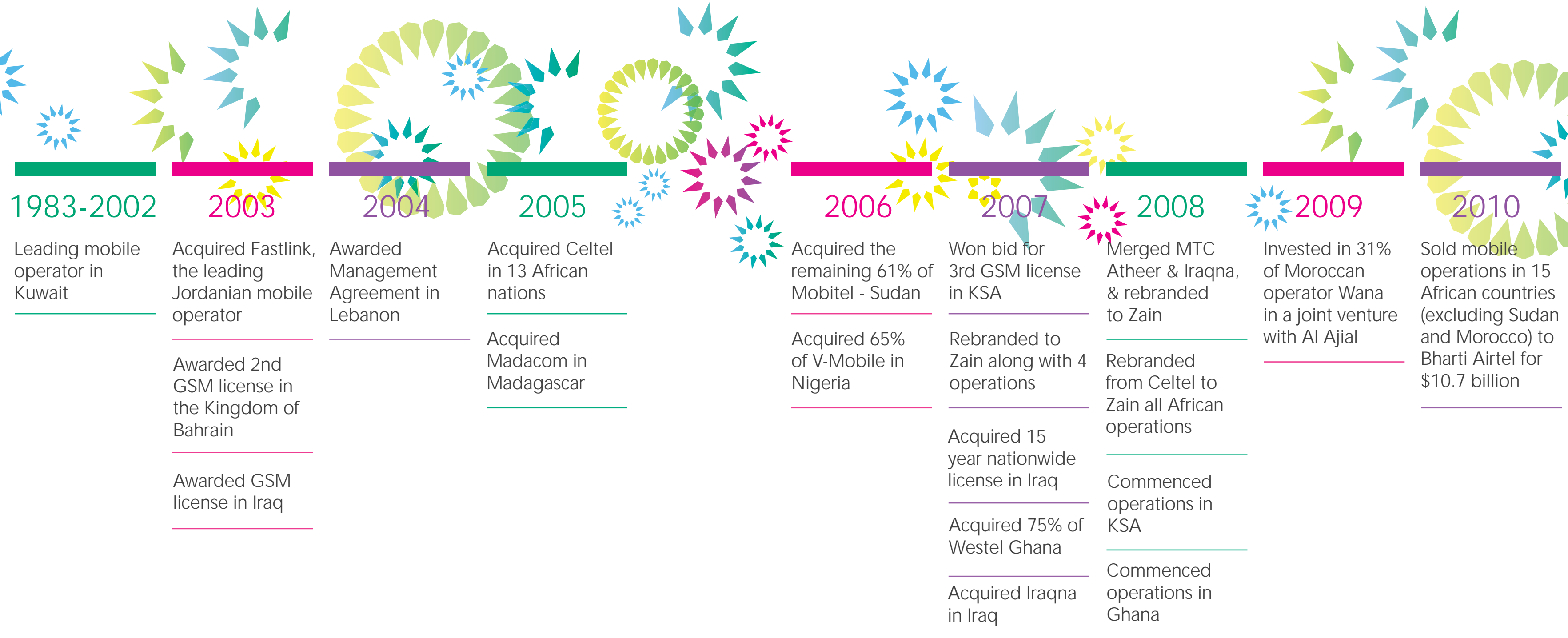
Net Profit (in million dollars)

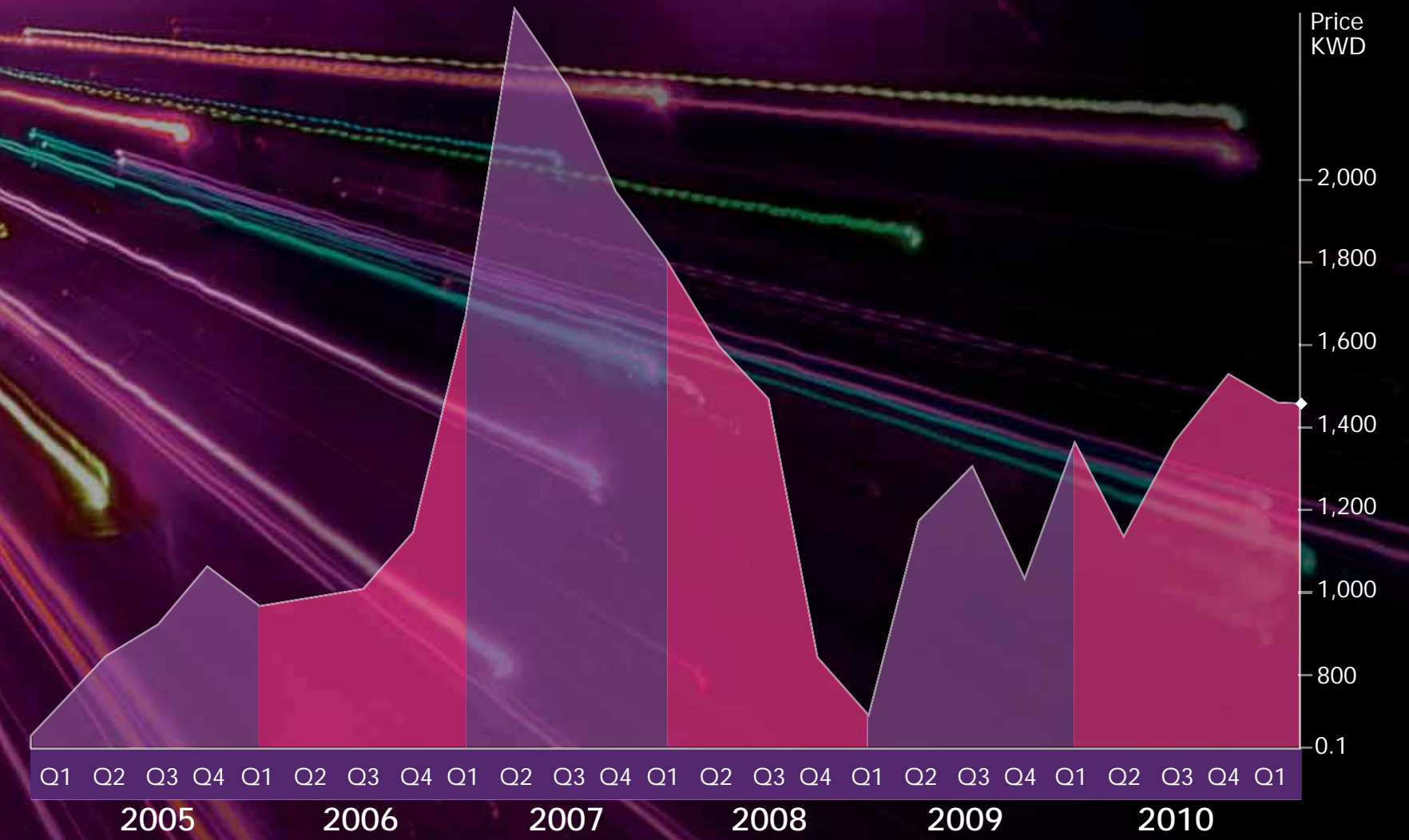
CAGR 43%



* Capital gain from the sale of Zain Africa







31/03/2005 - 31/03/2011 (RIY)



/16 February



/22 February



/24 February



/13 June



/13 June

6 January Zain expands Zap mobile commerce service to Malawi, Niger, and Sierra Leone. **25 January** Zain and Palestine Communications Group (Paltel) launch the 'One Network' service between Jordan and Palestine. **16 February** Zain's Zap mobile commerce wins the inaugural and prestigious GSMA 2010 'Mobile Money for the Unbanked' award. **22 February** Zain unveils 'My Business' in Nigeria, an innovative mobile package empowering entrepreneurs to grow their business. **24 February** The 4th season of Zain Africa Challenge distributes \$1 million in prize money. **16 March** Zain launches Zap mobile commerce in Ghana. **23 March** Zain and Ericsson commission and publish a report highlighting how mobile communications create jobs, generate wealth and save lives in Sudan. **3 June** Zain expands its groundbreaking 'One Network' platform to South Africa in a strategic partnership with Cell C. **8 June** Zain concludes the sale of 15 African mobile operations (excluding Sudan and Morocco) to Bharti Airtel for \$10.7 billion. **13 June** Zain and GETMO Arabia announce a groundbreaking agreement to provide digital music aggregation services to Zain customers across seven countries in the Middle East which launches with the release of Listen Up! The Official 2010 FIFA World Cup™ album from Sony Music. This is the first offering of non-Middle Eastern music to users on the Zain Create music portal: <http://create.zain.com>. **13 June** Zain and UNRWA sign cooperation agreements to support UNRWA's health and education projects. It is the first-ever partnership of its kind to take place between the UN humanitarian organization and a private sector company. SMS campaign began on August 22nd to raise funds for Palestinian refugees in the Levant.



/28 September



/6 October



/26 October



/13 December

28 September Zain acquires prelaunch digital rights to Fairuz's first album in four years 'Ehh fi Amal' (Yes There is Hope), offering customers exclusive one-month access to download ring back tones (RBT), and launching the full album later on at <http://create.zain.com>. **6 October** For the second year in a row, Zain wins the prestigious award for the 'Best Brand' at the 4th Annual Telecoms World Awards, Middle East. **26 October** Zain is a regional partner at the World Economic Forum (WEF) on the Middle East and North Africa (MENA) held in Marrakech, Morocco between October 26 and 28. The meeting, attended by over 1,000 leaders from business, government, civil society and media sectors from 62 countries, is held under the theme "Purpose, Resilience and Prosperity". **13 December** Zain ranks first in four categories in the second "GCC Webranking" survey of the largest 80 leading companies by market capitalization in the GCC, conducted by Hallvarsson & Halvarsson's (H&H), the leading online corporate communications agency, that specializes in such rankings across the globe. The website www.zain.com was awarded the Best Corporate Website in the Middle East; Best Website in Kuwait; Best Website for Media and Best Website for Social Media.

23%

YOY growth

37,239

Active customers 2010 (000s)

30,327

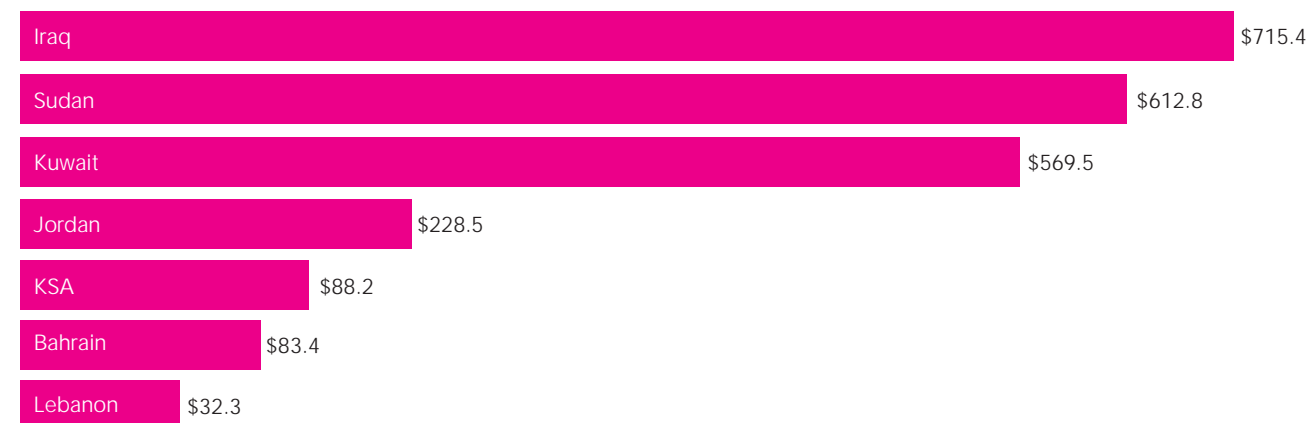
Active customers 2009 (000s)



Customers (000s)

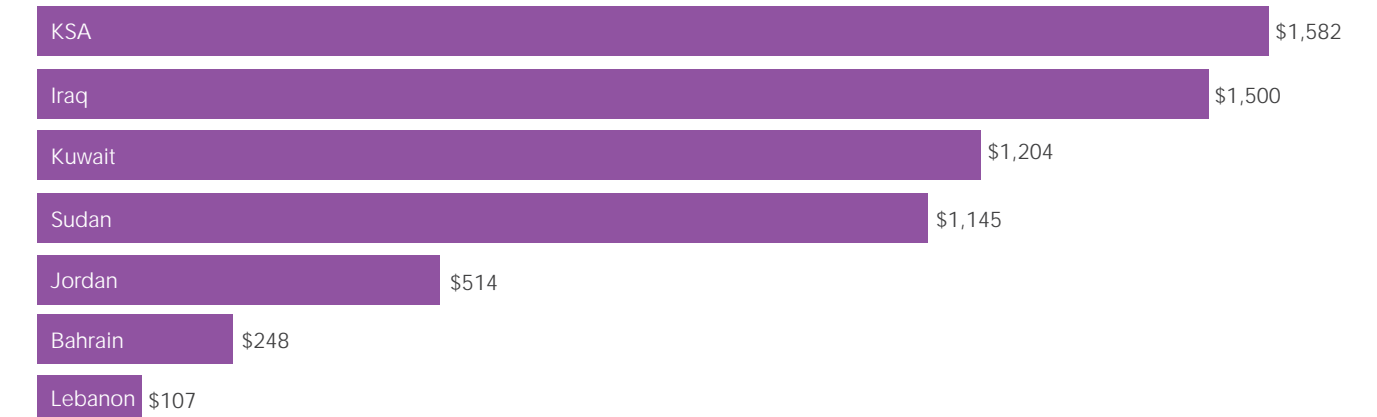


EBITDA (in million dollars)

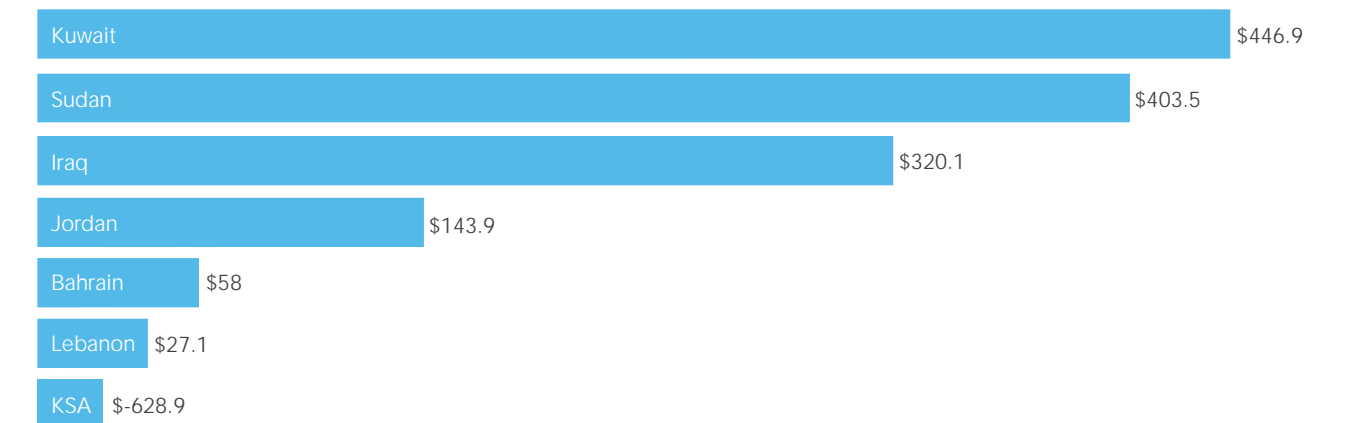


* Zain Saudi Arabia is an associate company (not consolidated)

Revenues (in million dollars)



Net Profit (in million dollars)



Over 37.2 million
active customers
in 7 countries*

The numbers show active
customers year end 2010

*Exclusive of Morocco, in which Zain has a 15.5%
ownership in the mobile operator 'inwi'

SUDAN
10,416,000

LEBANON
1,499,000

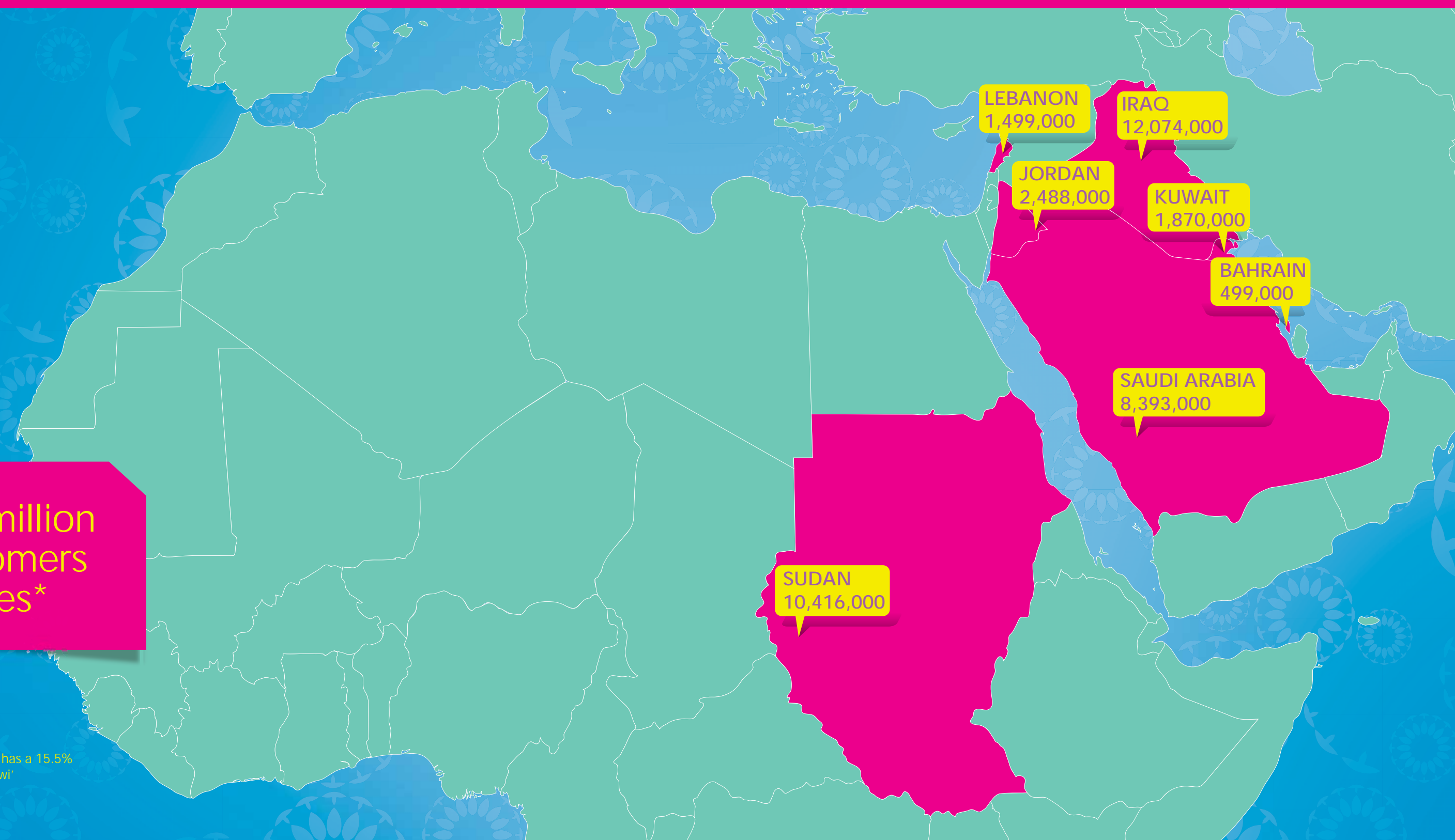
JORDAN
2,488,000

IRAQ
12,074,000

KUWAIT
1,870,000

BAHRAIN
499,000

SAUDI ARABIA
8,393,000



Founded in 1983, Mobile Telecommunications Company (MTC) was Kuwait's first mobile operator. In 1994, it made history by becoming the first telecom operator to launch a commercial GSM service in the region. The mother ship of all Zain's mobile operations across the Middle East, Zain is listed on the Kuwait Stock Exchange with a market capitalization of over US\$ 23 billion, as of December 2010.

Despite stiff competition from Zain's rivals, the operation continues to capture the lion's share of the Kuwaiti mobile market with 44% following net additions of 32,000 customers throughout 2010, bringing its total customer base to 1.870 million. Zain Kuwait contributed 5% to the Group's total customer base.

Overall, the healthy growth of the postpaid segment is mainly attributed to the launch of attractive applications aimed at boosting customer loyalty and new customer growth. To date, the postpaid segment contributed 61% of the operation's total revenues.

While the prepaid segment dominates its overall customer base at 66%, or 1.238 million, the revenue generated from this segment accounted for 35% of the total reported revenues.

Zain Kuwait continues to have one of the highest ARPU in the Group's portfolio, standing at US\$ 52 to date.

On the regulatory front, the Ministry of Telecommunications (MOC) issued two notices in respect of the Mobile Number Portability (MNP), reduced roaming prices in the GCC countries as well as studied the possibility of reducing the prices of per second billing. Furthermore, the National Assembly approved the adoption of new laws where Telecommunications Regulatory Authority is on the top of the list.

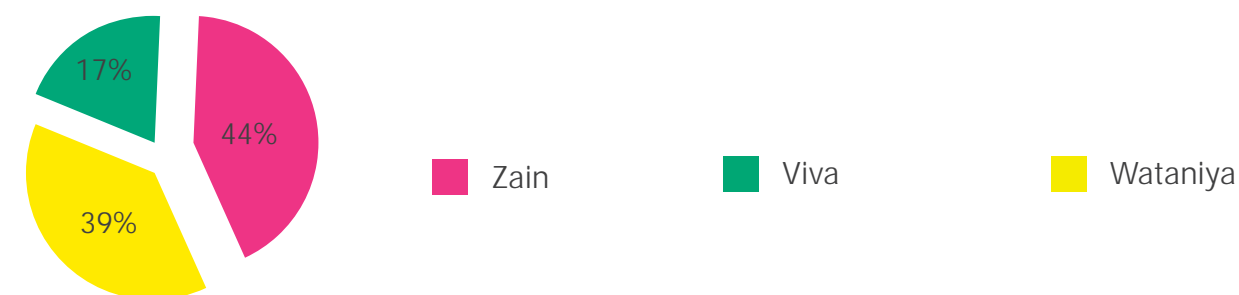
The saturated Kuwaiti market continues to be a major contributor of 26% to the Group's total consolidated revenues. The operation ended 2010 by reporting total revenue of US\$ 1.2 billion when EBITDA increased by 1 percentage point (pps) to US\$ 570 million. Net Profit for the same period reached US\$ 447 million, representing a y-o-y decrease of 2%. Additionally, CAPEX witnessed a considerable y-o-y decrease of 40% and stood at US\$ 71 million by year-end 2010.

The operation's future strategy falls under two main objectives: to consistently exceed customers' expectations at all touch points and capitalize on the demand and growth for data services as a way to generate additional revenues.

To counter the pressure facing its customer base, Zain continues to invest in the deployment of value-added services and offerings. During 4Q10, the operator launched an Apple iPhone and iPad application, enabling customers to manage more directly their accounts and pay invoices, while providing unlimited calls for its prepaid segment under eeZee Unlimited.

Number of sites commissioned increased by 74, bringing the total to 1,738 on air at year-end 2010.

Customers (000)	2010	2009
Postpaid	632	627
Prepaid	1,238	1,211
Total	1,870	1,838



Operational & Financial Performance	2010	2009	2008	YOY Growth (10 vs. 09)
Customers (000s)	1,870	1,838	1,769	2%
Revenues (US\$ m)	1,204.3	1,221.1	1,415.8	(1%)
EBITDA (US\$ m)	569.5	565.8	720.5	1%
EBITDA %	47%	46%	51%	-
Net Profit (US\$ m)	446.9	456.4	637.9	(2%)
ARPU	52	54	69	
Capex (US\$ m)	70.7	117.4	88.5	(40%)

Financials: P & L (US\$ m)	2010	2009	2008	CAGR
Gross Revenues	1,204.3	1,221.1	1,415.8	(7.8%)
Cost of Sales	333.0	341.2	406.4	(9.5%)
Gross Margin	871.3	879.9	1,009.4	(7.1%)
OPEX	301.8	314.2	289.0	2.2%
EBITDA	569.5	565.7	720.4	(11.1%)
Net Profit/(Loss)	446.9	456.4	637.9	(16.3%)

Capex Breakdown (US\$ m)	2010	2009
Capex	70.7	117.4
Networks	53.5	96.4
IT	15.1	16.3
Others	2.1	4.7

Network Reach & IT Infrastructure

Network Quality KPIs

Network availability	99.58%
Call setup success rate	97.61%
% of cells with TCH congestion > 1%	1.7%
Call drop rate	0.41%

Volume KPIs

HLR customers	2m
Total monthly traffic (Erlangs)	32,270,027
Network average BH traffic (Erlangs)	32,684
Total monthly SMS (MO+MT)	247,830,326
Coverage penetration	100%

UMT KPIs

3G network availability	99.9%
Call setup success rate	99.5%
Drop call rate	0.35%

Broadband KPIs

Total monthly data volume (Mb)	661,044,668
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Network Efficiency KPIs and Infrastructure

Number of RNC	4
Number of BSCs	51
Number of MSSs	3
Number of MSCs	2
Number of STP	2
Number of HLRs	2
Number of Ins	2
Number of MGWs	3

In February 2006, Zain acquired the remaining 61% stake of Mobitel, Sudan's first mobile operator, to fully own the company in a deal valued at US\$ 1.332 billion. The company was rebranded to Zain in September 2007 and subsequently renewed its license for a period of 20 years.

At the end of 2010, Zain continues to be the largest mobile operator in Sudan, accounting for 59% of the country's mobile customer base. As the operation's customer base continues to expand, Zain in Sudan now has over 10 million customers, a milestone achieved on the back of successful marketing and sales campaigns.

The operation made up 28% of Zain's total customer base and 24% of its revenues, placing Sudan as a forefront strategic player in the Group with the highest acquisition share and the lowest churn among all the Sudanese mobile operators. Although Zain's postpaid base continues to grow at a slow pace, most of Zain's customer growth has come from the prepaid segment, contributing 92% to the operation's reported revenues, while the remainder was generated from the postpaid segment with 6% and data with 2%.

Increasing competition in the Sudanese telecom market has contributed to falling ARPU rate which stood at US\$ 10 by the end of 2010. On the regulatory front, National Telecommunication Corporation (NTC) issued several still to be implemented amendments. They include the transfer of tariff packages to a Per Second basis and the license renewal fee to be 1.3% of the total audited Revenue instead of 2.5% out of the audited Net Profit.

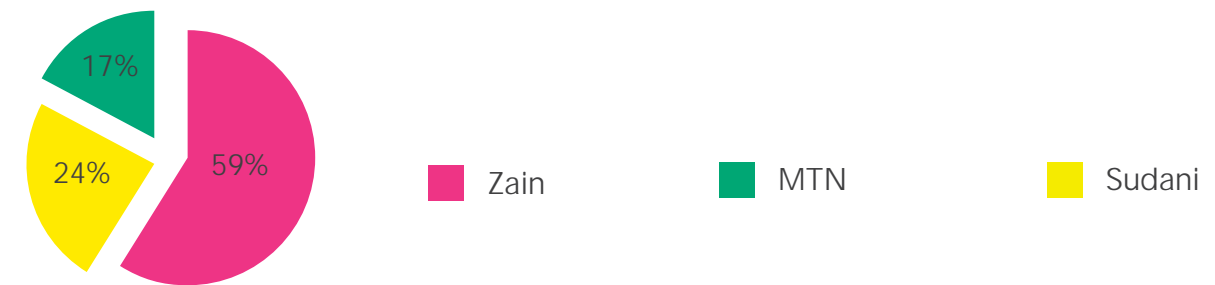
In a fast growing market environment, Zain Sudan ended the second half of 2010 by reporting total revenues of US\$ 1,145.3 million, up 15% y-o-y from US\$ 994 million in 2009. Over the same period, the operator's EBITDA increased by 21% to reach US\$ 505.3 million while Net Profit was up by 15% at US\$ 403.5 million. Zain's CAPEX in Sudan amounted to US\$ 406.3 million.

Moving forward, Data and VAS/Technology will be a priority for Zain's strategy in Sudan, while driving regional acquisition will also play an integral part through partner relationships, while focusing on retention.

The fourth quarter of 2010 marked the launch of several promotions. They included an SMS Bundle, Android Handset with Internet Bundle and the Kammil offer, whereby Mobipaid customers enjoy free calls when they ran-out of credit.

Zain's sound financial performance was attributed to its network deployment and the expansion of its coverage to 85% and 35% of Sudan's population and geographic territory. In total, the operation in Sudan added 228 sites bringing the total number on air to 1,957 as of Q4, 2010.

Customers (000)	2010	2009
Postpaid	94	99
Prepaid	10,322	8,394
Total	10,416	8,493



Operational & Financial Performance	2010	2009	2008	YOY Growth (10 vs. 09)
Customers (000s)	10,416	8,493	5,190	23%
Revenues (US\$ m)	1,145.3	994.3	870.3	15%
EBITDA (US\$ m)	612.8	505.3	379.4	21%
EBITDA %	54%	51%	44%	-
Net Profit (US\$ m)	403.5	351.5	278.5	15%
ARPU	10	12	16	
Capex (US\$ m)	406.3	229.3	136.2	75%

Financials: P & L (US\$ m)	2010	2009	2008	CAGR
Gross Revenues	1,145.2	994.3	870.3	14.7%
Cost of Sales	229.7	219.6	203.2	6.3%
Gross Margin	915.5	774.7	667.1	17.1%
OPEX	302.7	269.4	287.6	2.6%
EBITDA	612.8	505.3	379.5	27.1%
Net Profit/(Loss)	403.5	351.5	278.5	20.4%

Capex Breakdown (US\$ m)	2010	2009
Capex	406.3	229.3
Networks	389.7	218.6
IT	8.3	3.0
Others	8.3	7.7

Network Reach & IT Infrastructure

Network Quality KPIs

Network availability	99%
Call setup success rate	95.52%
% of cells with TCH congestion > 1%	1.07%
Call drop rate	1%

Volume KPIs

HLR customers	17,687,771
Total monthly traffic (Erlangs)	48,695,978
Network average BH traffic (Erlangs)	144,852
Coverage penetration	85% of population

UMT KPIs

3G network availability	99%
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Broadband KPIs

Total monthly data volume (Mb)	216,112,558
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Network Efficiency KPIs and Infrastructure

Number of BSCs	45
Number of MSCs/MSSs	21
Number of HLRs	4
Number of MGWs	28

Zain has been providing mobile services in Iraq since December 2003. After securing a 15-year license in August 2007, Zain acquired Iraqna's network, becoming the largest mobile operator in the country. The Zain Group subsequently increased its ownership from 30% to 71.67% in 2008 to assume majority control.

Leading the Iraqi mobile market, Zain ended 2010 with a 55% market share, following net additions of 389,000 customers during the second half of 2010 to bring its customer base to over 12 million, accounting for 32% of the Group's total customer base.

This healthy customer growth was related to Zain's increased point of sale from 2,500 to 7,500, the revamp of its mass acquisition products as well as the launch of new VAS and data services including e-GO.

Prepaid customers dominate the local market with Zain's prepaid customer base at 99.6% at the end of 2010. The proportion of prepaid customers has not fallen below the 99% mark over the last three years. Given that Zain Iraq's prepaid segment contributed more than 95% to the operation's total revenues; its postpaid base saw a substantial y-o-y increase of 40% compared to 2009, accounting for some 2% of the total reported revenues.

Earlier in 2010, the Iraqi government announced the award of a 4th national license to encourage further market liberalization. Competition is set to get fiercer with a potential acquisition of a majority stake in Korektel, which may threaten ARPU levels, which stood at US\$ 11 for 2010.

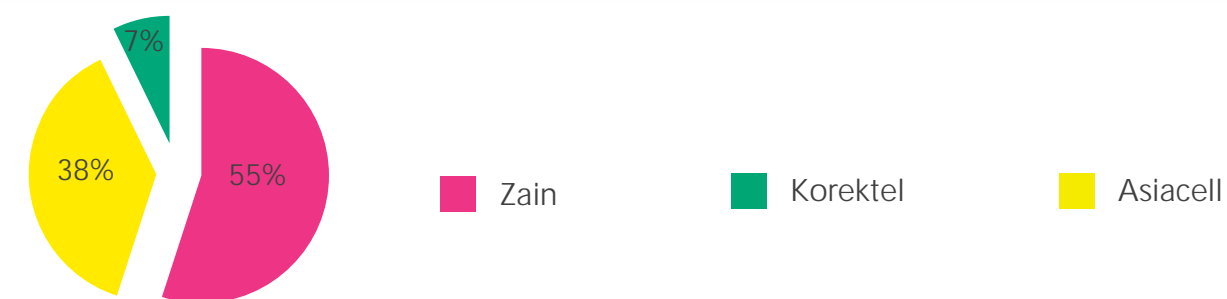
Zain Iraq's revenues for the year-end 2010 reached US\$ 1.5 billion, up by 12% y-o-y, while EBITDA increased by 7% to US\$ 715 million as compared to the same period of 2009. The healthy increase in revenues was driven mainly by the growth of its customer base, which is growing at a faster pace than its competitors. The operator's revenues represented 32% of Zain's total consolidated revenues for 2010. Net Profit for the period showed y-o-y growth of 11%, rising to US\$ 320 million. CAPEX amounted to US\$ 84.5 million.

In light of growth potential, Zain's strategy forward is to strengthen its position by on-net focus in the South, postpaid and hybrid focus in the center of the country and rollout network in the Kurdish governorates. Moreover, specialized offers are put in place to reduce churn, increase regional presence as well as coverage and capacity.

The operation's commitment to deliver innovative services was highlighted by the launch of Voice offers to cover on-net and off-net multi-SIM users, recharge bonus for retention and churn prevention, as well as data services including occasional discounts on Personal Ring Back Tone contents.

Zain's network covers 88% of the population. During 2010, the company added 203 sites to bring its total to 2,908 sites on air.

Customers (000)	2010	2009
Postpaid	81	58
Prepaid	11,993	10,238
Total	12,074	10,296



Operational & Financial Performance	2010	2009	2008	YOY Growth (10 vs. 09)
Customers (000s)	12,074	10,296	9,681	17%
Revenues (US\$ m)	1,500.4	1,342.4	1,295.4	12%
EBITDA (US\$ m)	715.4	670.4	564.4	7%
EBITDA %	48%	50%	44%	-
Net Profit (US\$ m)	320.1	288.3	220.1	11%
ARPU	11	11	13	
Capex (US\$ m)	84.5	109.3	284.7	(23%)

Financials: P & L (US\$ m)	2010	2009	2008	CAGR
Gross Revenues	1,500.5	1,342.4	1,295.4	7.6%
Cost of Sales	443.7	368.1	370.0	9.5%
Gross Margin	1,056.8	974.3	925.4	6.9%
OPEX	341.3	304.0	361.0	(2.8%)
EBITDA	715.5	670.3	564.4	12.6%
Net Profit/(Loss)	320.1	288.3	220.1	20.6%

Capex Breakdown (US\$ m)	2010	2009
Capex	84.5	109.3
Networks	70.9	95.8
IT	11.4	9.2
Others	2.2	4.3

Network Reach & IT Infrastructure

Network Quality KPIs

Radio availability	98.75%
Call setup success rate	94.60%
% of cells with TCH congestion > 1%	4.93%
Call drop rate	1.81%
SMS success rate	96.19%

Volume KPIs

In active customers	10,908,817
BH average traffic (Erlangs)	141,008
Total SMS (MO+MT)	326,926,674

Network Efficiency KPIs and Infrastructure

Network cell utilization	50.07
Number of BSCs	209
Number of RNCs	0
Number of MSCs/MSSs	5/13
Number of HLRs	4
Number of INs	6
Number of MGWs	15

IT Systems KPIs

CRM (system availability)	98.55%
Contact center (system availability)	99.00%
Service provisioning	96.60%
Bill generation	99.80%
IN (system availability)	99.99%
Recharge (system availability)	99.73%

In 1994, Zain in Jordan, formerly Fastlink, revolutionized the telecom sector in the Kingdom by becoming the first to introduce mobile services in the country. In 2003, it was the first to join the Zain Group's Middle East portfolio and, despite the tough competition in this liberalized market, quickly became the foremost telecom operator in the country.

Despite the heightening of price competition and the pressure on lowering voice prices in the Jordanian telecom market, Zain Jordan was able to maintain its lead with 40% market share while its customer base reached 2.5 million as of year-end 2010, accounting for 7% of Zain's total customers.

Among the prepaid customers which account for the bulk of Zain's mobile customer base, the second half of 2010 saw a notable increase in the postpaid segment. The revenue generated from both prepaid and postpaid segment accounted for 63% and 28% respectively of the operator's reported revenues for 2010.

The minor increase in ARPU to US\$ 16 for the year ending December 2010 was related to some extent to the stronger push for value-added services and the removal of inactive prepaid customers.

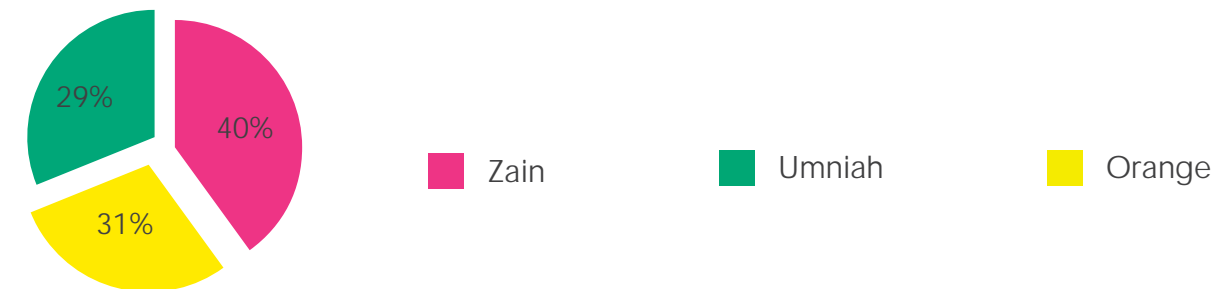
The regulatory landscape has undergone several positive changes to include tax exemption for infrastructure equipment for fixed broadband wireless networks to promote internet penetration in urban areas and the launch of commercial mobile services by virtual network operator Friendi.

From a macro perspective, Xpress 'the radio mobile operator', licensed back in 2003, closed down its operation in the Kingdom. Zain Jordan ended 2010 by reporting total revenue of US\$ 514 million, up by 7% y-o-y from US\$ 480 million. The reinforcement in ARPUs has allowed Zain to increase its share of the revenues in the market by 1 percentage point (pps) to 51% to date. Net Income for the year reached US\$ 143.9 million, an increase of 7% as compared to 2009, while EBITDA was down by 4% in the same period to US\$ 228.5 million. Zain Jordan was able to contribute 11% to the Group's consolidated revenues. CAPEX for the same period witnessed a substantial increase of 109% to reach US\$ 70.9 million.

Going forward, Zain Jordan will continue to grow its enterprise solutions' business, capitalizing on the progress achieved in 2010. It will launch 'Zain E-Mal', a mobile money portfolio as well as introduce a new suite of standalone HSPA+ products and services. In addition, Zain Jordan has laid the foundations to introduce HSPA+/3G to be fully launched in the first quarter of 2011.

Q4 shed the light on the launch of many promotions including Wi-Max, Skyz Revamp and customized packages targeted at postpaid segment of which 'Zain Family'. In 2010, 64 sites were commissioned, bringing the total to 1,522 sites on air by the end of the year, covering 67% of the Kingdom geographically and 98% of the population.

Customers (000)	2010	2009
Postpaid	343	293
Prepaid	2,145	2,200
Total	2,488	2,493



Operational & Financial Performance	2010	2009	2008	YOY Growth (10 vs. 09)
Customers (000s)	2,488	2,493	2,345	0%
Revenues (US\$ m)	514.2	480.2	485	7%
EBITDA (US\$ m)	228.5	237.7	223.2	(4%)
EBITDA %	44%	50%	46%	-
Net Profit (US\$ m)	143.9	133.9	128.5	7%
ARPU	16	15	19	
Capex (US\$ m)	70.9	33.9	39.7	109%

Financials: P & L (US\$ m)	2010	2009	2008	CAGR
Gross Revenues	514.2	480.2	484.9	3.0%
Cost of Sales	150.2	120.1	137.4	4.6%
Gross Margin	364.0	360.1	347.5	2.3%
OPEX	135.4	122.4	124.3	4.4%
EBITDA	228.6	237.7	223.2	1.2%
Net Profit/(Loss)	143.9	133.9	128.5	5.8%

Capex Breakdown (US\$ m)	2010	2009
Capex	70.9	33.9
Networks	15.2	20.1
IT	9.2	3.6
Others	46.5	10.2

Network Reach & IT Infrastructure

Network Quality KPIs

Network availability	99.93%
Call setup success rate	97.10%
% of cells with TCH congestion > 1%	8.89%
Call drop rate	0.46%
SMS success rate	97.92%

Volume KPIs

In active customers	2,192,006
BH average traffic (Erlangs)	65,480
Total SMS (MO+MT)	12,722,632

Network Efficiency KPIs and Infrastructure

Network cell utilization	56.53
Number of BSCs	59
Number of RNCs	0
Number of MSCs/MSSs	8/1
Number of HLRs	5
Number of INs	5
Number of MGWs	1*

* 3 are under commission

IT Systems KPIs

CRM (system availability)	99.44%
Contact center (system availability)	99.80%
Service provisioning	99.48%
Bill generation	100.00%
IN (system availability)	99.14%
Recharge (system availability)	99.86%

Zain Bahrain started commercial operations in the Kingdom in December 2003 as MTC-Vodafone and became the first operator to offer 2G and 3G services from the outset. With its historic introduction of 3.5G, WIMAX and One Network, Zain has tapped into a rich seam of telecommunication records, placing itself and Bahrain on the global telecom map.

With competition on the rise in this dynamic mobile sector, coupled with the value-destroying price promotions, the operation was able to maintain its position as a market value leader with a 32% market share.

As at 30 December 2010, Zain Bahrain had a total of 499,000 customers, which accounted for some 1% of the Group's total customer base.

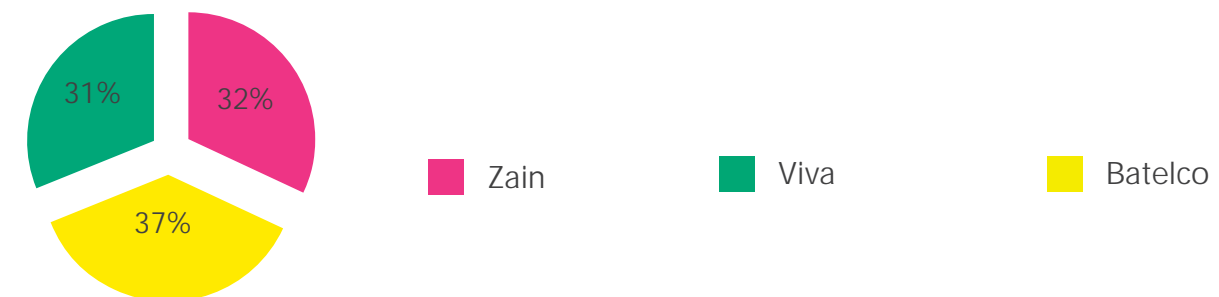
By December 2010, Zain's mobile penetration rate surpassed 200% reflecting the prevalence of a large number of prepaid users in its customer mix, accounting for over 40% of the total reported revenues. At the same time, the company sought to encourage growth in its postpaid base through a number of initiatives aimed at driving more data usage while generating strong ARPU levels. The revenue generated from the postpaid segment was US\$ 81 million (31% of the total revenues). ARPU stood at US\$ 27 for the year-end 2010.

From a regulatory perspective, the Bahrain Telecommunications Regulatory Authority issued three notices: One in respect of ISP operators, blocking some websites offering VoIP calls via internet to Bahrain; two registering all prepaid lines under dealers/distributors and lastly the adoption of Mobile Number Portability (MNP), starting as of May 1, 2011. The operation reported total revenues of US\$ 248 million for 2010. Despite a 5% y-o-y decrease due to a fierce competition by the third entrant, Zain was able to secure 43% revenue share of the total mobile revenues in Bahrain - 2 percentage points (pps) increase from the previous year, reflecting strong commercial efforts to retain higher value customers. Zain Bahrain contributed 5% to the Group's total consolidated revenues. EBITDA decreased by 13% to US\$ 83 million resulting in a 3 pps fall in EBITDA margin. CAPEX on the other hand grew by 52% to reach US\$ 38 million.

As part of the Group, Zain Bahrain's strategy moving forward involves capitalizing on recent investments in 3G and 3.5G infrastructures, increasing value share through smart acquisition, and engaging in other revenue streams to become a full-fledged telecom provider.

To improve its network coverage, the operator deployed 15 base stations over the second half of 2010 to have a total of 269 sites on air to date. To stave-off the increased competition, Zain introduced a range of tailored services to include Ring Back Tone (RBT) promotions to acquire new customers; BlackBerry offers and 100,000 Winners promotion targeted at the prepaid segment.

Customers (000)	2010	2009
Postpaid	137	139
Prepaid	362	523
Total	499	662



Operational & Financial Performance	2010	2009	2008	YOY Growth (10 vs. 09)
Customers (000s)	499	662	686	(24%)
Revenues (US\$ m)	248.3	260.7	227.1	(5%)
EBITDA (US\$ m)	83.4	95.4	76.0	(13%)
EBITDA %	34%	37%	34%	-
Net Profit (US\$ m)	58.0	74.1	56.9	(22%)
ARPU	27	26	28	
Capex (US\$ m)	38.4	25.2	43.3	52%

Financials: P & L (US\$ m)	2010	2009	2008	CAGR
Gross Revenues	248.3	260.7	227.1	4.6%
Cost of Sales	66.8	69.8	69.3	(1.8%)
Gross Margin	181.5	190.9	157.8	7.2%
OPEX	98.1	95.5	81.8	9.5%
EBITDA	83.4	95.4	76.0	4.8%
Net Profit/(Loss)	58.0	74.1	56.9	1.0%

Capex Breakdown (US\$ m)	2010	2009
Capex	38.4	25.2
Networks	31.5	20.1
IT	6.1	4.6
Others	0.8	0.5

Network Reach & IT Infrastructure

Network Quality KPIs

Radio availability	99.85%
Call setup success rate	99.18%
% of cells with TCH congestion > 1%	0.34%
Call drop rate	0.41%
SMS success rate	98.65%

Volume KPIs

In active customers	300,778
BH average traffic (Erlangs)	7,804
Total SMS (MO+MT)	68,123,423

Network Efficiency KPIs and Infrastructure

Network cell utilization	32
Number of BSCs	5
Number of RNCs	2
Number of MSCs/MSSs	2/0
Number of HLRs	1
Number of Ins	1
Number of MGWs	0

IT Systems KPIs

CRM (system availability)	99.80%
Contact center (system availability)	99.80%
Service provisioning	99.77%
Bill generation	100.00%
IN (system availability)	99.90%
Recharge (system availability)	100.00%

In June 2004, MTC won a 4-year management contract to operate one of Lebanon's two GSM networks. This agreement has been renewed several times since, most recently from February 1, 2011 for a 12 month period ending 31 January 2012.

The operation is branded as mtc-touch, and Zain has developed the Lebanese operation to its full potential by providing unprecedented world-class services – enhancing its position as a pioneering and leading telecommunication provider.

To date, mtc-touch had a total of 1.499 million customers – a 14% y-o-y increase – accounting for 4% of the Group's total customer base. It is the market leader in the country with a 53% market share.

The disclosed revenues are those received by Zain from the management contract and do not reflect the revenues from commercial operations.

2010 was another admirable year for mtc-touch with a solid growth in all key performance indicators.

Moving forward, mtc-touch's strategy falls under three pillars: consistently exceeding customers' expectation by presenting attractive products - to this purpose – the operation will introduce packages for low-end ARPU customers; launch of 3G by October of 2011 and Mobile Number Portability process will kick start by early Q2.

To date, the operation in Lebanon has 97% geographical coverage, representing almost 99% of the population.

Customers (000)	2010	2009
Postpaid	240	214
Prepaid	1,259	1,099
Total	1,499	1,313

Operational & Financial Performance	2010	2009	YOY Growth (10 vs. 09)
Customers (000s)	1,499	1,313	14%
Revenues (US\$ m)	106.7	90.1	18%
EBITDA (US\$ m)	32.3	22.6	43%
EBITDA %	30%	25%	
Net Profit (US\$ m)	27.1	19.1	42%

Zain launched commercial operations in the Kingdom of Saudi Arabia on August 26, 2008, a year after it was awarded its mobile license. The Group holds management control of the operation through its 25% ownership stake, while the remaining shareholding stake is distributed among a Saudi Consortium, which owns 25%, the Public Pension Authority with 5% and 45% are Free Float.

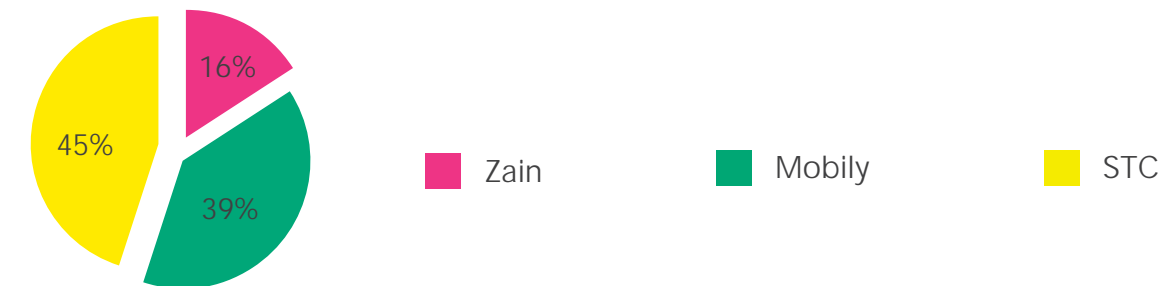
Despite being the third entrant, Zain KSA has been able to secure the highest proportion of net additions throughout 2010 from among its rivals in the Kingdom. The operation ended 2010 with over 8.3 million customers, a 60% y-o-y increase that represented 22% of Zain's customer base.

Zain's prepaid customer base was at 92% by the end of 2010. ARPU was held steadily at US\$ 19 in 2010 and up by 1 percentage point from the previous year, reflecting a minor increase in consumer spending following the recovery of the Saudi market.

With the mobile sector close to saturation, Zain has managed to differentiate itself in the Kingdom as the preeminent potential operator. For the year ending December 31, 2010, Zain KSA reported a 60% increase in revenues reaching US\$ 1.6 billion, the highest revenue among all other Zain Group mobile operations. Over the same period, the operator's EBITDA was up by 131% at US\$ 88.4 million. The Net Loss, meanwhile, showed y-o-y improvement growth of 24% rising to US\$ (629) million from US\$ (826) million. The sound financial performance was driven by a positive EBITDA, a milestone in 28 months of operations, as well as lower net losses on the back of rising consumption of broadband services.

Zain has been catching up with its peers in the Kingdom by steadily expanding its products and services to include a full range of basic voice and data-based VAS, video calling and video mails.

Customers (000)	2010	2009
Postpaid	710	458
Prepaid	7,683	4,774
Total	8,393	5,232



Operational & Financial Performance	2010	2009	YOY Growth (10 vs. 09)
Customers (000s)	8,393	5,232	60%
Revenues (US\$ m)	1,582.3	801.0	98%
EBITDA (US\$ m)	88.4	(284.7)	131%
EBITDA %	6%	(36%)	
Net Profit (US\$ m)	(628.9)	(826.3)	24%
ARPU	19	18	
Capex (US\$ m)	255.3	504.1	(49%)

2010 was a year during which the Zain brand, once again, took firm root in the regional and global consciousness. This was reflected in February when Zain was voted among the world's most valuable brands, according to the BrandFinance Global 500 brand index. Zain also won the inaugural and prestigious GSMA's 2010 Mobile Money for the Unbanked Service award for 'Zap' and scooped, for the second year in a row, the award for the Best Brand at the 4th Annual Telecoms World Awards, Middle East.

Additionally, and notably, our corporate website www.zain.com was ranked (by over 500 media and investor analysts) the number one website across all industries of the region as well as ranking first in three other prestigious categories. It rounded off a year, which saw a fundamental restructuring of Zain's network of country operations. In early June, it was with a heavy heart that Zain announced that it had completed the sale of its 15 African mobile operations (with the exception of Sudan and Morocco) to Bharti Airtel Limited for \$10.7 billion. Under the terms of the original agreement, Bharti Airtel was entitled to use the Zain brand and related trademarks to Bharti in all 15 African operations until November 2010 when the Africa operations were rebranded to Airtel.

2010 CAMPAIGNS

December: The GCC Cup

A TVC (television commercial) was produced to celebrate the 20th Arabian Gulf Cup, held in Yemen in November and December 2010. Shot in an airplane with soccer fans from all the participating countries cheering their national teams, the main message of the campaign was that Zain supports the enjoyment of the game rather than the competition itself, which Kuwait won for the 10th time.



September: Eid Al Fitr

Zain believes in reaching above and beyond ordinary acts of kindness, and in commemorating Eid Al Fitr, Zain wanted to stress that there is compassion in extending a helping hand, in thinking of those less fortunate and in making people smile. The TVC was 'narrated' with a song written exclusively for Zain as a story unfolds in which children make the extra effort to include a lonely giant in the village festivities. The moral of the story was simple: Zain wanted to remind the Arab world that Eid brings everyone together in the spirit of camaraderie and good will.



August: Window of Hope

Zain launched and funded a marketing campaign across the Middle East to promote fundraising activities in support of the United Nations Relief and Works Agency for Palestinian Refugees (UNRWA). The six-week SMS fundraising and advertising drive consisted of TV, print, billboard and online advertising across the region to create awareness of the agency's humanitarian work and raise money to improve the living conditions for Palestinian refugees. The campaign's highlight was a "reality" TVC, shot in Bourj el-Barajneh, Lebanon, capturing the lives of Palestinians living in the camp and opening the world's eyes to their plight.



August: Dollhouse

Zain's message for the Arab world this Ramadan was Allah Akbar, or God is Great, thoughtfully communicated in a warm and engaging rendition of the Athan by Sheikh Mshari Al-Afasy. Zain took the Athan to another level of praise, illustrating its beauty not only as a call to prayer, but also as an expression of unwavering faith. Allah Akbar, whether whispered in moments of happiness, love, and achievement, or difficulty, worry, and fear, is a powerful reminder that God is always greater than whatever it is we may be experiencing, and in this TVC, Zain showed that there is a higher being to help one rise above tribulations and remind us of the need for humility.

**June: Play it Different**

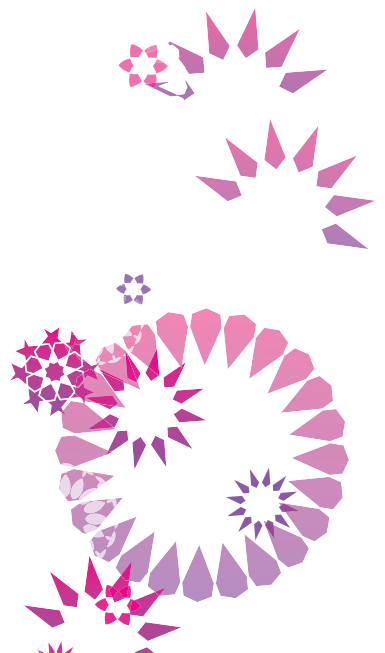
It was time for the FIFA Soccer World Cup, which meant gifts and promotions. But Zain went the extra mile. Instead of the usual, football-related offers, 10 lucky customers won specially customized motorbikes.

**February: Beauty Everywhere**

As part of Zain's bid to create 'A wonderful world' for all its customers, Mohammed Mhalhal Al Yasseen, aka Hammoudi, the star of the groundbreaking 2008 Ramadan campaign, was asked to compose and sing a song dedicated to those with hearing and speaking difficulties. The TVC, which also incorporated sign language, showed the beauty of the world around us, one that does not need to speak or hear to be seen and appreciated.

**January: Fireflies and Schoolgirl**

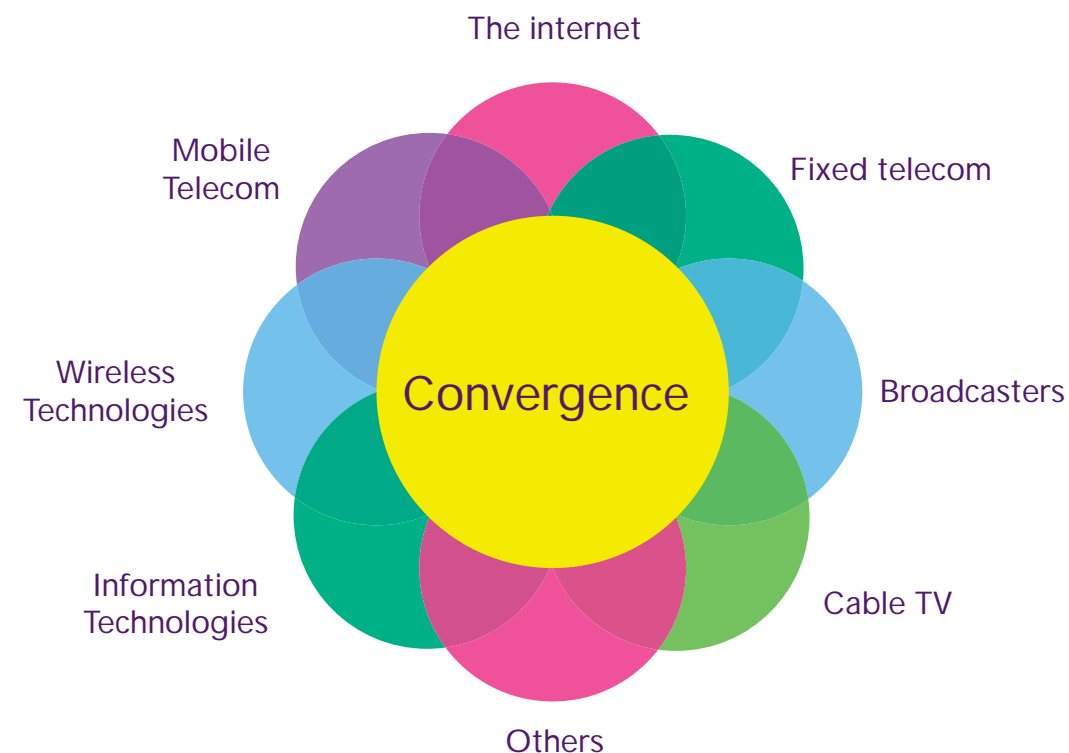
This campaign fit with Zain's brand personality, values and overall proposition. The message behind the TVCs and its uplifting and inspirational stories was to show how one can overcome difficult times to celebrate what life has to offer. There will always be challenges in everyday life, but our message was to not let them define you or get in your way.



Watch these TV commercials on www.zain.com and stay tuned for more great creative work in 2011

The telecommunications industry is one of the fastest growing in the world, one that has witnessed consistent growth during the last year, but which over the past decade has been challenged by rapidly changing consumer demand and competition, which in turn has shifted the future and face of communication away from traditional two-way interpersonal conversations towards a convergent future and a completely new communication experience with multimedia sharing, and socializing.

The new generation of digitally aware consumers, now places social networking and the internet as their primary source of communication. This is fueled by the increasingly affordable smartphones (internet-enabled multimedia devices), high broadband penetration, and the growing acceptance of social networking platforms.



Accordingly, Internet-enabled communication models have become the greatest challenge, as well as the greatest windfall for telecommunications companies around the world. This has transformed the technology to become one led by the demand for access in order to accommodate for the innovative content, applications, services, social networking, entertainment, communication, information, financial transactions and many others.

In 2010, the Zain Group Technology Division recognized these challenges and the need for change, and adapted its business model to cope with present and future technological evolutions. As a result, the Group Technology restructured its resources in the networks and IT departments, and upgraded and migrated its networks and IT infrastructures, transforming them into an open platform to align with Zain's new business models and to support the market dynamics and the evolving requirements. In this regard, the Group Technology Division identified and focused on four major streams in 2010:

1. Recognizing and embracing the changes in the telecommunications industry by merging IT and Networks
2. Adapting and modernizing the operational networks
3. Improving customer experience by enhancing the performance of the networks and IT
4. Building a business oriented technology division

Zain Group Technology Division worked on translating these streams into effective initiatives that are discernible in the local operations infrastructure as indicated below:

1. Recognizing and embracing the changes in the telecommunications industry

Zain restructured its Networks and IT functions and merged them into one functional division called "Group Technology" which also includes a Convergent Technologies department. This new structure will empower and allow the new division to develop end-to-end solutions and platforms that meet customers' needs in terms of supporting multiple access technologies, content, entertainment, and monetary transactions.

2. Adapting and modernizing the operational networks

Zain Group Technology believes in catering for changes in consumer behavior, including growing Internet usage and the need for speed, and improving overall consumer experience and perception. Based on the commercial requirements and operational plans of the local operations, the network elements were reviewed and addressed as part of the modernization process. This was translated into relevant and advanced projects as indicated below:

Data acceleration projects

- Deploying HSPA 21.1 and 42 Mbps network and upgrades in Bahrain, Jordan, Kuwait, and the Kingdom of Saudi Arabia
- Upgrading the 16d WiMax network to 16e in Bahrain
- Introducing new Packet Core modernization in Iraq, Jordan, and Sudan
- Launching enterprise solutions in Bahrain, Jordan, and Saudi Arabia (Fiber Optic and MPLS)

Core networks

- Upgrading core networks to release four in Jordan and Kuwait
- Upgrading the IN systems in Bahrain, Jordan and Sudan
- Deploying a convergent billing system in Jordan

Radio access networks

- Upgrading the radio network (hardware and software) to support high data throughputs, and prepare it for the introduction of LTE in Bahrain, Jordan, Saudi Arabia, and Sudan
- Extending the network coverage to cover new and remote areas with a state of the art radio solution in Iraq (Kurdistan), Sudan (East and South), and remote villages in Saudi Arabia
- Upgrading and phasing out old radio equipment in Jordan, Saudi Arabia, and Sudan

Moreover, a Request for Proposal (RFP) was prepared for Lebanon's HSPA+ project. The tender document was launched in October when the technical and commercial evaluations were completed in a joint effort with the Lebanese regulator.

Transmission and back-hauling projects

- Upgrading the transmission network in Iraq, Jordan, Saudi Arabia, and Sudan
- Zain deployed more than 10,000 km of fiber cables across its operations and leased a further 6,000 km. This includes the new fiber optic network in Bahrain, Jordan, Saudi Arabia, and Sudan

3.Improving customer experience by enhancing the performance of the networks

Zain Group Technology has concentrated on building efficient processes and networks quality and auditing mechanisms to improve the performance of the voice and data networks. Group Technology has:

- Capitalized on the synergies in the local operations and set up a center of excellence and an audit team from the local operations to improve networks quality and performance (voice and data) in order to enhance customer experience. The team conducts frequent network audits (checking performance and benchmarking against competitors), provides a fast response to local optimization needs, and shares and exchanges experiences, resulting in improving the efficiency of the optimization teams at the local operations and a reduced OpEx
- Built an automated cross-operation network auditing system for efficient monitoring and feedback
- Performed frequent auditing by partnering with network auditors
- Improved SLA's with the vendors in Iraq and Saudi Arabia

4.Building a business oriented technology division

The Group's Technology Division shift from a technical focus to a consumer and business oriented focus has demanded considerable effort. Group Technology concentrated on this issue and succeeded in adopting and incorporating the following into their functional processes

- Participating in building the operational technical business plans
- Concentrating on ROI (return on investment)
- Optimizing and rationalizing CapEx and OpEx
- Centralizing and bundling all local CapEx and OpEx requirements to benefit all operations

As part of this strategy, Group Technology along with other functional areas in the Group and the local operations has developed tools and templates for creating harmony and reporting OpEx expenditures. This will enable both Group and local operations to analyze the OpEx, perform benchmarking, and share experiences to improve OpEx expenditure in the operations.

This was translated by both Group Technology and the local operations into the below cross-operation initiatives and technical solutions:

Cross Operational Initiatives

- Green power, hybrid and solar solutions were deployed in Sudan and will be completed in 2011
- Site sharing initiative was successfully implemented in Jordan with the potential to be deployed in Iraq and Sudan
- Setting up an Implementation and Support section to ensure timely roll out of network projects and effective support to the operations

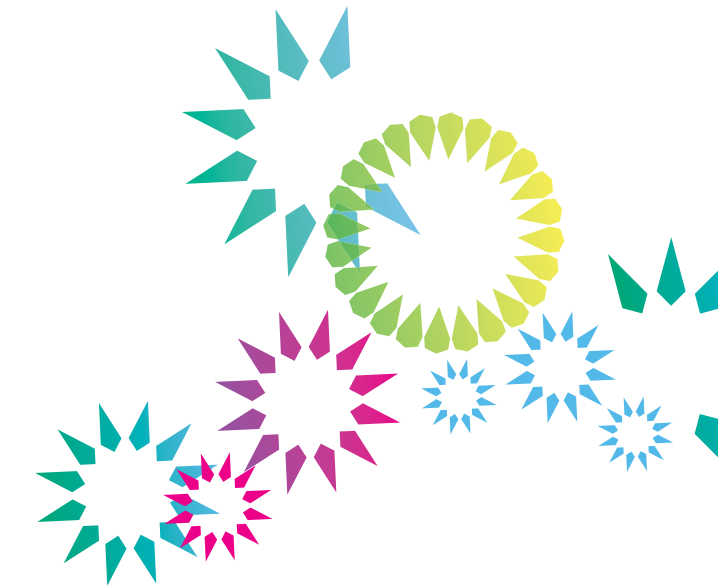
Operation-Related Technical Solutions

Group Technology along with the local technical teams in the operations worked on achieving and applying the best technical and commercial solutions for all the operations by:

- Creating long term solutions (two years for CapEx and three years for OpEx)
- Negotiating cross-operation deals and spreading the benefit across all the operations
- Negotiating deals in local currencies
- Building customized solutions for effective OpEx

Zain Group Technology, with the local teams in the operations, has achieved maximum CapEx and OpEx savings. This enabled the operations to improve their 2010 exercised budgets against the allocated ones and to achieve, and in some operations exceed, their targeted EBITDA.

Last but not least, Zain Group Technology played an important role during the sale of the 15 mobile African operations to Bharti Airtel. After the sale, Group Technology restructured its vision, revisited Network's & IT roles and responsibilities, including the level of support provided to the mature and advanced operations (compared to sold operations), provided initiatives that comply with Zain's new strategy, and managed the vendors services and functions in the Middle East operations.



Following on

Continuing a great 2009 and carrying on Zain's commitment to the economic development of the countries in which it operates, the company initiated and invested in many new mobile offerings as well as the expansion of existing services across its operations. The 1st quarter of 2010 witnessed the expansion of the 'Zap', Zain's mobile commerce service to Malawi, Niger, Sierra Leone, and Ghana after being commercially launched on February 16, 2009 in Kenya, Tanzania and Uganda.

In Barcelona, at the Mobile World Congress, just one year after its launch, 'Zap' won the inaugural and prestigious 'Best Mobile Money for the Unbanked' award at the industry's leading annual Global Mobile Awards. This vote of confidence reflected Zain's sustaining efforts to deliver innovative products and services beyond its core line of business. At the same time, Zain's 'One Network' saw the expansion outside Zain's footprint, with the addition to the network of both Palestine's Paltel (to Zain Jordan only) and South Africa's Cell-C (only with Zain Africa), in addition to Egypt's Mobinil which joined 'One Network' in 2009 (only with Zain Saudi Arabia). This was the third and final phase of the 'One Network' evolution.

Phase one began by introducing the voice and SMS service in September 2006, expanding to Africa and then to the Middle East, linking Zain operations in: Bahrain, Burkina Faso, Chad, Republic of Congo, Democratic Republic of Congo, Gabon, Ghana, Iraq, Jordan, Kenya, Madagascar, Malawi, Niger, Nigeria, Saudi Arabia, Sierra Leone, Sudan, Tanzania, and Uganda.

Phase 2 saw the introduction of 'One Office', which provided data services to all one network participant operators. For the first time, Zain welcomed customers in Kuwait to the 'One Network' platform, but benefiting only from the new data service. Offering 'One network' to partner operators completed the cycle and allowed Zain to finalize yet another chapter in the book of innovation.

The 2nd quarter witnessed exciting times for Zain as it underwent an overall change in its strategy and direction with the successful sale of its 15 African mobile operations (excluding Sudan and Morocco) to Bharti Airtel for \$10.7 billion.

Zain now stood on the threshold of a new era, one that would allow the company to focus on its highly cash generative Middle Eastern operations, investing in new growth opportunities in its existing markets.



Going forward

Zain's ambition was now to become the benchmark for excellence in the mobile telecommunication industry in the Middle East by 2014 by focusing on four stakeholders:

Customers: Become the enabler of a wonderful connected world

Community: Remain an active member in the communities we serve

Employees: Grow to be the employer's of choice for the industry's talent

Shareholders: Always committed to transparency, good governance and the maximization of value

Partners: Successful driver of value-accretive businesses

To achieve this, Zain shifted its focus from expansion to concentrate on three main commercial pillars, in line with the new corporate strategy "I LEAD" which stands for:

Innovative Services

Lean Business

Engaged Organization

Attractive Brand

Delighted Customers

Moving forward, Zain will focus on three main commercial pillars: **Providing Innovation**, focusing on Data with a continued drive in the Mobile Money arena and introducing Mobile Advertising. **Creating Customer Value** by focusing on customer needs and leveraging on the extensive experience across all operations to ensure **Operational Excellence**.



Implementing the dream

Data

At the end of the 2nd quarter, and in its drive towards one of its new pillars – Data – Zain appointed GETMO Arabia as its international music content aggregator providing services to Zain's customers across 7 countries in the Middle East and which launched with the release of Listen Up! The Official 2010 FIFA World Cup™ Album from Sony Music.

As part of the agreement, GETMO Arabia will aggregate music from a number of major international record labels including Sony Music, giving Zain customers access to various types of music from across the world that will be available via mobile phone and online.

This marks the first offering of non-Middle-Eastern music to users on the Zain Create music portal <http://create.zain.com> since its launch in 2009. Getmo Arabia will also be providing content from other music labels contingent with Zain's territorial coverage to suit local musical tastes and preferences in each market.

Soon after, Zain linked up with legendary diva, Fairuz, securing the prelaunch digital rights to 'Ehh fi Amal' (Yes, There is Hope), her first album in four years, giving customers exclusive one-month to download Ring Back Tones (RBT). The full album was later made available on <http://create.zain.com>.



Data across the Operations

Providing data services was an important area of focus across Zain's operations.

In Bahrain, and following Zain's Kuwait and Saudi Arabia MiFi launch (see below for more details), Zain took broadband connectivity to a new level with its e-Go portable 'plug-and-play' Wi-Fi device, that allowed up to five devices to connect to the broadband service at speeds of up to 7.2 Mbps. Sleek and attractively designed, it is password-protected and it offers battery-operated connectivity of up to 4 hours of usage before re-charging.

In the summer, Zain Bahrain also launched 'eeZee', tailor-made prepaid packages for BlackBerry smartphones, which allow customers to purchase BlackBerry data bundles, track their data usage and top up by dialling a dedicated number. Customers can access a BlackBerry bundle of 200MB for 30 days and additional low cost data usage. With Internet browsing and BlackBerry Messenger as well as access to instant messaging and social networking applications – like Facebook and MySpace – customers can stay in touch with colleagues, family and friends while on-the-go.

e-Go Wi-Fi and 'eeZee' prepaid BlackBerry packages join the long list of broadband technology breakthroughs from Zain already available in the Bahraini market, including the first nation-wide 3G service as well HSPA and WIMAX.

December saw the launch of the Zain MiFi Intelligent Mobile Hotspot that is compatible with other Wi-Fi enabled devices such as laptops, smartphones and cameras etc. Zain customers in Kuwait and Saudi Arabia, who travel to any of the other 'One Network' countries, can use the device at local Internet rates and benefit from an extremely fast Internet service. The Zain MiFi Hotspot has an onboard Linux-based operating system capable of delivering



mobile software applications and media. These capabilities enable support for applications, such as automatic VPN connectivity and email synch. The 16GB of expandable memory offers a platform capable of supporting a variety of location-based applications and enabling the storage of personal content, such as music, videos and pictures. Zain MiFi does not require any installation or previously installed software. Users simply turn on the unit to connect to Wi-Fi enabled handsets or devices.

Additionally, after introducing BlackBerry services to eeZee prepaid customers in early 2010, Zain Kuwait launched a special offer for eeZee customers allowing them unlimited high speed, Internet access on their smartphones. To increase efficiency and meet the considerable demand for Internet services and data transfer, Zain underwent a comprehensive expansion of its network across Kuwait. The eventual launch of LTE with 150 Mbit/sec for loading and 50 Mbit/sec for transmission, will give customers faster data download speed.

In Iraq, Zain was the first operator to launch e-Go packages and GPRS bundles with daily, weekly and monthly packages. In October, Zain Jordan won the 'Best Arabic Application' prize for its tourism directory, at the 4th Annual Telecoms World Awards, Middle East held in Dubai. 'Ijaza' allows customers to browse an easy-to-use, comprehensive directory on the most important sites, shopping areas and restaurants in the Kingdom. Downloaded for free, its search engine also enables customers to access a wide spectrum of images and maps, as well as check weather forecasts.

In Saudi Arabia, after announcing a major breakthrough in the development of its 4G network, which supports advanced LTE technology, Zain revealed that it had set a new regional record in data transfer speed at over 145 MB/s. The service is now fully operational in the Kingdom and LTE technology can be efficiently delivered at top capacity once the regulatory authorities set aside the necessary frequencies. Zain customers will then be able to enjoy high-speed voice and data transfer services, making Zain the first real-time service provider to do so in the country.

In Sudan, Zain introduced an annual broadband offer for connect customers, which included high speed, unlimited Internet browsing and downloading for an annual competitive fee. Also for the first time in Sudan, Zain introduced Android smartphones with advanced features and internet packages for both prepaid and postpaid customers.

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www.zain.com

A Wonderful World

Bringing Mobile Commerce to the Middle East

Just as Zain initiated change in Africa with 'Zap', it is bringing mobile commerce to the Middle East, targeting the unbanked, the youth, and the low income expat segments in the region.

Zain Jordan was the first mobile operator in the Middle East to launch 'E-mal' in January 2011 allowing customers to:

- Deposit and withdraw cash from their m-wallet
- Send money to Zain Jordan customers even if they are not registered with the service
- Settle their own bills or any other Zain Jordan's customer bill
- Top up theirs or any other Zain Jordan's customer airtime account

Zain Jordan is partnering with Capital Bank to introduce 'Zain E-mal' in addition to signing agreements with Tamweelcom to provide Micro-Finance services and with Middle East Payment Services (MEPS) which will also provide customers with a branded MasterCard.

The service will also be launched in Bahrain in the 1st quarter of 2011 and in the other Zain operations once regulatory approvals are obtained. After these launches Zain customers in Jordan and the other participating countries will be able to send and receive money with 'Zain E-mal' across borders using 'One Network' as the service delivery platform.

Throughout 2011, in keeping up to pace with technology advances and offerings, the company will continue to roll out appealing products and services according to the commercial viability of such offerings and taking into account relevant economic conditions in each of the markets it serves.

Zain E-mal

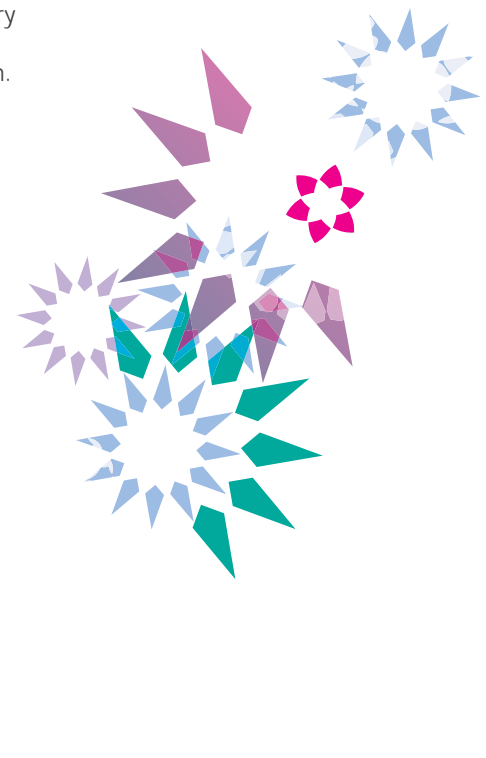
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*Additional fees will be charged on each withdrawal.
**This offer is valid until 31.12.2011.

www.zain.com

A Wonderful World



2010 was a year of change for Zain due to the sale of its 15 African operations to Bharti Airtel on June 8. Naturally, this had an impact on the Zain Group's Corporate Social Responsibility (CSR) direction as we had to reorganize our focus in order to align the CSR strategy to the new strategic goals of the organization.

As in previous years, CSR remains a central component of the company's mission as we recognize that at the core of the organization's activities are the various communities in which we operate. The management dedicated time and effort and engaged in stakeholder dialogue in order to identify the key deficits and needs of the region and how the company can address these needs. Serious consideration was given to the previous CSR initiatives and how they impacted the communities.

After much consideration and evaluation of the pressing issues in the communities in which we operate, we decided to re-shift our strategic thrust for CSR for 2011 to focus on knowledge and education. Education is a key driver for human development as it provides the foundations by which societies can grow and prosper. Knowledge is an enabler and as such is an area in which Zain aspires to contribute.

An active year

In 2010, the Zain Group CSR developed the guidelines by which our operations could formulate and implement CSR initiatives in their individual markets that fall in line with the new strategic direction. It was an active year across all our operations with philanthropy, goodwill and dedication central to all initiatives.

During the Holy Month of Ramadan our operations set up Iftar tents, and launched a regional SMS fund raising campaign in support of the health and educational projects of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) on the occasion of its 60-year anniversary.

The agreement represented the first partnership between UNRWA and the private sector and included a six-week media campaign that was broadcast on satellite channels to promote UNRWA's values and humane works, as well as other projects including a relief fund to provide financial and other assistance to Palestinian refugees.



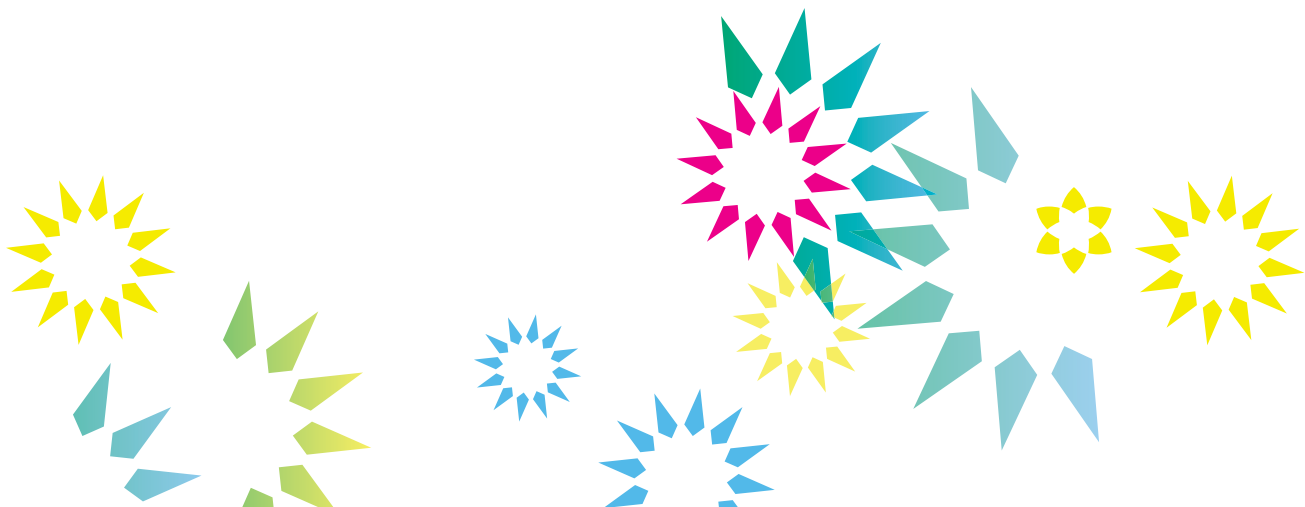
2010 CSR highlights across the operations

Zain Bahrain

e-Shabab: Zain sponsored e-Shabab, a summer training program that mentors young innovators and is a combination of three main elements: training, guidance, and a competition which links the program to the innovative and award-winning 'Zain Dream' initiative.

F.U.N.: Zain has taken the leadership route with its Future University Network (F.U.N) program, offering young people hands-on work experience at Zain where they can develop leadership and innovation.

e-learning Centre – an ongoing commitment: This highly advanced technological centre was developed in 2004 in coordination with the University of Bahrain at a cost of more than BD 310,000 (\$823,242) donated by Zain Bahrain. The centre, which Zain will maintain and upgrade, caters to nearly 17,000 students and faculty on an annual basis.



Zain Dream: This creative CSR project won the prestigious Arab Golden Chip Award at the Mena ICT Week in January, 2010. The project has been running for two years with over 24 winning 'dreams' that have gone on to serve the community and which have been richly supported with financial incentives, valuable publicity and professional input from Zain Bahrain. In 2010, Zain Dream was linked to e-Shabab. The most innovative young person to use technology creatively won mentorship as well as financial and technical support through Zain Dream.

Additionally, Zain Bahrain is a consistent supporter of institutions and individuals with special needs. In 2010, we donated a bus to help transport people with special needs to and from their places of work and we have created special packages for the hearing and speech impaired as well as providing Braille computers for the blind.

Zain Iraq

Ammar foundation: Zain sponsors the Ammar International Charitable Foundation, which provides support for health and education programs in the southern marshes and central regions of Iraq. This sponsorship is part of Zain Iraq's efforts to implement philanthropic activities throughout the country.

Widows Center: Zain sponsored the Center for the Training and Development of Widows. The center helps Iraqi widows by providing courses in sewing and computer science, as well helping them find job opportunities throughout Iraq.



Zain Jordan

Zain Educational Fund: Launched in 2004, it is one of our ongoing initiatives, offering 42 university scholarships each year. As of 2010, 134 students were granted scholarships through the fund with 45 students graduating so far.

Zain Mobile Maintenance Training Center: Zain established the first center for training on the maintenance of mobile equipment in Jordan in partnership with the Vocational Training Center in 2008. The center, which receives 16 students during each session, is located in the Vocational Training Corporation in Zarqa. Around 100 graduate each year.

School adoption initiative - Madrasati: The Madrasati or My School initiative was launched by Her Majesty Queen Rania Al-Abdullah, to renovate and maintain selected public schools across the Kingdom. As a major partner of this initiative, Zain offered JD 400,000 (\$563,000) for maintenance and infrastructure purposes, as well as for the support of the educational programs to secure a safe and comfortable environment for students. To date, Zain has adopted seven schools through this initiative.

Zain Lab and Digital Community Centers: The Zain Digital Community Centers at Al-Wehdat, Al-Baq'a, and Karak develop human resources, particularly the youth, and enhance their ICT skills and capabilities. Zain also inaugurated a first-of-its-kind lab for mobile telecommunications at the Jordan University of Science and Technology (JUST). Furnished with state of the art equipment, the Zain lab provides training for hundreds of undergraduate and graduate engineering students in mobile telecom research.

Al Aman Fund: Zain provides 25 educational scholarships for Al Aman fund, which cares for orphans, for whom the company also provides job opportunities and training.

Monitoring the quality of water resources: Zain offered free GPRS service to monitor and control the quality of water in Jordan, one of the ten poorest nations in the world in terms of water resources. Zain has established a GPRS system that includes 13 field stations, taking in the Yarmouk and the Jordan River and the King Abdullah canal. This initiative was launched in partnership with the Ministry of Environment and Higher Council for Science and Technology.

Towards Life: A joint effort between Zain and the King Hussein Cancer Foundation to support cancer patients, Towards Life was launched in 2003. In 2010, the company launched an SMS campaign to support the Center during Ramadan. To kick-start the campaign, Zain also offers a monetary check for cancer patients. Alongside the SMS campaign, Zain donated a waiting area at the Center in addition to a Coin Collection Program, managed by Zain, collecting contributions from customers via coin boxes placed in its local outlets.



Zain Kuwait

RUNQ8 - Shoof Zain: Zain sponsored RunQ8, a 10 km race on November 6, 2010 in support of Kuwait University's Community Eye Health Initiative - Vision 2020, a joint initiative of the World Health Organization (WHO), and the International Agency for the Prevention of Blindness (IAPB). A preliminary project for eye care for the elderly will be conducted in joint cooperation between the Kuwait University and the Kuwait Ministry of Health. As a part of the partnership, Zain will fund many eye care related projects and, as part of the Shoof Zain campaign, a fully-equipped mobile care unit with facilities to detect eye disease.

Najee: A Cancer Support Group that is first of its kind in Kuwait and which has the first fully-fledged, dedicated Arabic language Cancer site in the Middle East.

Patients' Helping Fund: Zain, for the third year in a row, has donated KD 50,000 (\$180,000) for Kuwait's Patients' Helping Fund Society (PHFS) as a contribution towards providing medical treatment to non-Kuwaiti cancer patients and supporting the major role played by the Kuwait Patients Helping Fund Society in the treatment of cancer.

National Union of Kuwaiti Students: For the 3rd year in a row, Zain sponsored the annual conference of the National Union of Kuwaiti Students (NUKS) which was held in Miami between November 26 – 27, 2010. The company also hosted a gala dinner on the final night, during which it honored the 16 top students. This sponsorship is an unequivocal demonstration of the company's commitment to what it sees is the budding leaders and decision makers of the future. NUKS represents over 2,000 Kuwaiti students at universities across the US, where, through its activities and programs they can develop their personal and academic skills.

F.U.N. (Future University Network): This is the first and only youth program of its kind in Kuwait, fully and completely created and run by Zain, targeting college students. It offers them the chance to bridge the gap between studies and actual work experience, combining training sessions and social programs, as well as fun activities and youth discounts.

Hala Febrayer: Kuwait's National and Independence days fall in February. Zain supports a month long festival that not only supports the occasion but also enhances all around economic growth, tourism, culture, and the arts.

P2Bk: Proud to be Kuwaiti is a national campaign and NGO that supports and guides young nationals to establish businesses and promote entrepreneurship.



mtc touch Lebanon

Back to School: At the start of the 2010-2011 academic year, mtc touch offered school bags and supplies to underprivileged children belonging to several charitable associations across Lebanon.

Supporting people with special needs: For the 5th year in a row, mtc touch continued to champion the physically and mentally challenged by renewing its support for both Al Younbough Rehabilitation Center for people with special needs and the Lebanese Autism Society. In May, the company sponsored two events: Draw a smile and walk with Al Younbough and The 10th Annual Lebanese Autism Society Fun Day.

Zain Saudi Arabia

Mashroee Zain: Mashroee Zain aims to create work and investment opportunities for women through the development of small, specialized projects promoting and selling Zain's products and services from prepaid lines and their recharged cards, mobile phones and accessories, memory cards and digital recording devices. In 2010 Zain and Azyan, a strategic partner that provides telecom products and accessories in KSA, held several monthly motivational meetings to boost the programs effectiveness.

Shabab Tamouh Program: This program offers young graduates guidance on how to succeed in the workplace through training programs that are offered at the company offices throughout KSA. Participants are assigned intern positions that allow them to put their university studies into practice in accordance with their respective backgrounds.



Zain Sudan

Funding Schools and Universities: Zain Sudan funded more than 14 schools in construction and rehabilitation efforts and supplied others with more than 20,000 school uniforms, 500,000 notebooks as well as many other items. Zain also funded the construction of theaters in many universities and provided computers, including those for laboratories, as well as routers, servers, and lab coats.

Health Programs: Zain funded many health programs including hospital construction, health center donations, the sponsoring of a dialysis center, the provision of hospitals with equipment and sponsoring medical conferences. The hospitals that benefitted from Zain's largesse included the Hayder Mahmoud Center for dialysis and transplantation, Elkaraba Health Center, and the Madeni Pediatric Hospital, to name a few.

Al Tayeb Saleh Award: Zain Sudan launched the Al Tayeb Saleh Literature Award, an annual cultural prize named in honor of the Sudanese writer, to coincide with the first anniversary of his death. Zain will give \$200,000 for the best short story, novel and literature critique.





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Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Mobile Telecommunications Company K.S.C. ("the Parent Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

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 Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by 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 Commercial Companies Law of 1960, as amended, or of the Articles of Association have occurred during the year ended 31 December 2010 that might have had a material effect on the business of the Group or on its consolidated financial position.

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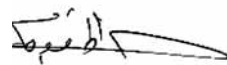
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Al-Ahli Bureau
Certified Accountants
Kuwait 3 March 2011

(in thousands KD)	Note	2010	2009
ASSETS			
Current assets			
Cash and bank balances	5	644,215	267,175
Trade and other receivables	6	472,570	405,434
Inventories	7	13,258	32,554
Investment securities at fair value through profit or loss	8	7,465	7,464
		1,137,508	712,627
Non-current assets			
Deferred tax assets	9	375	134,049
Investment securities available for sale	8	98,641	98,492
Investments in associates	10	116,096	165,771
Interest in a jointly controlled entity	11	40,270	44,063
Loans to associates	12	187,263	141,996
Property and equipment	13	793,686	2,151,768
Intangible assets	14	1,304,449	2,245,453
Other assets	15	31,649	2,539
		2,572,429	4,984,131
Total Assets		3,709,937	5,696,758
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	16	593,221	939,944
Due to banks	17	124,933	536,472
		718,154	1,476,416
Non-current liabilities			
Due to banks	17	94,734	1,615,994
Deferred tax liabilities	9	-	38,704
Other non-current liabilities	18	149,132	87,166
		243,866	1,741,864
EQUITY			
Attributable to Parent Company's shareholders			
Share capital	19	429,743	428,285
Share premium	19	1,697,788	1,691,105
Treasury shares	19	(567,834)	(567,834)
Legal reserve	19	214,871	147,989
Voluntary reserve	19	-	63,091
Foreign currency translation reserve		(143,767)	(21,174)
Treasury shares reserve		1,967	1,967
Equity issue transaction cost of associate		(1,779)	(1,814)
Investment fair valuation reserve		4,532	(7,719)
Share based compensation reserve		7,386	18,361
Hedge reserve		(2,524)	(49,298)
Retained earnings		1,006,607	593,643
		2,646,990	2,296,602
Non-controlling interests		100,927	181,876
Total equity		2,747,917	2,478,478
Total Liabilities and Equity		3,709,937	5,696,758

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



Asaad Ahmed Al Banwan
Chairman



Nabeel Bin Salamah
Chief Executive Officer

Consolidated Statement of Income

for the year ended 31 December 2010

(in thousands KD)	Note	2010	2009 (Restated)
CONTINUING OPERATIONS			
Revenue	20	1,351,681	1,263,039
Cost of sales		(354,836)	(325,535)
Gross profit		996,845	937,504
Distribution, marketing and operating expenses		(266,956)	(237,082)
General and administrative expenses		(107,947)	(113,847)
Depreciation and amortization	13,14	(166,279)	(149,673)
Provision for impairment – trade and other receivables		(6,184)	(3,110)
Operating profit		449,479	433,792
Interest income		17,813	11,167
Investment income	21	(1,945)	(8,231)
Share of loss of associates	10	(45,018)	(61,145)
Share of loss of jointly controlled entity	11	(4,836)	(4,229)
Other income		20,038	14,366
Finance cost		(55,254)	(93,736)
Gain / (Loss) from currency revaluation		12,517	(47)
Board of Directors' remuneration		(32)	(32)
Contribution to Kuwait Foundation for Advancement of Sciences	22	(2,335)	(1,818)
National Labour Support Tax and Zakat	22	(8,244)	(7,694)
Profit for the year before income tax		382,183	282,393
Income tax expense of subsidiaries	23	(36,174)	(36,760)
Profit from continuing operations		346,009	245,633
Discontinued operations			
Profit/ (loss) from discontinued operations	4	741,809	(34,392)
		1,087,818	211,241
Attributable to:			
Shareholders of the Parent Company		1,062,805	195,008
Non-controlling interests		25,013	16,233
		1,087,818	211,241
Earnings per share (EPS)			
	24		
Basic – Fils			
From continuing operations		80	55
From discontinued operations		195	(4)
		275	51
Diluted – Fils			
From continuing operations		79	54
From discontinued operations		195	(4)
		274	50

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

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2010

(in thousands KD)	2010	2009 (Restated)
Profit for the year	1,087,818	211,241
Other comprehensive income :		
On continuing operations:		
Exchange differences on translating foreign operations	(175,587)	67,098
Net unrealised gains on available-for-sale investments	9,917	7,364
Net realised gains/ (loss) transferred to consolidated statement of income on available-for-sale investments (net of impairment losses)	1,187	(5,882)
Cash flow hedges	(1,226)	11,084
Share based compensation	550	7,207
Share of other comprehensive income/ (expense) of an associate	35	(68)
Total comprehensive (expense)/ income for the year	(165,124)	86,803
On discontinued operations- transfers to consolidated statement of income:		
Cumulative exchange differences	50,607	-
Net realised loss on available-for-sale investments	1,147	-
Cash flow hedges	48,000	-
	99,754	-
	1,022,448	298,044
Total comprehensive income attributable to:		
Shareholders of the Parent Company		
From continuing operations	148,204	320,116
From discontinued operations	851,618	(28,885)
	999,822	291,231
Non- controlling interests		
From continuing operations	32,680	29,654
From discontinued operations	(10,054)	(22,841)
	22,626	6,813

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

Consolidated Statement of Changes in Shareholders' Equity

for the year ended 31 December 2010

(in thousands KD)	Equity Attributable to Parent Company's Shareholders													Non-Controlling Interests	Total
	Share Capital	Share Premium	Treasury Shares	Legal Reserve	Voluntary Reserve		Foreign Currency Translation Reserve	Treasury Shares Reserve	Equity Issue Transaction Cost of Associate	Investment Fair Valuation Reserve	Share Based Compensation Reserve	Hedge Reserve	Retained Earnings		
Balance at 1 January 2010	428,285	1,691,105	(567,834)	147,989	63,091		(21,174)	1,967	(1,814)	(7,719)	18,361	(49,298)	593,643	181,876	2,478,478
Transfer to reserves	-	-	-	66,882	-		-	-	-	-	-	-	(66,882)	-	-
Sale of shares in a subsidiary	-	-	-	-	-		-	-	-	-	-	-	-	(93,080)	(93,080)
Exercise of share options	1,458	6,683	-	-	-		-	-	-	-	-	-	(227)	-	7,914
Cash dividends (2009)	-	-	-	-	(63,091)		-	-	-	-	-	-	(594,257)	(10,495)	(667,843)
Transfer to retained earnings	-	-	-	-	-		-	-	-	(11,525)	-	-	11,525	-	-
Total comprehensive income for the year	-	-	-	-	-		(122,593)	-	35	12,251	550	46,774	1,062,805	22,626	1,022,448
Balance at 31 December 2010	429,743	1,697,788	(567,834)	214,871	-		(143,767)	1,967	(1,779)	4,532	7,386	(2,524)	1,006,607	100,927	2,747,917
Balance at 1 January 2009	427,240	1,690,772	(567,834)	127,788	63,091		(97,692)	1,967	(1,746)	(9,201)	20,395	(60,382)	625,014	181,717	2,401,129
Transfer to reserves	-	-	-	20,201	-		-	-	-	-	-	-	(20,201)	-	-
Adjustments to non-controlling interest share	-	-	-	-	-		-	-	-	-	-	-	-	(1,393)	(1,393)
Sale/ purchase of shares to/ from non-controlling interest (Note 3)	-	-	-	-	-		-	-	-	-	-	-	(22,477)	4,101	(18,376)
Exercise of share options	1,045	333	-	-	-		-	-	-	-	-	-	(468)	-	910
Cash dividends (2008)	-	-	-	-	-		-	-	-	-	-	-	(192,474)	(9,362)	(201,836)
Transfer to retained earnings	-	-	-	-	-		-	-	-	(9,241)	-	-	9,241	-	-
Total comprehensive income for the year	-	-	-	-	-		76,518	-	(68)	1,482	7,207	11,084	195,008	6,813	298,044
Balance at 31 December 2009	428,285	1,691,105	(567,834)	147,989	63,091		(21,174)	1,967	(1,814)	(7,719)	18,361	(49,298)	593,643	181,876	2,478,478

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

(in thousands KD)	2010	2009
Cash flows from operating activities		
Profit for the year before income tax	1,119,796	250,671
Adjustments for:		
Depreciation, amortization and goodwill written off	280,342	420,957
Interest income	(19,943)	(13,372)
Investment income	1,945	8,226
Gain from disposal of a subsidiary	(778,134)	-
Share of loss of associates	45,018	61,145
Share of loss of jointly controlled entity	4,836	4,229
Finance costs	78,609	160,710
Gain on sale of property and equipment	(18)	(8)
(Gain)/ loss from currency revaluation	(3,286)	38,172
Operating profit before working capital changes	729,165	930,730
Increase in trade and other receivables	(305,700)	(83,925)
Decrease/ (increase) in inventories	2,744	(1,149)
Increase in trade and other payables	150,129	23,696
Cash generated from operations	576,338	869,352
Payments:		
Income tax	(38,630)	(12,685)
Board of Directors' remuneration	(28)	-
Kuwait Foundation for Advancement of Sciences (KFAS)	(4,159)	(2,841)
National Labour Support Tax and Zakat	(5,528)	(6,247)
Net cash from operating activities	527,993	847,579
Cash flows from investing activities		
Deposits under lien and those maturing after three months (Note 5)	(180,866)	-
Proceeds from sale of investment securities	312	5,561
Investments in securities	(4)	(1,404)
Investments in associates/ jointly controlled entity	(1,308)	(70,891)
Proceeds from disposal of a subsidiary (Note 4)	2,277,429	-
Deferred purchase consideration paid	-	(192,915)
Acquisition of property and equipment (net)	(269,687)	(469,385)
Acquisition of intangible assets	(37,791)	(7,072)
Interest received	19,522	24,888
Dividends received	1,640	2,216
Net cash from/ (used) in investing activities	1,809,247	(709,002)
Cash flows from financing activities		
(Repayment of)/ proceeds from bank borrowings (net)	(1,342,769)	184,308
Loan to an associate	(9,040)	(59,246)
Proceeds from issue of share capital	7,914	910
Dividends paid	(653,934)	(191,086)
Dividends paid to non-controlling interests	(10,478)	(9,362)
Finance costs paid	(80,760)	(178,772)
Net cash used in financing activities	(2,089,067)	(253,248)
Net increase/ (decrease) in cash and cash equivalents	248,173	(114,671)
Effects of exchange rate changes on cash and cash equivalents	(51,999)	13,975
Cash and cash equivalents at beginning of year	267,175	367,871
Cash and cash equivalents at end of year (Note 5)	463,349	267,175

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

1. Incorporation and activities

Mobile Telecommunications Company K.S.C. (the Parent Company) is a Kuwaiti shareholding company incorporated in 1983 in accordance with the Law of Commercial Companies of 1960. 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 Parent Company and its subsidiaries (the Group) along with associates provide mobile telecommunication services in Kuwait and 7 other countries (31 December 2009 - Kuwait and 22 other countries) under licenses 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.

During the year, the Group disposed its entire shareholding in Zain Africa BV, Netherlands (ZABV) to a major mobile telecom operator based in India for an enterprise valuation of US\$ 10.7 billion (KD 3.1 billion), in accordance with the legally binding definitive Share Sale Agreement (SSA) dated 30 March 2010 (see Note 4).

The principal subsidiaries and associates are listed in Note 3.

These consolidated financial statements were authorized and approved for issue by the Board of Directors of the Parent Company on 03 March 2011 and are subject to approval of the shareholders at their forthcoming Annual General Meeting.

2. Basis of preparation and significant accounting policies

2.1. Basis of preparation

These consolidated financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). These consolidated financial statements are prepared under the historical cost basis of measurement as modified by the revaluation at fair value of financial assets held as "at fair value through profit or loss" or "available for sale". These consolidated financial statements have been presented in Kuwaiti Dinars, rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent assets and contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a high degree of judgment or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 33.

2.2. Changes in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year except for the adoption of the following new and amended IASB Standards and IFRIC Interpretations that are effective from 1 January 2010:

IFRS 2 (Amended)	: Share-based Payment
IFRS 5 (Amended)	: Non-current Assets Held for Sale and Discontinued Operations
IFRS 8 (Amended)	: Operating Segments
IAS 1 (Amended)	: Presentation of Financial Statements
IAS 7 (Amended)	: Statement of Cash Flows
IAS 17 (Amended)	: Leases
IAS 31 (Amended)	: Interests in Joint Ventures
IAS 36 (Amended)	: Impairment of Assets
IAS 38 (Amended)	: Intangible Assets
IAS 39 (Amended)	: Financial Instruments: Recognition and Measurement
IFRIC 9 (Amended)	: Reassessment of Embedded Derivatives
IFRIC 16 (Amended)	: Hedges of a net investment in a foreign operation
IFRIC 17	: Distributions of Non-cash Assets to Owners
IFRIC 18	: Transfers of Assets from Customers

The adoption of the above Standards did not have any material impact on the consolidated financial statements of the Group.

Standards and Interpretations issued but not yet effective

The following new and revised IASB Standards and IFRIC Interpretations have been issued but are not yet effective and have not been early adopted by the Group:

For annual periods beginning on or after 1 July 2010

IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments

The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in the statement of income. The adoption of this interpretation will have no material effect on the consolidated financial statements of the Group.

For annual periods beginning on or after 1 January 2011

IAS 24 (Revised) : Related Party Transactions

It clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Group does not expect any material impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

Improvements to IFRS

In May 2010, IASB issued amendments to various standards and interpretations as part of its annual improvements project.

These amendments have not been adopted as they become effective for annual periods beginning on or after 1 January 2011:

IFRS 3	:	Business combinations
IFRS 7	:	Financial Instruments: Disclosures
IAS 1	:	Presentation of Financial Statements
IAS 27	:	Consolidated and Separate Financial Statements
IAS 34	:	Interim Financial Reporting
IFRIC 13	:	Customer Loyalty Programmes
IFRIC 14	:	Prepayment of a minimum funding requirements

For annual periods beginning on or after 1 February 2010

IAS 32 (Amended) : Financial Instruments: Presentation – Classification of Rights Issues

The definition of a financial liability was amended to classify rights issues for a fixed amount of foreign currency (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no significant impact on the consolidated financial statements of the Group.

For annual periods beginning on or after 1 January 2013

IFRS 9 : Financial Instruments: Classification and Measurement

This Standard will replace IAS 32 and IAS 39 upon its effective date. IFRS 9 establishes principles for the financial reporting of financial assets that will present relevant and useful information to users of the financial statements for their assessment of the amounts, timing and uncertainty of the entity's future cash flows.

The application of the above standards will be made in the consolidated financial statements when these standards and interpretations become effective and are not expected to have a material impact on the consolidated financial statements of the Group.

2.3. Business combinations

A business combination is the bringing together of separate entities or businesses into one reporting entity as a result of one entity, the acquirer, obtaining control of one or more other businesses. The acquisition method of accounting is used to account for business combinations. The consideration transferred for the acquisition is measured as the fair values of the assets given, equity interests issued and liabilities incurred or assumed at the date of the exchange. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. The acquisition related costs are expensed when incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination (net assets acquired in a business combination) are measured initially at their fair values at the acquisition date. Non-controlling interest in the subsidiary acquired is recognized at the non-controlling interest's proportionate share of the acquiree's net assets.

When a business combination is achieved in stages, the previously held equity interest in the acquiree is re-measured at its acquisition-date fair value and the resulting gain or loss is recognized in the consolidated statement of income. The fair value of the equity of the acquiree at the acquisition date is determined using valuation techniques and considering the outcome of recent transactions for similar assets in the same industry in the same geographical region.

The Group separately recognizes contingent liabilities assumed in a business combination if it is a present obligation that arises from past events and its fair value can be measured reliably.

An indemnification received from the seller in a business combination for the outcome of a contingency or uncertainty related to all or part of a specific asset or liability that is recognized at the acquisition date at its acquisition-date fair value is recognized as an indemnification asset at the acquisition date at its acquisition-date fair value.

The Group uses provisional values for the initial accounting of a business combination and recognizes any adjustment to these provisional values within the measurement period which is twelve months from the acquisition date.

2.4. Consolidation

Subsidiaries are those enterprises, including special purpose entities, controlled by the Group. Control exists 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.

Non-controlling interest in an acquiree is stated at the non-controlling interest's proportionate share of the acquiree's identifiable net assets at the acquisition date and the non-controlling interest's share of changes in the equity since the date of the combination. Total comprehensive income is attributed to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. Changes in the Group's ownership interest in a subsidiary that do not result in loss of control are accounted for as equity transactions. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interest in the subsidiary and any difference between the amount by which the non-controlling interests is adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the Parent Company's shareholders. Non-controlling interest is presented separately in the consolidated statements of financial position and income. The non-controlling interests are classified as a financial liability to the extent there is an obligation to deliver cash or another financial asset to settle the non-controlling interest.

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 subsidiaries. Intra group balances, transactions, income, expenses and dividends are eliminated in full. Profits and losses resulting from intra group transactions that are recognized in assets are eliminated in full. If a parent loses control of a subsidiary, it derecognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost as well as related non-controlling interests. Any investment retained is recognized at fair value at the date when control is lost. Any resulting difference along with amounts previously directly recognized in equity is transferred to the consolidated statement of income.

2.5. Financial instruments**Classification**

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

In accordance with International Accounting Standard (IAS) 39, the Group classifies financial assets as “at fair value through profit or loss”, “loans and receivables” or “available for sale”. All financial liabilities are classified as “other than at fair value through profit or loss”.

Recognition/ derecognition

A financial asset or a financial liability is recognized when the Group becomes a party to the contractual provisions of the instrument. A financial asset (in whole or in part) is derecognized when the contractual rights to receive cash flows from the financial asset has expired or the Group has transferred substantially all risks and rewards of ownership and has not retained control. If the Group has retained control, it continues to recognize the financial asset to the extent of its continuing involvement in the financial asset.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and recognition of a new liability.

All regular way purchase and sale of financial assets are recognized using settlement date accounting. Changes in fair value between the trade date and settlement date are recognized in the consolidated statement of income or in the consolidated statement of comprehensive income in accordance with the policy applicable to the related instrument. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

Measurement*Financial instruments*

All financial assets or financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue are added except for those financial instruments classified as “at fair value through profit or loss”.

Financial assets at fair value through profit or loss

Financial assets classified as “at fair value through profit or loss” are divided into two sub categories: financial assets held for trading, and those designated at fair value through statement of income at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if they are managed and their performance is evaluated and reported internally on a fair value basis in accordance with a documented investment strategy. Derivatives are classified as “held for trading” unless they are designated as hedges and are effective hedging instruments.

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are subsequently measured and carried at amortised cost using the effective yield method.

Available for sale

These are non-derivative financial assets not included in any of the above classifications and principally 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, exchange rates or equity prices. These are subsequently measured and carried at fair value and any resultant gains or losses are recognized in the consolidated statement of comprehensive income. When the “available for sale” asset is disposed of or impaired, the related accumulated fair value adjustments are transferred to the consolidated statement of income as gains or losses.

Financial liabilities/ equity

Financial liabilities “other than at fair value through profit or loss” are subsequently measured and carried at amortized cost using the effective yield method. Equity interests are classified as financial liabilities if there is a contractual obligation to deliver cash or another financial asset.

Financial guarantees

Financial guarantees are subsequently measured at the higher of the amount initially recognized less any cumulative amortization and the best estimate of the amount required to settle any financial obligation arising as a result of the guarantee.

Fair values

Fair values of quoted instruments are based on quoted closing bid prices. If the market for a financial asset is not active or the financial instrument is unquoted, fair value is derived from recent arm's length transactions, discounted cash flow analysis, other valuation techniques commonly used by market participants or determined with reference to market values of similar instruments.

The fair value of financial instruments carried at amortised cost is estimated by discounting the future contractual cash flows at the current market interest rates for similar financial instruments.

Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Derivatives with positive fair values (unrealised gains) are included in other receivables and derivatives with negative fair values (unrealised losses) are included in other payables in the consolidated statement of financial position. For hedges, which do not qualify for hedge accounting and for “held for trading” derivatives, any gains or losses arising from changes in the fair value of the derivative are taken directly to the consolidated statement of income. For hedge accounting, the Group designates derivatives as either hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge) or hedges of a net investment in a foreign operation (net investment hedge).

Fair value hedge

In relation to fair value hedges, which meet the conditions for hedge accounting, any gain or loss from re-measuring the hedging instrument to fair value is recognized in ‘Other receivables’ or ‘Other payables’ and in the consolidated statement of income. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognized in the consolidated statement of income.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged items recorded at amortised cost, using the effective interest rate method, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge. If the hedged item is derecognized, the unamortised fair value adjustment is recognized immediately in the consolidated statement of income.

Cash flow hedge

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in the consolidated statement of comprehensive income and the ineffective portion is recognized in the consolidated statement of income.

When the hedged cash flow affects the consolidated statement of income, the gain or loss on the hedging instrument is ‘recycled’ in the corresponding income or expense line of the consolidated statement of income. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in shareholders’ equity at that time remains in shareholders’ equity and is recognized when the hedged forecast transaction is ultimately recognized in the consolidated statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in shareholders’ equity is immediately transferred to the consolidated statement of income.

Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

The Group documents at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than twelve months and as a current asset or liability if less than twelve months.

Impairment

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset or a group of similar assets may be impaired. If such evidence exists, the asset is written down to its recoverable amount. The recoverable amount of an interest bearing instrument is determined based on the net present value of future cash flows discounted at original effective interest rates; and of an equity instrument is determined with reference to market rates or appropriate valuation models. Any impairment loss is recognised in the consolidated statement of income. For "available for sale" equity investments, reversals of impairment losses are recorded as increases in fair valuation reserve through equity.

Financial assets are written off when there is no realistic prospect of recovery.

2.6. 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 consolidated statement of cash flows.

2.7. Inventories

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

2.8. Income taxes

Income tax payable on profits is recognized as an expense in the period in which the profits arise based on the applicable tax laws in each jurisdiction.

Deferred income tax is provided using the liability method on all temporary differences, at the statement of financial position date, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax provisions depend on whether the timing of the reversal of the temporary difference can be controlled and whether it is probable that the temporary difference will reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Deferred tax assets are recognized for all temporary differences, including carry-forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the temporary difference can be utilised. The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised.

2.9. Investments in associates

Associates 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. The excess of the cost of investment over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recognised as goodwill. Goodwill on acquisition of associates is included in the carrying values of investments in associates. Investments in associates are initially recognised at cost and are subsequently accounted for by the equity method of accounting from the date of significant influence to the date it ceases.

Under the equity method, the Group recognises in the consolidated statement of income, its share of the associate's post acquisition results of operations and in equity, its share of post acquisition movements in reserves that the associate directly recognises in equity. The cumulative post acquisition adjustments, and any impairment, are directly adjusted against the carrying value of the associate. Appropriate adjustments such as depreciation, amortisation and impairment losses are made to the Group's share of profit or loss after acquisition to account for the effect of fair value adjustments made at the time of acquisition.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivable, the Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate.

2.10. Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control. A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The Group recognises its interests in jointly controlled entities using the equity method.

2.11. 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 – 15
Aircraft	10
Furniture	1 – 12

These assets are reviewed periodically for 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 consolidated statement of income. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.12. Intangible assets and goodwill

Identifiable non-monetary assets acquired in a business combination and from which future benefits are expected to flow are treated as intangible assets. Intangible assets comprise of telecom license fees, customer contracts and relationships, key money and software rights.

Intangible assets which have a finite life are amortized over their useful lives. For acquired network businesses whose operations are governed by fixed term licenses, the amortisation period is determined primarily by reference to the unexpired license period and the conditions for license renewal. Telecom license fees are amortised on a straight line basis over the life of the license. Key money and software rights are amortized on a straight line basis over a period of five years for software rights and over the lease period for operating leases. Customer contracts and relationships are amortised over a period of 4 to 5 years.

Goodwill arising in a business combination and is computed as the excess of the aggregate of: the consideration transferred; the non-controlling interests proportionate share of the acquiree's net identifiable assets, if any; and in a business combination achieved in stages the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree, over the net of the acquisition-date fair values of the identifiable assets acquired and liabilities assumed. Any deficit is a gain from a bargain purchase and is recognized directly in the consolidated statement of income.

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is allocated to each of the cash generating units for the purpose of impairment testing. Gains and losses on disposal of an entity or a part of the entity include the carrying amount of goodwill relating to the entity or the portion sold.

Goodwill and intangible assets with indefinite useful lives are tested at least annually for impairment and carried at cost less accumulated impairment losses.

Assets are grouped at the lowest levels for which there are separately identifiable cash flows, known as cash generating units for the purpose of assessing impairment of goodwill and intangible assets. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata, on the basis of the carrying amount of each asset in the unit. That relating to goodwill cannot be reversed in a subsequent period. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risk specific to the asset for which the estimates of future cash flows have not been adjusted. The Group prepares formal five year plans for its businesses. These plans are used for the value in use calculation. Long range growth rates are used for cash flows into perpetuity beyond the five year period. Fair value less costs to sell is determined using valuation techniques and considering the outcome of recent transactions for similar assets in the same industry in the same geographical region.

2.13. 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.

2.14. Share-based payment transactions

The Group operates an equity settled share based compensation plan. The cost of these share based transactions is measured at fair value at the date of the grant taking into account the terms and conditions upon which the instruments were granted. The fair value of these options excludes non-market vesting conditions, which are included in assumptions about the number of options that are expected to vest. The fair value is expensed over the vesting period with recognition of a corresponding adjustment in the consolidated statement of comprehensive income. It recognizes the impact of the revision to the original estimates, if any in the consolidated statement of income, with a corresponding increase or decrease in the consolidated statement of comprehensive income.

2.15. 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 statement of financial position date. This basis is considered to be a reliable approximation of the present value of the final obligation.

2.16. 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. Reserves equal to the cost of treasury shares held are not available for distribution.

2.17. 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 consolidated 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 recognized as assets in the consolidated statement of financial position 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 liability outstanding.

2.18. Revenue

Revenues from operations consist of recurring revenues, such as billings to customers for monthly subscription fees, roaming, leased line and airtime usage fees, and non-recurring revenues, such as one-time connection fees and telephone equipment and accessory sales. Recurring revenue is recognized when the related service is rendered and comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of activities. Other revenues, which arise from service contracts, sales of telephones and accessories or other services, are recognized during the period in which the services or goods are provided.

Direct costs associated with prepaid cards which includes both the cost of purchasing the cards as well as dealer margins, are recognised when incurred, i.e. upfront while the airtime costs are recognized as and when the revenue is being recognised. Prepaid income collected in advance is deferred and recognized based on actual usage or upon expiration of the usage period, whichever comes first.

Specific customer acquisition costs are charged to marketing expenses or dealer commissions when the subscriber is activated. Interest income is recognized on a time proportion basis using the effective yield method and dividend income is recognized when the right to receive payment is established.

2.19. Borrowing costs

Borrowing costs are recognized as an expense in the period in which they are incurred, except to the extent that they are capitalised. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of the asset.

2.20. Foreign currencies

The functional currency of an entity is the currency of the primary economic environment in which it operates and in the case of the Parent Company it is the Kuwaiti Dinar and in the case of subsidiaries it is their respective national currencies or the applicable foreign currency. 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 statement of financial position date are translated to Kuwaiti Dinars at the rates of exchange prevailing on that date. Resultant gains and losses are taken to the consolidated statement of income.

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 operations are translated into the Parent Company's reporting currency at average exchange rates for the year and their statement of financial position are translated at exchange rates ruling at the year-end. Exchange differences arising from the translation of the net investment in foreign operations (including goodwill, long term receivables or loans and fair value adjustments arising on business combinations) are taken to the consolidated statement of comprehensive income. When a foreign operation is sold, any resultant exchange differences are recognized in the consolidated statement of income as part of the gain or loss on sale.

2.21. Discontinued operations

An entity is classified as a discontinued operation when the criteria to be classified as held for sale has been met or it has been disposed of. An item is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Such a component represents a separate major line of business or geographical area of operation.

2.22. Contingencies

Contingent assets are not recognized as an asset until realisation becomes virtually certain. Contingent liabilities, other than those arising on acquisition of subsidiaries, 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. Contingent liabilities arising in a business combination are recognized if their fair value can be measured reliably.

3. Subsidiaries and Associates

The principal subsidiaries and associates are:

Subsidiary	Country of Incorporation	Percentage of ownership	
		2010	2009
Zain International B.V. (formerly Mobile Telecommunications Company International B.V.) – "ZIBV"	The Netherlands	100%	100%
Pella Investment Company – "Pella"	Jordan	96.516%	96.516%
Zain Bahrain B.S.C (Closed) - "MTCB"	Bahrain	56.25%	56.25%
Mobile Telecommunications Company Lebanon (MTC) S.A.R. "MTCL"	Lebanon	100%	100%
Sudanese Mobile Telephone (Zain) Company Limited "Zain Sudan"	Sudan	100%	100%
Atheer Telecom Iraq Limited – "Atheer"	Cayman Islands	71.667%	71.667%
Associate			
Saudi Mobile Telecommunications Company (SMTc)	Saudi Arabia	25%	25%

Zain International B.V. held 100% of Zain Africa B.V., Netherlands (ZABV) which was a Dutch holding and finance company principally engaged in the business of operating cellular telecommunications networks in 15 (2009 - 15) countries in Africa. During the year, the Group disposed its entire shareholding in ZABV (refer Note 4).

Subsidiary	Country of Incorporation	Percentage of ownership	
		2010	2009
Celtel Burkina Faso S.A	Burkina Faso	-	100%
Celtel Tchad S.A	Chad	-	100%
Celtel Congo (DRC) SARL	Dem. Rep of Congo	-	98.50%
Celtel Congo S.A	Republic of Congo	-	90%
Celtel Gabon S.A	Gabon	-	90%
Celtel Kenya Limited	Kenya	-	95%
Celtel Malawi Limited	Malawi	-	100%
Celtel Niger S.A	Niger	-	90%
Celtel (S.L) Limited	Sierra Leone	-	100%
Celtel Limited Uganda	Uganda	-	100%
Celtel Zambia Limited	Zambia	-	78.88%
Celtel Tanzania Limited	Tanzania	-	60%
Celtel Madagascar SA	Madagascar	-	100%
Celtel Nigeria Limited	Nigeria	-	65.702%
Zain Ghana Limited	Ghana	-	75%

Pella owns 100% of Jordan Mobile Telecommunications Services Co. JSC – "JMTC".

JMTC, MTCB and Atheer operate the cellular mobile telecommunications network in Jordan, Bahrain and Iraq respectively. MTCL manages the state owned cellular mobile telecommunications network in Lebanon.

MTCL

On 30 January 2009, the Parent Company signed a one year Network Management Agreement (NMA) with the Republic of Lebanon. The NMA has since been extended up to 31 January 2011. The financial statements of MTCL are prepared on a going concern basis as the management believes that any potential adjustments to the presentation and amounts in the statement of financial position arising from expiry of the NMA may not be significant.

Atheer, Iraq

Effective 1 April 2010, Atheer changed its functional currency from US Dollars to Iraqi Dinars. In accordance with IAS 21 this change has been accounted for prospectively from this date. Atheer continues to present financial statements in US dollars for consistency and better reporting of its financial results to stakeholders. This change has no significant impact on the consolidated financial statements of the Group.

ZABV

In 2009, the Group acquired an additional equity interest in one of the operations under ZABV for a consideration of US\$ 63.75 million (KD 18.58 million). The difference between the consideration paid and the share acquired of the carrying value of net assets is recorded in equity.

Financial support to Group companies

The Group has committed to provide working capital and other financial support to Atheer, Zain Sudan, and SMTC whose working capitals are in deficit. Based on business plans, the Group does not expect these conditions will have a material adverse impact on the operations of these Group companies.

4. Disposal of Zain Africa BV

On 8 June 2010, (First Closing Date), the Group disposed its entire shareholding in Zain Africa BV, Netherlands (ZABV) to a major mobile telecom operator based in India for an enterprise valuation of US\$ 10.7 billion (KD 3.1 billion), in accordance with the legally binding definitive Share Sale Agreement (SSA) dated 30 March 2010. The buyer has assumed US\$ 1.7 billion (KD 494 million) of Zain Africa BV's consolidated net debt obligations valuing the equity and shareholder loans of ZABV at US\$ 9 billion.

Out of this amount the Group received US\$ 7.8 billion (KD 2.3 billion) on the First Closing Date. This was after deduction of US\$ 700 million (KD 203 million) which is payable one year from the First Closing Date and US\$ 432 million (KD 125 million) in accordance with the terms and conditions in the SSA. Subsequently, the Group received US\$ 295 million (KD 63 million) on receipt of regulatory approvals in some territories.

Accordingly, ZABV has not been consolidated from 8 June 2010 and its revenue and costs for the period 1 January 2010 to 8 June 2010 have been presented as a 'Discontinued Operation' based on International Financial Reporting Standard - (IFRS) 5 "Non-current Assets Held for Sale and Discontinued Operations".

Gain on disposal

(in thousands KD)

Cash flows upon disposal of subsidiary

Enterprise value (US\$ 10.7 billion)	3,107,280
Less: Consolidated net debt obligations assumed by the buyer (US\$ 1.7 billion)	(493,680)
Equity and shareholder loan value of ZABV (US\$ 9 billion)	2,613,600
Less:	
Amount receivable on expiry of twelve months from First Closing Date (US\$ 700 million)	(203,280)
Other amounts receivable under SSA (US\$ 83 million)	(24,104)
Other deductions under per SSA (US\$54 million)	(15,557)
Net cash received	2,370,659
Less: Cash and cash equivalents of ZABV as on the first closing date	(93,230)
Net proceeds from disposal of subsidiary (as disclosed in the consolidated statement of cash flows)	2,277,429

In accordance with the terms of the SSA, the Group used the cash received to prepay its US\$ 4 billion (KD 1.16 billion) bank borrowing and to unwind the related interest rate cash flow hedge. The loss on unwinding the hedging instruments amounting to US\$ 127 million (equivalent KD 37 million) is included in the transaction costs (See the following table).

On the first closing date, the Group recognized a capital gain of US\$ 2.7 billion (KD 778 million) as follows:

(in thousands KD)	
Equity and shareholder loan value of ZABV (US\$ 9 billion)	2,613,600
Less: Inter-company shareholder loans	(720,960)
Equity value	1,892,640
Less:	
Carrying value of investment in ZABV	(787,879)
Transaction and other costs (see below)	(326,627)
Gain on disposal of ZABV	778,134

Transaction and other costs

(in thousands KD)

Professional and advisory fees	17,322
Personnel costs- termination and other dues	38,149
Cash flow hedge and underwriting fee loss	38,632
Provisions for estimated income taxes under SSA	117,520
Provisions for other potential claims including penalties assumed by Group under the SSA	89,832
Other charges under SSA	25,172
	326,627

The details of gain on disposal is as follows:

(in thousands KD)

Gain on disposal before transfers from other comprehensive income	930,770
Transfers from other comprehensive income:	
Cumulative exchange differences	(114,483)
Cash flow hedges	(37,006)
Investment fair valuation reserve	(1,147)
Gain on disposal before contribution to KFAS	778,134

The results of the discontinued operations including operating results of ZABV up to 8 June 2010 is as follows:

(in thousands KD)	2010	2009
Gain on disposal before contribution to KFAS	778,134	-
Related KFAS	(7,781)	-
Net gain on disposal of discontinued operations	770,353	-
Operating results of ZABV up to 8 June 2010		
Revenue	406,903	1,055,333
Expenses	(295,124)	(721,285)
Depreciation and amortization	(114,063)	(271,284)
Interest income	2,130	2,206
Finance cost	(23,355)	(66,974)
Loss on currency revaluation	(9,231)	(38,126)
Loss for the year before tax	(32,740)	(40,130)
Income tax expense	4,196	5,738
Loss from discontinued operations	(28,544)	(34,392)
Total profit/ (loss) from discontinued operations	741,809	(34,392)
Attributable to:		
Shareholders of the Parent Company	751,441	(16,457)
Non-controlling interests	(9,632)	(17,935)
	741,809	(34,392)

Cash flows

The cash flows from ZABV from 1 January 2010 to 8 June 2010 are as follows:

(in thousands KD)	2010	2009
Operating cash flows	57,645	350,016
Investing cash flows	(77,278)	(335,766)
Financing cash flows	20,444	34,432
Total cash flows	811	48,682

5. Cash and bank balances

Cash and bank balances include the following cash and cash equivalents:

(in thousands KD)	2010	2009
Cash on hand and at banks	255,965	169,277
Short-term deposits with banks	377,133	97,898
Government certificates of deposits held by Zain Sudan	11,117	-
	644,215	267,175
Less:		
Deposits with a foreign bank under lien (Note 10)	(169,749)	-
Government certificates of deposits held by Zain Sudan with maturities exceeding three months	(11,117)	-
	463,349	267,175

The effective interest rate on short-term deposits as of 31 December 2010 was 0.4% to 8% per annum (2009 – 3.02% to 6.13%).

6. Trade and other receivables

(in thousands KD)	2010	2009
Trade receivables:		
Customers	66,040	90,453
Distributors	10,081	19,334
Other operators (interconnect)	44,212	83,639
Roaming partners	5,765	15,788
Provision for impairment	(24,747)	(51,458)
	101,351	157,756
Other receivables:		
Accrued income	5,831	7,339
Staff	2,106	5,162
Due from associates	41,308	44,678
Due from sale of ZABV (refer Note 4)	220,180	-
Prepayments, advances and other deposits	102,031	190,499
Provision for impairment	(237)	-
	371,219	247,678
	472,570	405,434

As of 31 December 2010, trade and other receivables of KD 364,969,000 (2009 - KD 279,497,000) were neither past due nor impaired. Trade and other receivables of KD 101,155,000 (2009 - KD 122,795,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The ageing analysis of these trade receivables is as follows:

(in thousands KD)	2010	2009
Up to 3 months	29,381	27,911
3 – 6 months	16,190	13,267
6 – 12 months	19,880	19,492
More than 12 months	35,704	62,125
	101,155	122,795

As of 31 December 2010, trade and other receivables of KD 31,430,000 (2009 - KD 54,600,000) were impaired against which the Group carries a provision of KD 24,984,000 (2009 - KD 51,458,000). The individually impaired receivables mainly relate to post paid customers. It has been assessed that a portion of the impaired receivables is expected to be recovered.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

(in thousands KD)	2010	2009
Kuwaiti dinar	54,713	19,089
US dollar	327,823	155,599
Euro	11,151	19,674
Bahraini dinar	16,144	20,837
Sudanese pound	32,330	33,972
Jordanian dinar	13,708	45,271
Others	16,701	110,992
	472,570	405,434

Movement of provision for impairment of trade and other receivables is as follows:

(in thousands KD)	2010	2009
Opening balance - 1 January	51,458	50,014
On disposal of a subsidiary	(32,461)	-
Recoveries/ write back of provisions	(2,331)	(9,530)
Charge for the year	8,318	10,974
Closing balance – 31 December	24,984	51,458

The Group does not hold any collateral as security.

7. Inventories

(in thousands KD)	2010	2009
Handsets and accessories	14,104	36,784
Provision for obsolescence	(846)	(4,230)
	13,258	32,554

8. Investment securities

(in thousands KD)	2010	2009
Current investments at fair value through profit or loss		
Quoted equities	7,465	7,464
Non-current investments available for sale		
Quoted equities	61,877	53,120
Funds	32,054	26,665
Unquoted equities	12,823	26,043
Impairment loss	(8,113)	(7,336)
	98,641	98,492

Investment securities are denominated in the following currencies:

(in thousands KD)	2010	2009
Kuwaiti dinar	75,074	71,714
US dollar	19,597	26,915
Other currencies	11,435	7,327
	106,106	105,956

Available for sale investments include unlisted securities with original cost of KD 9,641,000 (2009 - KD 9,951,000) carried at cost less impairment since it is not possible to reliably measure their fair value.

During the year, the Group recognized an unrealized gain of KD 9,917,000 (2009 - KD 7,364,000) in investment fair valuation reserve arising from fair valuation of 'available for sale' investments and transferred a loss of KD 2,334,000 (2009 - gain of KD 7,555,000) from investment fair valuation reserve to the consolidated statement of income, arising from disposals. The Group also recognized an impairment loss of KD 777,000 (2009 - KD 1,673,000) in the consolidated statement of income. Quoted equities are traded in active markets. Investments in funds of KD 31,310,000 (2009 - KD 25,906,000) are valued based on observable market data.

9. Deferred tax assets/ liabilities

(in thousands KD)	2010	2009
Deferred tax assets:		
Deferred tax assets to be recovered after more than 12 months	375	128,597
Deferred tax assets to be recovered within 12 months	-	5,452
	375	134,049
Deferred tax liabilities:		
Deferred tax liability payable after more than 12 months	-	36,474
Deferred tax liability payable within 12 months	-	2,230
	-	38,704

10. Investments in associates

This represents the Group's share of investments in associates accounted for using the equity method.

(in thousands KD)	2010	2009
Opening balance	165,771	216,389
Capital contribution during the year	260	1,779
Share of loss for the year (See below)	(45,018)	(61,145)
Foreign currency translation adjustment	(2,393)	8,748
Share of comprehensive income	(2,524)	-
Closing balance	116,096	165,771

The carrying amount of the Group's investment in SMTC included above is KD 115 million (2009: KD 165 million) and the Group's total investment in SMTC including loans and receivables (Note 6 and Note 12) is KD 338.468 million (2009 - KD 351.578 million). The fair value of the Group's investment in SMTC as at 31 December 2010 is SAR 203,438,000 (2009 - KD 271,766,000).

The Group is also contingently liable for guarantees amounting to US\$ 961 million (KD 270 million) relating to a loan and other vendor financing availed by SMTC (2009- KD 222 million). The Group has provided cash collaterals of US\$ 483 million and SAR 452 million amounting to KD 170 million against these guarantees (refer Note 5).

In August 2010, the Board of Directors of SMTC approved a plan to restructure the share capital of the Company, which is subject to regulatory and shareholders' approval, as follows:

- Reduce share capital from Saudi Riyal (SAR) 14 billion (KD 1.05 billion) to SAR 7.328 billion (KD 550 million) by cancellation of 667 million shares in order to absorb the accumulated losses of the Company as of 30 June 2010;
- Subsequently to increase the share capital by SAR 4.383 billion (KD 329 million) through conversion of shareholders' loans and a rights issue.

In August 2009, SMTC refinanced the US\$ 2.6 billion murabaha loan that matured in July 2009 with a new murabaha facility of a similar amount repayable in full in August 2011. SMTC has an option to extend the above maturity date by six months provided no default has occurred during the period. Accordingly, this loan is classified as non-current in SMTC's financial statements. SMTC has hedged this exposure through interest rate swaps.

Under the murabaha financing agreement, SMTC must obtain prior written consent of the lenders to declare any dividend or other distribution in cash or in kind to shareholders, modify any shareholder loan agreement or to make any payment under a shareholder loan agreement. Parent Company's shareholding in SMTC is pledged to associate's secured creditors as continuing security for the payment and discharge in full by SMTC of the secured debt.

SMTC has reported a net loss of SAR 2.358 billion (KD 180 million) for the year ended 31 December 2010 (2009 – KD 238 million) and accumulated losses of SAR 7.736 billion (KD 580 million) as of that date (2009 – KD 413 million). SMTC's current liabilities also exceed current assets by SAR 5.452 billion (KD 409 million) as of 31 December 2010 (2009 – KD 375 million).

SMTC's independent auditor's modified audit report dated 20 February 2011 draws attention to SMTC's negative working capital and accumulated deficit and discloses that its financial statements for the year ended 31 December 2010 have been prepared on a going concern basis as SMTC believes it will be successful in meeting its obligations in the normal course of operations.

The Group's share of the associates' assets, liabilities, revenue and profit/ loss is as follows:

(in thousands KD)	2010	2009
Assets	529,992	537,228
Liabilities	413,896	371,457
Revenue	114,173	57,935
Net (loss)/ profit for the year:		
SMTC, Saudi Arabia	(45,076)	(59,514)
Others	58	(1,631)
	(45,018)	(61,145)

11. Interest in a jointly controlled entity

The Group incorporated a jointly controlled entity Zain Al Ajjal S.A. in the Kingdom of Morocco in 2009 which then acquired 31% of the equity shares and voting rights of Wana Corporate, (a Moroccan joint stock company which is specialized in the telecom sector in that country) for US\$ 178 million. The Group's share of loss for the year in the jointly controlled entity amounting to KD 4.836 million (2009- KD 4.229 million) has been recognized in the consolidated statement of income.

The carrying value of this jointly controlled entity and its results for the year are determined by Group management using the equity method based on its management estimates.

12. Loans to associates

This includes shareholder loans denominated in Saudi Riyal, United States Dollar and Kuwaiti Dinar provided to SMTC by the Parent Company.

The SAR 1.1 billion (KD 83.205 million) loan, disbursed in 2008, carries an interest rate of 4.25% per annum over three month Saudi Inter-Bank Offered Rate (SIBOR) starting from 12 August 2009.

The loan of US\$ 223.65 million (KD 62.891 million) (2009 – KD 59 million) carries an interest rate of 6.75% per annum over six month Saudi Inter-Bank Offered Rate (SIBOR).

KD 36.84 million loan carries an interest rate of 4.75% per annum over three month Saudi Inter-Bank Offered Rate (SIBOR).

These loans are subordinate to the associate's borrowings from banks and are repayable only after repayment of the Murabaha loan availed by SMTC. These loans also form part of the capital restructuring plan proposed by the Board of Directors of SMTC (refer Note 10).

13. Property and equipment

(in thousands KD)	Land and buildings	Cellular and other equipment	Projects in progress	Total
Cost				
As at 31 December 2008	97,343	2,580,848	456,527	3,134,718
Additions	28,030	499,555	37,837	565,422
Transfers and adjustments	4,164	165,432	(171,386)	(1,790)
Disposals	(14,872)	(54,654)	(71,867)	(141,393)
Exchange adjustment	3,028	38,486	(16,200)	25,314
As at 31 December 2009	117,693	3,229,667	234,911	3,582,271
Additions	3,210	145,818	154,418	303,446
Transfers and adjustments	779	110,502	(149,241)	(37,960)
On disposal of a subsidiary	(49,864)	(2,065,835)	(98,790)	(2,214,489)
Disposals	(2,548)	(14,101)	(15,290)	(31,939)
Exchange adjustment	(1,476)	(86,404)	(9,384)	(97,264)
As at 31 December 2010	67,794	1,319,647	116,624	1,504,065
Accumulated depreciation				
As at 31 December 2008	37,290	1,070,638	-	1,107,928
Charge for the year	5,891	337,823	-	343,714
On disposals	(11)	(35,190)	-	(35,201)
Exchange adjustment	1,158	12,904	-	14,062
As at 31 December 2009	44,328	1,386,175	-	1,430,503
Charge for the year	3,984	232,159	-	236,143
On disposal of a subsidiary	(15,235)	(882,047)	-	(897,282)
On disposals	(304)	(9,596)	-	(9,900)
Exchange adjustment	(1,775)	(47,310)	-	(49,085)
As at 31 December 2010	30,998	679,381	-	710,379
Net Book Value				
As at 31 December 2010	36,796	640,266	116,624	793,686
As at 31 December 2009	73,365	1,843,492	234,911	2,151,768

Property and equipment includes vehicles with a net book value of KD Nil (2009 - KD 1,168,000) acquired under finance lease by Zain Sudan and buildings with a net book value of KD Nil (2009 - KD 785,000) acquired under a finance lease by MTCB. Projects in progress comprise of cellular and other equipment amounting to KD 115,948,000 (2009 - KD 222,040,000) and buildings amounting to KD 676,000 (2009 - KD 12,871,000).

The Group re-evaluated the estimated useful life of towers of its Sub Saharan operating segment in 2009 based on internal technical assessments, contractual guarantees from suppliers, historical replacement information and industry benchmarks and decided to extend the useful life of towers from 8 to 15 years. This change in accounting estimate applies prospectively resulted in a KD 14.91 million lower depreciation charge for that year.

14. Intangible assets

(in thousands KD)	Goodwill	Licence fees	Others	Total
Cost				
At 31 December 2008	1,735,706	654,161	49,987	2,439,854
Additions	5,966	4,910	2,228	13,104
Disposals	(512)	-	(19)	(531)
Adjustments to identifiable assets	(11,008)	(8,950)	183	(19,775)
Exchange adjustments	76,472	8,578	3,546	88,596
At 31 December 2009	1,806,624	658,699	55,925	2,521,248
Additions	-	-	2,641	2,641
On disposal of subsidiary	(790,606)	(175,593)	(11,693)	(977,892)
Exchange adjustments	(74,795)	(18,958)	(709)	(94,462)
As at 31 December 2010	941,223	464,148	46,164	1,451,535
Accumulated amortization and impairment losses				
At 31 December 2008	76,883	104,800	23,748	205,431
On disposals	-	-	(13)	(13)
Adjustments to identifiable assets	-	(4,176)	4,333	157
Impairment losses	22,864	-	-	22,864
Charge for the year	-	45,621	8,758	54,379
Exchange adjustments	2,568	(8,600)	(991)	(7,023)
At 31 December 2009	102,315	137,645	35,835	275,795
On disposal of subsidiary	(91,854)	(69,420)	(10,112)	(171,386)
Charge for the year	-	37,381	6,818	44,199
Exchange adjustments	1,481	(2,760)	(243)	(1,522)
As at 31 December 2010	11,942	102,846	32,298	147,086
Net book value				
As at 31 December 2010	929,281	361,302	13,866	1,304,449
As at 31 December 2009	1,704,309	521,054	20,090	2,245,453

Goodwill has been allocated to each country of operation as that is the Cash Generating Unit (CGU) which is expected to benefit from the synergies of the business combination. It is also the lowest level at which goodwill is monitored for impairment purposes.

Goodwill and the CGU to which it has been allocated and license expiry dates are as follows:

(in thousands KD)	License expiry date	2010	2009
Pella Investment Company, Jordan	February 2021	79,516	79,516
Zain Bahrain B.S.C (Closed), Bahrain	April 2018	-	-
Celtel Burkina Faso S.A	-	-	32,743
Celtel Tchad S.A	-	-	31,889
Celtel Congo (DRC) SARL	-	-	105,838
Celtel Congo S.A	-	-	77,959
Celtel Gabon S.A	-	-	107,226
Celtel Kenya Limited	-	-	36,839
Celtel Malawi Limited	-	-	17,724
Celtel Niger S.A	-	-	27,747
Celtel (S.L) Limited	-	-	31,448
Celtel Limited Uganda	-	-	6,860
Celtel Zambia Limited	-	-	61,323
Celtel Tanzania	-	-	4,371
Celtel, Madagascar	-	-	28,166
Celtel, Nigeria	-	-	104,389
Zain Ghana Limited	-	-	32,310
Sudanese Mobile Telephone Company Limited (Zain, Sudan)	February 2029	425,249	484,841
Atheer Telecom Iraq Limited, Cayman Islands	September 2022	424,516	433,120
		929,281	1,704,309

Impairment testing

The Group determines whether goodwill or intangible assets with indefinite useful lives are impaired, at least on an annual basis. This requires an estimation of the recoverable amount of the CGUs to which these items are allocated. The recoverable amount is determined based on value-in-use calculations or fair value less cost to sell if that is higher.

The Group management used the following approach to determine values to be assigned to the following key assumptions in the value in use calculations:

Key assumption	Basis used to determine value to be assigned to key assumption
Growth rate	Increase in competition expected but no significant change in market share of any CGU as a result of ongoing service quality improvements and expected growth in market penetration but excluding that from improving or enhancing the asset's performance. Average revenue in the period immediately before budget period increased each year for anticipated growth in revenue of up to 7.9% (2009 – 12%). Value assigned reflects past experience and changes in economic environment. Cash flows beyond the five year period have been extrapolated using a growth rate of 2% (2009 – 3%). This growth rate does not exceed the long term average growth rate of the market in which the CGU operate.
Exchange rate	Average market forward rate over the budget period. Value assigned is consistent with external sources of information.
Discount rate	Discount rates range from 15.8% to 18.6% (2009 – 14% to 15.8%) per annum. Discount rates used are pre-tax and reflect specific risks relating to the relevant CGU.

The Group has performed a sensitivity analysis by varying these input factors by a reasonably possible margin and assessing whether the change in input factors result in any of the goodwill allocated to appropriate cash generating units being impaired.

These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five year period. The recoverable amount so obtained was significantly above the carrying amount of the CGUs.

In 2009, the Group recorded an impairment charge of KD 22,864,000 on one of the operation under ZABV. This amount is disclosed in the consolidated statement of income under discontinued operations.

15. Other assets

This includes an amount of US\$ 40 million (KD 11 million) receivable from a fellow member in SMTC and is secured by a subordinated right over that member's shares in SMTC.

16. Trade and other payables

(in thousands KD)	2010	2009
Trade payables	47,202	209,985
Deferred revenue	49,161	104,168
Due to roaming partners	7,084	10,936
Due to other operators (interconnect)	5,211	11,571
Due to Government of Jordan	13,519	12,906
Income taxes – foreign subsidiaries	29,628	88,870
Kuwait Foundation for the Advancement of Sciences	11,812	2,939
National Labour Support Tax and Zakat	5,429	4,762
Dividend payable	11,134	7,638
Accrued expenses	340,164	277,322
Directors' remuneration	32	64
License fee payable (See note below)	35,150	179,313
Other payables	37,695	29,470
	593,221	939,944

License fee payable represents the deferred payment liability for Atheer's telecom license fee, payable to the telecom regulatory authority of Iraq. In March 2010, Atheer entered into an agreement with the telecom regulatory authority to defer the license fee payable in five equal annual installments starting 23 February 2010 with a finance cost of 6% per annum on the balance amount outstanding. The deferment is subject to fulfillment of conditions regarding quality of network and performance. If Atheer fails to comply with these conditions the entire outstanding balance will fall due for payment.

17. Due to banks

(in thousands KD)	2010	2009
MTC (the Parent Company)		
Short term loans	-	40,535
Long term loans	-	67,418
	-	107,953
JMTS – Jordan		
Long term loan	19,885	-
Finance lease obligations	-	17
	19,885	17
MTCB – Bahrain		
Long term loans	-	1,967
Finance lease obligations	-	333
	-	2,300
ZABV – The Netherlands		
Short term loans	-	156,901
Long term loans	-	422,149
	-	579,050
Zain – Sudan		
Long term loans	101,362	111,346
Finance lease obligations	-	161
	101,362	111,507
Atheer – Iraq		
Short term loan	84,360	178,549
Bank overdraft	14,060	14,014
	98,420	192,563
ZIBV – The Netherlands		
Short term loan	-	11,476
Long term loan	-	1,147,600
	-	1,159,076
	219,667	2,152,466

The above is disclosed in the consolidated statement of financial position as follows:

(in thousands KD)	2010	2009
Current liabilities	124,933	536,472
Non-current liabilities	94,734	1,615,994
	219,667	2,152,466

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the consolidated statement of financial position date are as follows:

(in thousands KD)	2010	2009
Less than 6 months	199,782	941,772
6 – 12 months	19,885	-
Fixed rate borrowings	-	1,210,694
	219,667	2,152,466

The carrying amounts of the Group's borrowings are denominated in the following currencies:

(in thousands KD)	2010	2009
US dollar	98,420	1,689,557
Euro	101,362	131,881
Kuwaiti dinar	-	20,000
Bahraini dinar	-	6,974
Jordanian dinar	19,885	17
Other currencies	-	304,037
	219,667	2,152,466

The effective interest rate as at 31 December 2010 was 2.75% to 5.95% (2009 - 1.20% to 7.40%) per annum.

MTC

During the year, MTC repaid its entire bank borrowings of USD 200 million, Euro 50 million, KD 20 million and BD 6.7 million that were outstanding as of 31 December 2009.

MTCB

MTCB fully repaid its bank borrowings during the year. These borrowings were secured by mortgage of its freehold land and building with a net book value of KD 382,000 as of 31 December 2009 (Note 13).

Zain Sudan

This represents two Euro denominated loans availed from foreign banks. Euro 270 million (KD 103 million) (2009 - Euro 270 million - KD 111 million) Islamic murabaha financing was obtained from a consortium of foreign banks in 2007 and is guaranteed by the Parent Company. In August 2010, loan repayment was rescheduled to twelve quarterly installments starting from November 2010. Euro 26 million Islamic murabaha loan was obtained in January 2010 from a foreign bank guaranteed by the Swedish Export Credit Guarantee Corporation and is repayable in five half yearly installments starting in February 2010.

Financial covenants stipulate maximum debt of 3 times EBITDA (Earnings before interest, tax, depreciation and amortization), ratio of EBITDA to net finance charges of not less than 3:1 and Debt Service Coverage Ratio (DSCR) of not less than 1.1:1 during 2010 and 1.2:1 thereafter. As of 31 December 2010 the Company was in compliance with these financial covenants.

Atheer

These are US Dollar denominated unsecured short term credit facilities guaranteed by the Parent Company.

ZIBV

During the year, ZIBV prepaid all its bank borrowings and unwound the related cash flow hedge under the terms of the Share Sale Agreement (SSA) related to the sale of ZABV (Note 4).

18. Other non-current liabilities

(in thousands KD)	2010	2009
Customer deposits	7,213	11,284
Post employment benefits	27,721	19,364
Licence fee payable (Note 16)	105,450	-
Derivative liability (Note 30)	-	49,298
Refundable deposits and others	8,748	7,220
	149,132	87,166

19. Share capital and reserves

Share capital (par value of KD 0.100 per share)

	2010 No of shares	2009 No of shares
Authorised		
Opening balance	4,297,371,670	4,280,306,722
Shares approved for Employee Share Option Plan (ESOP) – net	17,725,447	17,064,948
	4,315,097,117	4,297,371,670
Issued and fully paid up		
Opening balance	4,282,853,505	4,272,405,303
Shares issued for 2006 ESOP	14,484	2,813,652
Shares issued for 2007 ESOP	4,970,750	7,278,150
Shares issued for 2008 ESOP	4,045,502	356,400
Shares issued for 2009 ESOP	5,542,650	-
	4,297,426,891	4,282,853,505

At the extraordinary general meeting held on 27 May 2010, the Parent Company's shareholders approved decrease in authorized share capital by 4,907,565 shares and then to increase it by 22,633,012 shares to 4,315,097,117 shares.

At the extraordinary general meeting held on 30 March 2009, the Parent Company's shareholders approved decrease in authorized share capital by 5,123,576 shares and then to increase it by 22,188,524 shares to 4,297,371,670 shares.

Treasury shares	2010	2009
Number of shares	425,711,648	425,711,648
Percentage of issued shares	9.91%	9.94%
Market value ((in thousands KD))	647,082	434,226
Cost ((in thousands KD))	567,834	567,834

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.

Legal reserve

In accordance with the Law of Commercial Companies and the Parent Company's Articles of Association, 10% of the profit for the year, subject to a maximum of 50% of the share capital, has been appropriated towards legal reserve. This reserve can be utilized only for distribution of a maximum dividend of 5% in years when retained earnings are inadequate for this purpose.

Voluntary reserve

The Parent Company's Articles of Association provide for the Board of Directors to propose appropriations to voluntary reserve up to a maximum of 50% of its share capital. During the year the Board of Directors did not propose any addition (2009 - Nil). There is no restriction on distribution of this reserve.

Dividend - 2009

The annual general meeting of shareholders held on 27 May 2010 approved distribution of cash dividends of 170 fils per share for the year 2009.

Proposed dividend

The Board of Directors, subject to the approval of shareholders, recommends distribution of a cash dividend of 200 fils per share (2009 - 170 fils per share) to the registered shareholders as of the date of the Annual General Meeting.

20. Revenue

(in thousands KD)	2010	2009 (Restated)
Airtime and subscription	1,333,606	1,246,044
Trading income	18,075	16,995
	1,351,681	1,263,039

21. Investment income

(in thousands KD)	2010	2009 (Restated)
Loss on investments at fair value through profit or loss	(62)	(2,468)
Realised loss from available for sale investments	(2,746)	(6,306)
Impairment loss on available for sale investments	(777)	(1,673)
Dividend income	1,640	2,216
	(1,945)	(8,231)

22. National Labour Support Tax, Zakat and KFAS

National Labour Support Tax and Zakat

(in thousands KD)	2010	2009 (Restated)
NLST- Kuwait	3,942	3,670
Zakat - Kuwait	1,577	1,486
Zakat- Sudan	2,725	2,538
	8,244	7,694

National Labour Support Tax and Zakat in Kuwait represents taxes payable to Kuwait's Ministry of Finance under National Labour Support Law No. 19 of 2000 and Zakat Law No.46 of 2006 respectively.

Contributions to KFAS

(in thousands KD)	2010	2009
From continuing operations	2,335	1,818
From discontinued operations (Note 4)	7,781	-
	10,116	1,818

23. Income tax expense of subsidiaries

(in thousands KD)	2010	2009 (Restated)
JMTS	11,605	13,980
MTCL	1,617	1,109
Zain Sudan	6,292	6,963
Atheer	16,660	14,708
	36,174	36,760

24. Earnings per share

Basic and diluted earnings per share based on weighted average number of shares outstanding during the year and the previous year, as restated for bonus shares issued in the current year, are as follows:

(in thousands KD)	2010	2009 (Restated)
From continuing operations	311,364	211,465
From discontinued operations	751,441	(16,457)
	1,062,805	195,008
	Shares	Shares
Weighted average number of shares in issue	3,871,715,243	3,857,141,857
Effect of dilution (ESOP - Note 25)	11,306,791	12,710,249
Weighted average number of shares in issue outstanding during the year adjusted for the effect of dilution	3,883,022,034	3,869,852,106

	Fils	Fils
Basic Earnings per share:		
From continuing operations	80	55
From discontinued operations	195	(4)
	275	51

	Fils	Fils
Diluted earnings per share:		
From continuing operations	79	54
From discontinued operations	195	(4)
	274	50

25. Share-based compensation plans**Kuwait**

At an Extraordinary General Meeting held on 29 March 2007 the Parent Company's shareholders approved an amendment to the Parent Company's articles of association to permit issue of employee stock options in accordance with a scheme approved by its Board of Directors.

The total number of shares to be granted under the scheme or Employee Share Option Plan (ESOP) is not to exceed 10% of the issued shares over ten years. The shares to be allotted under the scheme are provided either through a capital increase and issue of new shares or from the treasury shares held by the Parent Company. The ESOP scheme is available only to employees who hold certain specified posts within the Group. Eligible employees are granted the option to purchase a predetermined number of Parent Company's shares at a specified exercise price as follows:

	2007 Plan		2008 Plan		2009 Plan		2010 Plan	
	Numbers	Weighted average exercise price	Numbers	Weighted average exercise price	Numbers	Weighted average exercise price	Numbers	Weighted average exercise price
	KD		KD		KD		KD	
Granted	14,271,038	0.100	14,179,440	1.084	16,843,774	0.672	14,076,900	0.816
Adjustment for bonus shares	-	-	-	-	-	-	-	-
Total	14,271,038	0.065	14,179,440	1.084	16,843,774	0.624	14,076,900	0.816
Exercised in 2007	-	-	-	-	-	-	-	-
Stock options outstanding at 31 Dec 2007	14,271,038	0.065	14,179,440	1.084	-	0.624	-	-
Adjustment for bonus shares	7,549,379	-	-	-	-	-	-	-
Total	21,820,417	0.065	14,179,440	1.084	-	0.624	-	-
Exercised in 2008	7,179,695	0.065	-	-	-	-	-	-
Stock options forfeited	43,874	-	-	-	-	-	-	-
Total	14,596,848	0.065	14,179,440	1.084	16,843,774	0.624	-	-
Additional shares granted	-	-	82,886	1.084	-	-	-	-
Adjustment for dividend	977,784	-	-	-	-	-	-	-
Exercised in 2009	7,278,150	0.065	4,575,005	1.034	-	-	-	-
Stock options forfeited	1,251,994	-	1,049,773	-	-	-	-	-
Stock options outstanding at 31 Dec 2009	7,044,488	0.065	8,637,548	1.034	16,843,774	0.624	-	-
Exercised in 2010	4,970,750	0.054	4,045,502	1.034	5,542,650	0.624	-	-
Additional shares granted	14,696	-	369,409	-	1,002,522	-	-	-
Stock options forfeited	2,862,480	-	2,630,274	-	6,286,735	-	1,500	-
Adjustment for dividend	774,046	-	-	-	-	-	-	-
Stock options outstanding at 31 Dec 2010	-	-	2,331,181	0.879	6,016,911	0.467	14,075,400	0.816
Stock options exercisable at the end of the year	-	-	2,331,181	-	5,825,529	-	4,644,423	-
Weighted average remaining contractual life (in years)	-	-	1	-	2	-	3	-
Weighted average share price of options exercised during the year	-	-	1.270	-	1.270	-	1.270	-

2007 Plan

The exercise price of the granted options is the closing share price as of 1 January 2007 less a discount of 20%. The options vest over three years at the rate of 33%, 33% and 34% on 1 July 2008, 1 July 2009 and 1 January 2010 respectively exercisable from the date of vesting, up to three years from the service date.

Under the 2007 ESOP the Parent Company initially granted 8,700,000 shares at an exercise price of KD 2.656 per share. The fair value of these options was KD 0.995 per share with a total fair value of KD 9,241,000. This Plan was amended before that date. The amended Plan granted 14,271,038 shares at an exercise price of KD 0.100 per share after adjusting for eligible bonus shares. The fair value of these options was KD 0.995 per share with a total fair value of KD 14,199,683. The significant inputs into the model were a share price of KD 3.320 - the market price at the grant date, the exercise price shown above, volatility of 10%, dividend yield of nil (due to the ESOP terms), option life of 3 years and an annual interest rate of 8.75%.

During the year, the Group recognised total expenses of KD 1,115,000 (2009 - KD 3,273,000) related to this plan.

2008 Plan

The Parent Company granted 14,179,440 shares at an exercise price of KD 1.084 per share. The options vest over three years at the rate of 33%, 33% and 34% each year, beginning 1 January 2009 exercisable from the date of vesting and up to three years from the service date. The fair value of these options was KD 0.235 per share with a total fair value of KD 3,330,750. The significant inputs into the fair value model were a share price of KD 1.160 - the market price at the grant date 1 November 2008, the exercise price shown above, volatility of 10%, dividend yield of nil (due to the ESOP terms), option life of 3 years and an annual interest rate of 7.25%.

During the year, the Group recognised total expenses of KD 523,000 (2009 - KD 849,000) related to this plan.

2009 Plan

The Parent Company granted 16,843,774 shares at an exercise price of KD 0.672 per share. The options vest over three years at the rate of 33%, 33% and 34% each year, beginning 1 January 2010 exercisable from the date of vesting and up to three years from the service date. The fair value of these options was KD 0.302 per share with a total fair value of KD 4,969,449. The significant inputs into the fair value model were a share price of KD 0.840 - the market price at the grant date 1 January 2009, the exercise price shown above, volatility of 5%, dividend yield of nil (due to the ESOP terms), option life of 3 years and an annual interest rate of 5%.

During the year, the Group recognised total expenses of KD 1,421,000 (2009 - KD 3,084,000) related to this plan.

2010 Plan

The Parent Company granted 14,076,900 shares at an exercise price of KD 0.816 per share. The options vest over three years at the rate of 33%, 33% and 34% each year, beginning 1 January 2011 exercisable from the date of vesting and up to three years from the service date. The fair value of these options was KD 0.317 per share with a total fair value of KD 4,461,902. The significant inputs into the fair value model were a share price of KD 1.020 - the market price at the grant date 1 January 2010, the exercise price shown above, volatility of 5%, dividend yield of nil (due to the ESOP terms), option life of 3 years and an annual interest rate of 5%.

During the year, the Group recognised total expenses of KD 2,714,000 (2009 - Nil) related to this plan.

The average market price per share of the Parent Company for the year ended 31 December 2010 was KD 1.270 (2009 - KD 1.030).

During the year, the Group reversed KD 5,223,000 being the fair value of the options forfeited prior to vesting.

27. 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:

(in thousands KD)	2010	2009
Transactions		
Management fees (included in other income)	14,490	9,671
Interest income on loans to an associate	11,010	3,307
Balances		
Trade and other receivables	4,430	3,090
Trade and other payables	3,861	1,021
Due to banks	-	39,859
Key management compensation		
Salaries and other short term employee benefits (includes provision of KD 27.5 million of which KD 23.8 million is on account of sale of ZABV)	33,184	6,133
Post-employment benefits	673	891
Share based payments	2,887	3,604

28. Commitments and contingencies

(in thousands KD)	2010	2009
Capital commitments	86,657	258,906
Capital commitments – share of associates	26,116	38,033
Uncalled share capital of investee companies	289	411
Letters of credit	13,531	66,886
Letters of guarantee (including those related to SMTC)	436,592	394,903

Under several local license agreements, certain subsidiaries are committed to build local GSM networks reaching specified local coverage at agreed rates.

The Iraqi telecom regulatory authority has imposed a KD 79 million (US\$ 280.61 million which includes US\$ 262 million imposed in January 2011) (2009: US\$ 18.61 million - KD 5.4 million) penalty on Atheer citing breach of certain network quality covenants and non-compliance with certain licence terms. The Group believes that it has complied with the network quality covenants and licence terms and that it has meritorious defences against these claims.

Under the SSA of Zain Africa BV, the Group is contingently liable for penalties, warranty claims, taxation claims and amounts that may be due for unprovided litigation claims after the first closing date.

Legal proceedings have been initiated by and against the Group in number of jurisdictions.

On the basis of information currently available, and having taken counsel with legal advisors, Group management is of the opinion that the outcome of the above matters is unlikely to have a material adverse effect on the consolidated financial position and the consolidated operations of the Group.

Operating lease commitments – Group as lessee

The Group leases various branches, offices and transmission sites under non-cancelable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancelable operating leases are as follows:

(in thousands KD)	2010	2009
Not later than 1 year	4,272	13,779
Later than 1 year and no later than 5 years	15,741	43,288
Later than 5 years	5,527	14,446
	25,540	71,513

Financial guarantees

The Parent Company is a guarantor for credit facilities of US\$ 515 million, approximately KD 145 million (2009 - US\$ 460 million, approximately KD 132 million) granted to fellow members of SMTC. The Parent Company holds a cash collateral of US\$ 23,934,000, approximately KD 6,730,000 (2009 - US\$ 22,227,000, approximately KD 6,377,000) to cover interest payable by a borrower. The Parent Company is in compliance with the principal covenants under the guarantee contracts.

29. Financial risk management

The Group's financial assets have been categorized as follows:

(in thousands KD)	Loans and receivables	Assets at fair value through profit and loss	Available for sale
31 December 2010			
Cash and bank balances	644,215	-	-
Trade and other receivables	472,570	-	-
Investment securities	-	7,465	98,641
Loans to associates	187,263	-	-
Other assets	11,763	-	-
Total	1,315,811	7,465	98,641
31 December 2009			
Cash and bank balances	267,175	-	-
Trade and other receivables	405,434	-	-
Investment securities	-	7,464	98,492
Loan to an associate	141,996	-	-
Other assets	2,539	-	-
Total	817,144	7,464	98,492

All financial liabilities as of 31 December 2010 and 31 December 2009 are categorized as 'other than at fair value through profit or loss'.

Financial risk factors

The Group's use of financial instruments exposes it to a variety of financial risks such as market risk, credit risk and liquidity risk. The Group continuously reviews its risk exposures and takes measures to limit it to acceptable levels. Risk management is carried out by the Group Finance function under policies approved by the Board of Directors. This function identifies and evaluates financial risks in close co-operation with the Group's operating units. The Board provides guidance for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

The significant risks that the Group is exposed to are discussed below:

(a) Market risk**(i) Foreign exchange risk**

Foreign currency risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group management has set up a policy that requires Group companies to manage their foreign exchange risk against their functional currency. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

The Group is primarily exposed to foreign currency risk as a result of foreign exchange gains/ losses on translation of foreign currency denominated assets and liabilities such as trade and other receivables, trade and other payables and due to banks.

The impact on the post tax profit arising from a 10% weakening / strengthening of the functional currency against the major currencies to which the Group is exposed is given below:

Currency (in thousands KD)	2010	2009
US Dollar	17,411	3,694
Euro	11,695	13,561
SAR	4,426	-

(ii) Equity price risk

This is a risk that the value of financial instruments will fluctuate as a result of changes in market prices, whether these changes are caused by factors specific to individual instrument or its issuer or factors affecting all instruments, traded in the market. The Group is exposed to equity securities price risk because of investments held by the Group and classified in the consolidated statement of financial position either as 'available for sale' or 'at fair value through profit or loss'. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

The Group's investments are primarily quoted on the Kuwait Stock Exchange. The effect on the net profit as a result of changes in fair value of equity instruments classified as 'at fair value through profit or loss' and the effect on equity of equity instruments classified as 'available for sale' arising from a 5% increase/ decrease in equity market index, with all other variables held constant is as follows:

Market indices (in thousands KD)	2010		2009	
	Impact on net profit	Effect on equity	Impact on net profit	Effect on Equity
Kuwait Stock Exchange	373	3,781	373	3,245

Profit for the year would increase/ decrease as a result of gains/ losses on equity securities classified as 'at fair value through profit or loss'. Equity would increase/ decrease as a result of gains/ losses on equity securities classified as 'available for sale'.

(iii) Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's interest rate risk arises from short-term bank deposits and bank borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During 2010 and 2009, the Group's borrowings at variable rates were denominated in US Dollar, Euro and Jordanian Dinar.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on consolidated statement of income of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions. The Group manages interest rate risk by monitoring interest rate movements and using Interest Rate Swaps to hedge interest rate risk exposures.

At 31 December 2010, if interest rates at that date had been 50 basis points higher/lower with all other variables held constant, profit for the year would have been lower/higher by KD 2,691,000 (2009 - KD 8,068,000).

b) 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. The maximum exposure of the Group to credit risk is from bank deposits and trade and other receivables. For more information refer to Notes 5 and 6.

(c) Liquidity risk

Liquidity risk is the risk that the Group may not be able to meet its funding requirements. Liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. The Parent Company's Board of Directors increases capital or borrowings based on ongoing review of funding requirements.

The Group has committed to provide working capital and other financial support to some of its subsidiaries. (Note 3).

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

(in thousands KD)	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2010				
Bank borrowings	131,456	30,086	69,342	-
Trade and other payables	593,221	-	-	-
Customer deposits	-	3,178	-	4,035
Refundable deposit	-	8,748	-	-
Licence fee payable	-	70,300	35,150	-
Commitments	79,390	28,598	-	-
At 31 December 2009				
Bank borrowings	599,329	1,353,295	339,526	24,585
Trade and other payables	939,944	-	-	-
Derivative financial instruments - cash flow hedge	-	49,298	-	-
Customer deposits	-	11,284	-	-
Refundable deposit	-	7,220	-	-
Licence fee payable	179,313	-	-	-
Commitments	326,203	-	-	-

30. Derivative financial instruments

In the ordinary course of business, the Group uses derivative financial instruments to manage its exposure to fluctuations in interest and foreign exchange rates. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price of one or more underlying financial instruments, reference rate or index.

The table below shows the positive and negative fair values of derivative financial instruments, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of either market or credit risk. All derivative contracts are fair valued based on observable market data.

At 31 December 2010:	Notional amounts by term to maturity					
(in thousands KD)	Positive fair value	Negative fair value	Notional amount Total	Within 3 months	3-12 months	Over 1 year
Derivatives held for hedging:						
Cash flow hedges						
Interest rate swaps	-	-	-	-	-	-
Commission rate swaps - share of an associate	-	(2,524)	155,391	-	-	155,391
	-	(2,524)	155,391	-	-	155,391

At 31 December 2009:	Notional amounts by term to maturity					
(in thousands KD)	Positive fair value	Negative fair value	Notional amount Total	Within 3 months	3-12 months	Over 1 year
Derivatives held for hedging:						
Cash flow hedges						
Interest rate swaps	-	(49,298)	1,204,980	-	-	1,204,980
	-	(49,298)	1,204,980	-	-	1,204,980

Interest rate swaps are contractual agreements between two parties to exchange interest based on notional value in a single currency for a fixed period of time. The Group uses interest rate swaps to hedge changes in interest rate risk arising from floating rate borrowings.

31. Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide return on investment to shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In managing capital, the Group considers the financial covenants in various loan agreements that require the Group to maintain specific levels of debt-equity and leverage ratios.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt.

The gearing ratios at the statement of financial position dates were as follows:

(in thousands KD)	2010	2009
Total borrowings	219,667	2,152,466
Less: Cash and bank balances (Note 5)	644,215	267,175
Net debt	(424,548)	1,885,291
Total equity	-	2,478,478
Total capital	-	4,363,769
Gearing ratio	-	43%

The borrowings of the Group as at 31 December 2010 were less than cash and bank balances.

32. Fair value of financial instruments

Fair values of financial instruments are not materially different from their carrying values. For financial assets and liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value.

Determination of fair value and fair value hierarchy:

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: Quoted prices in active market for the same instrument.

Level 2: Quoted prices in active market for similar instruments or other valuation techniques for which all significant inputs are based on observable market data ; and

Level 3: Valuation techniques for which any significant input is not based on observable market data.

The following table shows a reconciliation of the opening and closing amount of level 3 financial assets:

(in thousands KD)	At 1 January 2010	Gain/loss recorded in the statement of income	Gains/loss recorded in equity	Other movements	At 31 December 2010
Investment securities available for sale:					
Unquoted securities/ funds (net of impairment losses)	22,742	(627)	(535)	(11,939)	9,641
(in thousands KD)	At 1 January 2009	Gain/loss recorded in the statement of income	Gains/loss recorded in equity	Other movements	At 31 December 2009
Investment securities available for sale:					
Unquoted securities/ funds (net of impairment losses)	12,612	-	10,130	-	22,742

Other movements represents transfer of KD 1,280,000 from Level 3 to Level 1 following the listing of an investment security on the Kuwait Stock Exchange during the year and KD 8,234,000 on account of investments relating to discontinued operations (ZABV).

33. Significant accounting judgments and estimates

In accordance with the accounting policies contained in IFRS and adopted by the Group, management makes the following judgments and estimations that may affect amounts reported in these consolidated financial statements.

Judgments

Business combinations

To allocate the cost of a business combination management exercises significant judgment to determine identifiable assets and liabilities and contingent liabilities whose fair value can be reliably measured, to determine provisional values on initial accounting and final values of a business combination and to determine the amount of goodwill and the Cash Generating Unit to which it should be allocated.

Classification of investments

On acquisition of an investment, management has to decide whether it should be classified as "at fair value through profit or loss", "available for sale" or as "loans and receivables". In making that judgment the Group considers the primary purpose for which it is acquired and how it intends to manage and report its performance. Such judgment determines whether it is subsequently measured at cost or at fair value and if the changes in fair value of instruments are reported in the statement of income or directly in equity.

Impairment

When there is a significant or prolonged decline in the value of an "available for sale" quoted investment security management uses objective evidence to judge if it may be impaired.

At each statement of financial position date, management assesses, whether there is any indication that inventories, property and equipment, goodwill and intangible assets may be impaired. The determination of impairment requires considerable judgment and involves evaluating factors including, industry and market conditions. The Group considers it highly unlikely that the independence referendum in South Sudan will have a material adverse impact on Zain Sudan operations.

Contingent liabilities/ liabilities

Contingent liabilities are potential liabilities that arise from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Provisions for liabilities are recorded when a loss is considered probable and can be reasonably estimated. The determination of whether or not a provision should be recorded for any potential liabilities is based on management's judgment.

Sources of estimation uncertainty

Fair values - unquoted equity investments and business combinations

The valuation techniques for unquoted equity investments and identifiable assets, liabilities and contingent liabilities arising in a business combination make use of estimates such as future cash flows, discount factors, yield curves, current market prices adjusted for market, credit and model risks and related costs and other valuation techniques commonly used by market participants where appropriate.

Accounts receivable

The Group estimates an allowance for doubtful receivables based on past collection history and expected cash flows from debts that are overdue.

Tangible and intangible assets

The Group estimates useful lives and residual values of tangible assets and intangible assets with definite useful lives.



Taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes a liability for anticipated taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Any changes in the estimates and assumptions used as well as the use of different, but equally reasonable estimates and assumptions may have an impact on the carrying values of the deferred tax assets.

Goodwill

The Group annually tests whether goodwill has suffered any impairment, in accordance with its accounting policy. The recoverable amounts of cash generating units are determined based on value-in-use calculations or at fair value less costs to sell. The fair value less cost to sell is based on recent/ intended market transactions and the related EBITDA multiples used in such transactions. These calculations require the use of estimates.

Share based compensation

The fair valuation of ESOP requires significant estimates regarding the expected volatility of the share price, the dividends expected on the shares, the market interest rate for the life of the plan and the expected term of the option.

34. Comparative figures

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



- 1. GSM**
(Global System for Mobile Communications)

It's a digital mobile telephony system used by over 2 billion people across 212 countries in the world. GSM digitizes and compresses data, then sends it down a channel with two other streams of user data, each in its own time slot.
- 2. HSDPA**
(High-Speed Download Packet Access)

HSDPA is a protocol for mobile telephone data transmission known as a 3.5G technology. This protocol allows networks based on Universal Mobile Telecommunications System 'UMTS' to have higher data transfer speeds and capacity. Current HSDPA deployments support down-link speeds of 1.8, 3.6, 7.2 and 14.4 Mbit/s.
- 3. UMTS**
(Universal Mobile Telecommunications System)

3rd generation wireless communications system that support high-speed mobile multimedia services. UMTS will speed convergence between telecommunications, IT, media and content industries to deliver new services and create fresh revenues generating opportunities.
- 4. 3G**
(3rd Generation)

2G is short for the second-generation wireless telephone technology. Voice is encoded as a digital bit stream and is less prone to interference and harder to clone.
- 5. 2G**
(2nd Generation)

2G is short for the second-generation wireless telephone technology. Voice is encoded as a digital bit stream and is less prone to interference and harder to clone.
- 6. EDGE**
(Enhanced Data rates for GSM Evolution)

EDGE is a faster version of the Global System for Mobile i.e. (GSM) wireless service and enables delivery of multimedia and other broadband applications to mobile phone and computer users through increased data transmission rates.
- 7. MMS**
(Multimedia Messaging Services)

MMS is a standard for telephone messaging systems that allows sending messages including multimedia objects (images, audio, video and rich text). It's mainly deployed in cellular networks along with other messaging systems like SMS, Mobile Instant Messaging and Mobile E-mail.
- 8. MVNO**
(Mobile Virtual Network Operator)

It's a company that provides mobile phone service but does not have its own licensed frequency allocation of radio spectrum, nor does it necessarily have the entire infrastructure required to provide mobile telephone service.
- 9. SMS**
(Short Message Service)

A telecommunication protocol that allows the interchange of short text messages between mobile telephone devices.
- 10. WI-MAX**
(Worldwide Interoperability for Microwave Access)

A standard-based technology enabling the delivery of last mile wireless broadband access as an alternative to cable and DSL.
- 11. ARPU**
(Average Revenue per User)

It's a measure of the revenue generated by one customer's phone, pager, etc. for a period typically per month or annum.
- 12. CDMA**
(Code Division Multiple Access)

CDMA is a method for describing physical radio channel's. Data intended for a specific channel is modulated with that channel's code.
- 13. DSL**
(Digital Subscriber Line)

DSL is a family of technologies that provides digital data transmission over the wires of a local telephone network.
- 14. GPRS**
(General Packet Radio Service)

A GPRS is used for WAP, MMS and internet communication. GPRS data transfer is typically charged per megabyte of traffic transferred, while data communication via traditional circuit switching is billed per minute of connection time, independent of whether the user actually is utilizing the capacity or is an idle state.
- 16. SIM**
(Subscriber Identity Module)

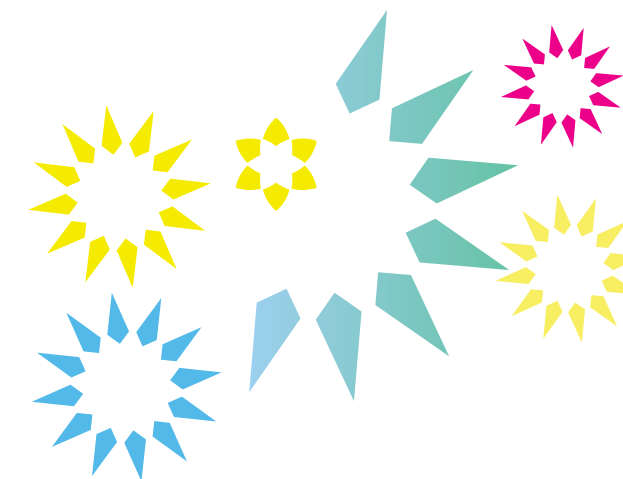
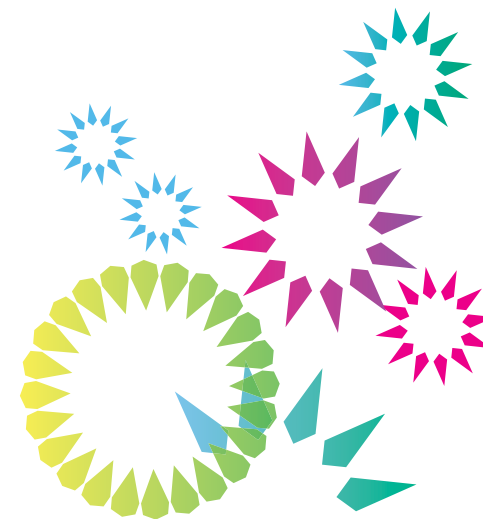
Usually referred to as a SIM card which contains relevant information that enables access onto the subscribed operator's network.
- 17. VOIP**
(Voice over Internet Protocol)

VOIP is a protocol optimized for the transmission of voice through the internet or other packet switched networks. VOIP is often used abstractly to refer to the actual transmission of voice rather than the protocol implementing it.
- 18. WAP**
(Wireless Application Protocol)

WAP is an international standard for the applications that use wireless communication. It provides access to the internet through mobile handset.
- 21. One Network**

The world's first borderless network, allowing customers to roam freely across Africa and the Middle East without paying roaming charges and experiencing all the benefits of their home network services.
- 22. Access**

GPRS/EDGE based internet access service



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