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**Mobile Telecommunications Company K.S.C.
Kuwait**

**Consolidated Annual Financial Statements and
Independent Auditors' Report**

31 December 2012

**Mobile Telecommunications Company K.S.C.
Kuwait**

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Independent Auditors' Report**

31 December 2012

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Mobile Telecommunications Company K.S.C.
Kuwait

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

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 2012, 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

The Parent Company's 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 2012, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Mobile Telecommunications Company K.S.C.
Kuwait**

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (Continued)

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 the information that is required by the Companies Law No. 25 of 2012 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 Companies Law No. 25 of 2012 or of the Articles of Association have occurred during the year ended 31 December 2012 that might have had a material effect on the business of the Group or on its consolidated financial position.



Bader A. Al-Wazzan
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Member of Baker Tilly International

Kuwait
14 February 2013

Consolidated Statement of Financial Position as at 31 December 2012

		2012	2011
	Note	<u>KD '000</u>	
ASSETS			
Current assets			
Cash and bank balances	4	302,609	404,764
Trade and other receivables	5	319,109	332,843
Inventories	6	11,906	21,182
Investment securities at fair value through profit or loss	7	2,693	5,879
		<u>636,317</u>	<u>764,668</u>
Non-current assets			
Investment securities available for sale	7	48,659	62,470
Investments in associates	8	246,023	81,131
Interest in a jointly controlled entity	9	54,819	44,871
Loans to associates	10	145,832	190,166
Property and equipment	11	699,030	795,644
Intangible assets	12	998,082	1,256,094
Other assets	13	102,229	92,190
		<u>2,294,674</u>	<u>2,522,566</u>
Total Assets		<u>2,930,991</u>	<u>3,287,234</u>
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	14	535,114	506,541
Due to banks	15	270,656	313,823
		<u>805,770</u>	<u>820,364</u>
Non-current liabilities			
Due to banks	15	381,136	226,159
Other non-current liabilities	16	33,331	35,173
		<u>414,467</u>	<u>261,332</u>
Equity			
Attributable to Parent Company's shareholders			
Share capital	17	431,527	430,754
Share premium	17	1,705,387	1,703,351
Treasury shares	17	(567,834)	(567,834)
Legal reserve	17	215,764	215,377
Foreign currency translation reserve	17	(694,184)	(214,064)
Treasury shares reserve		1,967	1,967
Equity issue transaction cost of associate		-	(1,760)
Investment fair valuation reserve		(987)	(10,046)
Share based compensation reserve		8,808	7,141
Hedge reserve		-	(849)
Retained earnings		490,189	516,453
		<u>1,590,637</u>	<u>2,080,490</u>
Non-controlling interests		<u>120,117</u>	<u>125,048</u>
Total equity		<u>1,710,754</u>	<u>2,205,538</u>
Total Liabilities and Equity		<u>2,930,991</u>	<u>3,287,234</u>

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


Asaad Ahmed Al Banwan
Chairman


M. Scott Gegenheimer
Chief Executive Officer

Consolidated Statement of Income – Year ended 31 December 2012

	Note	2012	2011
		KD '000	
Continuing operations			
Revenue	18	1,281,903	1,321,921
Cost of sales		(360,975)	(353,914)
Gross profit		920,928	968,007
Distribution, marketing and operating expenses		(254,820)	(283,125)
General and administrative expenses		(87,179)	(74,868)
Depreciation and amortization	11,12	(193,047)	(170,700)
Provision for impairment – trade and other receivables	5	(8,187)	(9,654)
Operating profit		377,695	429,660
Interest income		16,994	19,822
Investment income	19	(8,811)	740
Share of loss of associates	8	(41,053)	(35,507)
Share of profit of a jointly controlled entity	9	9,479	5,872
Other income		14,588	1,766
Finance costs		(26,384)	(27,429)
Loss from currency revaluation		(8,517)	(34,277)
Board of Directors' remuneration		(430)	(430)
Contribution to Kuwait Foundation for Advancement of Sciences		(2,611)	(2,930)
National Labour Support Tax and Zakat	20	(10,151)	(8,870)
Profit for the year before income tax		320,799	348,417
Income tax expenses	21	(40,607)	(47,209)
Profit from continuing operations		280,192	301,208
Discontinued operations			
Release of provisions		-	16,320
		280,192	317,528
Attributable to:			
Shareholders of the Parent Company		252,145	284,866
Non-controlling interests		28,047	32,662
		280,192	317,528
Earnings per share (EPS)			
	22		
Basic – Fils			
From continuing operations		65	69
From discontinued operations		-	4
		65	73
Diluted – Fils			
From continuing operations		65	69
From discontinued operations		-	4
		65	73

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

Consolidated Statement of Comprehensive Income – Year ended 31 December 2012

	2012	2011
	<u>KD '000</u>	
Profit for the year	280,192	317,528
Other comprehensive income:		
Exchange differences on translating foreign operations	(479,057)	(71,128)
Share of other comprehensive income of an associate	(3,834)	19
Net unrealised loss on available-for-sale investments	(2,076)	(14,449)
Net loss/(gain) transferred to consolidated statement of income on sale of available-for-sale investments (net of impairment losses)	11,135	(129)
Share based compensation	4,852	1,606
Cash flow hedges	849	1,675
	<u>(468,131)</u>	<u>(82,406)</u>
Total comprehensive income for the year	<u>(187,939)</u>	<u>235,122</u>
Total comprehensive income attributable to:		
Shareholders of the Parent Company		
From continuing operations	(217,049)	186,971
From discontinued operations	-	16,320
	<u>(217,049)</u>	<u>203,291</u>
Non-controlling interests		
From continuing operations	29,110	31,831
From discontinued operations	-	-
	<u>29,110</u>	<u>31,831</u>

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

Mobile Telecommunications Company K.S.C.

Consolidated Statement of Changes in Shareholders' Equity – Year ended 31 December 2012

	Equity attributable to Parent Company's shareholders										Non-controlling interests	Total	
	Share capital	Share premium	Treasury shares	Legal 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 2012	430,754	1,703,351	(567,834)	215,377	(214,064)	1,967	(1,760)	(10,046)	7,141	(849)	516,453	125,048	2,205,538
Transfer to reserves	-	-	-	387	-	-	-	-	-	-	(387)	-	-
Purchase of non-controlling interest (note 3)	-	-	-	-	-	-	-	-	-	-	(22,903)	(13,275)	(36,178)
Exercise of share options	773	2,036	-	-	-	-	-	-	-	-	-	-	2,809
Cash dividends (2011)	-	-	-	-	-	-	-	-	-	-	(252,710)	(20,766)	(273,476)
Transfer to retained earnings	-	-	-	-	-	-	5,594	-	(3,185)	-	(2,409)	-	-
Total comprehensive income for the year	-	-	-	-	(480,120)	-	(3,834)	9,059	4,852	849	252,145	29,110	(187,939)
Balance at 31 December 2012	431,527	1,705,387	(567,834)	215,764	(694,184)	1,967	-	(987)	8,808	-	490,189	120,117	1,710,754
Balance at 1 January 2011	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
Transfer to reserves	-	-	-	506	-	-	-	-	-	-	(506)	-	-
Exercise of share options	1,011	5,563	-	-	-	-	-	-	-	-	-	-	6,574
Cash dividends (2010)	-	-	-	-	-	-	-	-	-	-	(776,365)	(7,710)	(784,075)
Transfer to retained earnings	-	-	-	-	-	-	-	-	(1,851)	-	1,851	-	-
Total comprehensive income for the year	-	-	-	-	(70,297)	-	19	(14,578)	1,606	1,675	284,866	31,831	235,122
Balance at 31 December 2011	430,754	1,703,351	(567,834)	215,377	(214,064)	1,967	(1,760)	(10,046)	7,141	(849)	516,453	125,048	2,205,538

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

Mobile Telecommunications Company K.S.C.

Consolidated Statement of Cash Flows – Year ended 31 December 2012

	2012	2011
	KD '000	
Cash flows from operating activities		
Profit for the year before income tax	320,799	364,737
Adjustments for:		
Depreciation and amortization	193,047	170,700
Interest income	(16,994)	(19,822)
Investment income	8,811	(740)
Share of loss of associates	41,053	35,507
Share of profit of a jointly controlled entity	(9,479)	(5,872)
Finance costs	26,384	27,429
Loss from currency revaluation	8,517	34,277
Gain on sale of property and equipment	(457)	(288)
<i>Operating profit before working capital changes</i>	<u>571,681</u>	<u>605,928</u>
Increase in trade and other receivables	(69,785)	(191,868)
Decrease/(increase) in inventories	5,181	(8,466)
Provisions used	(7,524)	(113,018)
Increase in trade and other payables	34,895	80,662
<i>Cash generated from operations</i>	<u>534,448</u>	<u>373,238</u>
Payments:		
Income tax	(36,419)	(38,165)
Board of Directors' remuneration	(430)	(32)
Kuwait Foundation for Advancement of Sciences (KFAS)	(5,058)	(1,818)
National Labour Support Tax and Zakat	(4,983)	(6,814)
<i>Net cash from operating activities</i>	<u>487,558</u>	<u>326,409</u>
Cash flows from investing activities		
Deposits maturing after three months and bank balances blocked (note 4)	(95,071)	162,249
Investments in subsidiaries	(28,531)	-
Proceeds from sale of investment securities	21,063	17,049
Investments in securities	(4,753)	(1,152)
Investments in associate/jointly controlled entity	(97,696)	(397)
Proceeds from disposal of a subsidiary	-	209,839
Acquisition of property and equipment (net)	(161,532)	(157,947)
Acquisition of intangible assets	(28,422)	(155,353)
Interest received	16,994	19,248
Dividends received	1,288	1,751
<i>Net cash (used in)/from investing activities</i>	<u>(376,660)</u>	<u>95,287</u>
Cash flows from financing activities		
Proceeds from bank borrowings	484,060	723,120
Repayment of bank borrowings	(380,949)	(404,731)
Loan to an associate	(70,883)	(4,461)
Capital contribution including share premium – employees stock option	2,809	6,574
Dividends paid	(252,884)	(773,857)
Dividends paid to non-controlling interests	(18,838)	(7,643)
Finance costs paid	(20,774)	(27,834)
<i>Net cash used in financing activities</i>	<u>(257,459)</u>	<u>(488,832)</u>
Net decrease in cash and cash equivalents	<u>(146,561)</u>	<u>(67,136)</u>
Effects of exchange rate changes on cash and cash equivalents	(50,665)	(10,066)
Cash and cash equivalents at beginning of year	<u>386,147</u>	<u>463,349</u>
Cash and cash equivalents at end of year (note 4)	<u>188,921</u>	<u>386,147</u>

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. 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 8 other countries (31 December 2011 - Kuwait and 8 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.

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 14 February 2013 and are subject to approval of the shareholders at their forthcoming Annual General Meeting.

On 29 November 2012, Companies Law No. 25 of 2012 (the Law) was published in the official gazette to supersede Law No. 15 of 1960 – the Law of Commercial Companies. Companies in Kuwait have been granted six months to comply with the Law's requirements as may be specified in the Executive Regulations. The Parent Company is taking necessary actions to ensure compliance within the specified timeframe.

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 31.

2.2 New and revised accounting standards

Effective for the current year

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year, except for the following new and amended IASB Standards during the year:

IFRS 7 Financial Instruments: Disclosures – Transfer of financial assets (effective 1 July 2011)

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the users of the financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognized assets to enable the users to evaluate the nature of, and risks associated with such involvement. The Group does not have any assets with these characteristics and hence there has been no effect on the presentation of its consolidated financial statements.

IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets (effective 1 January 2012)

The amendment clarifies the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012 and has no effect on the Group's financial position, performance or its disclosures.

The application of other IASB Standards and IFRIC Interpretations do not have material impact on the consolidated financial statements of the Group.

Issued but not yet effective

The following IASB Standards have been issued/amended but are not yet mandatory, and have not been adopted by the Group:

- IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7 (effective 1 January 2013)
- IFRS 9 Financial Instruments: Classification and Measurement (effective 1 January 2015)
- IFRS 10 Consolidated Financial Statements (effective 1 January 2013)
- IFRS 11 Joint Arrangements (effective 1 January 2013)
- IFRS 12 Disclosure of Interests in Other Entities (effective 1 January 2013)
- IAS 28 Investments in Associates and Joint Ventures (as revised in 2011; effective 1 January 2013)
- IFRS 13 Fair Value Measurement (effective 1 January 2013)
- IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (effective 1 July 2012)
- IAS 19 Employee Benefits (Revised) (effective 1 January 2013)
- IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32 (effective 1 January 2014)
- Annual improvements to IFRSs 2009-2011 Cycle issued in May 2012 (effective 1 January 2013)

The major changes are as follows:

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 'Financial Instruments': Classification and Measurement

The standard was issued in November 2009 and becomes effective for annual years beginning on or after 1 January 2015. IFRS 9 improves the ability of the users of the financial statement to assess the amount, timing and uncertainty of future cash flows of the entity by replacing many financial instrument classification categories, measurement and associated impairment methods. The application of IFRS 9 will result in amendments and additional disclosures relating to financial instruments and associated risks. The application of IFRS 9 is under local regulatory review for early adoption in the State of Kuwait.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, control is based on whether an investor has 1) power over the investee; 2) exposure or rights, to variable returns from its involvement with the investee; and 3) the ability to use its power over the investee to affect the amount of the returns. The Group is currently assessing the impact this standard may have on its consolidated financial statement presentation.

IFRS 11 Joint Arrangements

IFRS 11 introduces new accounting requirements for joint arrangements, replacing IAS 31 Interests in Joint Ventures. The option to apply the proportional consolidation method when accounting for jointly controlled entities is removed. Additionally, IFRS 11 eliminates jointly controlled assets to now only differentiate between joint operations and joint ventures.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to require information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

IAS 1 Financial Statement Presentation:

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 19 Employee Benefits (Revised)

Amended standard is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. With very few exceptions retrospective application is required. Numerous changes or clarifications are made under the amended standard. Among these numerous amendments, the most important changes are removing the corridor mechanism and making the distinction between short-term and other long-term employee benefits based on expected timing of settlement rather than employee entitlement. These amendments are not expected to impact the Group's financial position or performance.

IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32

These amendments clarify the meaning of “currently has a legally enforceable right to set-off”. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group’s financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

Annual improvements to IFRSs 2009-2011 Cycle issued in May 2012 (*effective 1 January 2013*)

These improvements will not have any significant impact on the Group, but include:

IAS 1 Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 34 Interim Financial Reporting

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

Adoptions of other new or amended Standards are not expected to have a material effect on the consolidated financial position or financial performance of the Group. Additional disclosures will be made in the consolidated financial statements when these Standards become effective.

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 in the recognized amounts 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 by the end of 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 and leasehold improvements	2 - 20
Cellular and other equipment	3 - 15
Aircraft	8 - 10
Furniture and fixtures	1 - 25

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. To the extent handsets are provided below cost as part of the telecom service connection, it is treated as a subscriber acquisition cost and recognized as an intangible asset and amortised over the period of the contract.

Goodwill arising in a business combination is computed as the excess of the aggregate of: the consideration transferred; the non-controlling interests proportionate share in the recognized amounts of the acquiree's net identifiable assets at the acquisition date, 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, sale of telephones and accessories or other services, are recognized during the period in which the services are provided or goods are delivered.

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 other than those recognised as intangible assets are charged to the consolidated statement of income 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 off. 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	
		2012	2011
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.L. “MTCL”	Lebanon	100%	100%
Sudanese Mobile Telephone (Zain) Company Limited “Zain Sudan”	Sudan	100%	100%
South Sudanese Mobile Telephone (Zain) Company Limited “Zain South Sudan”	South Sudan	100%	100%
Atheer Telecom Iraq Limited – “Atheer”	Cayman Islands	76%	71.667%
Al Mouakhah Lil Khadamat Al-Logisteih Wa Al-Itisalat	Jordan	99.1%	25.1%
Associate			
Mobile Telecommunications Company (“SMTC”)	Saudi Arabia	37.045%	25%
Wana Corporate S.A (associate of a Jointly Controlled Entity, Zain Al Ajiyal)	Morocco	15.5%	15.5%

Pella owns 100% of Jordan Mobile Telecommunications Services Co. JSC – “JMTS”.

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

Atheer

Under the terms of the telecom license agreement with the Iraqi telecom regulator CMC, the Parent Company and the other two telecom operators in Iraq were required to make an initial public offer (IPO) of at least 25% of the aggregate number of its qualifying shares in their Iraqi operations and list on the Iraqi Stock Exchange before 31 August 2011. The process for complying with the listing conditions is now ongoing, but there have been procedural delays.

During the year, the Group acquired an additional 4.333% equity interest in Atheer from a non-controlling interest holder for a consideration of US\$ 130 million (KD 36 million). The difference between the consideration paid and the carrying value of the shares acquired is recorded in equity.

Zain South Sudan

On 9 July 2011, South Sudan became a newly independent country when it separated from Sudan. The Group continues to operate telecom services in South Sudan with the assets it had in the country prior to its formation, through a newly incorporated South Sudanese entity and is awaiting issue of a formal telecom license.

Al Mouakhah Lil Khadamat Al-Logisteih Wa Al-Itisalat, Jordan

During the year, the Group increased its voting equity interest in this associate from 25.1% to 99.1% to obtain control. The purchase consideration of this acquisition was US\$ 32.25 million (KD 9 million) resulting in a goodwill of KD 6,396,000. On the date of acquisition, the Group also recognized a fair value gain of KD 1,662,000 (included in 'Other income') on the existing interest in the associate.

Financial support to Group companies

The Group has committed to provide working capital and other financial support to Atheer, SMTC, Zain South Sudan and Al Mouakhah Lil Khadamat Al-Logisteih Wa Al-Itisalat 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. Cash and bank balances

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

	2012	2011
	<u>KD '000</u>	
Cash on hand and at banks	182,485	196,846
Short-term deposits with banks	116,102	197,626
Government certificates of deposits held by subsidiaries	4,022	10,292
	<u>302,609</u>	<u>404,764</u>
Less:		
Bank balances blocked (refer note 26)	(107,319)	-
Government certificates of deposits held by subsidiaries	(4,022)	(10,292)
Deposits with maturities exceeding three months	(2,347)	(8,325)
	<u>188,921</u>	<u>386,147</u>

The effective interest rate on short-term deposits as of 31 December 2012 was 0.3% to 10% (2011 – 0.5% to 8%) per annum.

5. Trade and other receivables

	2012	2011
	<u>KD '000</u>	
Trade receivables:		
Customers	71,090	67,983
Distributors	10,406	9,648
Other operators (interconnect)	23,106	36,426
Roaming partners	11,464	6,490
Provision for impairment	(34,810)	(31,888)
	<u>81,256</u>	<u>88,659</u>
Other receivables:		
Accrued income	2,680	4,549
Staff	1,853	1,981
Prepayments, advances and other deposits	100,942	106,478
Others (refer note below)	132,969	131,738
Provision for impairment	(591)	(562)
	<u>237,853</u>	<u>244,184</u>
	<u>319,109</u>	<u>332,843</u>

In 2011, the Group paid US\$ 473 million; KD 132.969 million (2011 - KD 131.738 million) to settle the guarantees provided by the Parent Company to lending banks for loans to a founding shareholder of SMTC. This amount is secured by an agreement to transfer to the Group, the founding shareholder's shares in SMTC and the shareholder loan in SMTC owed to the founding shareholder. The Group has initiated the process of legal action for its recovery.

As of 31 December 2012, trade receivables of KD 36,770,000 (2011 - KD 39,191,000) were neither past due nor impaired.

Notes to the Consolidated Financial Statements – 31 December 2012

Trade receivables of KD 43,301,000 (2011 - KD 40,924,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. These trade receivables are uncollateralized and are due as follows:

	<u>2012</u>	<u>2011</u>
	<u>KD '000</u>	
Up to 3 months	11,051	17,458
3 – 6 months	14,856	6,373
6 – 12 months	3,273	5,115
More than 12 months	14,121	11,978
	<u>43,301</u>	<u>40,924</u>

As of 31 December 2012, trade receivables of KD 35,995,000 (2011 - KD 40,432,000) were impaired against which the Group carries a provision of KD 34,810,000 (2011- KD 31,888,000). 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:

	<u>2012</u>	<u>2011</u>
	<u>KD '000</u>	
Kuwaiti dinar	50,791	42,271
US dollar	169,636	188,632
Euro	3,157	8,016
Bahraini dinar	22,574	20,120
Sudanese pound	24,648	29,114
Jordanian dinar	13,873	14,778
Others	34,430	29,912
	<u>319,109</u>	<u>332,843</u>

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

	<u>2012</u>	<u>2011</u>
	<u>KD '000</u>	
Opening balance - 1 January	32,450	24,984
On acquisition of a subsidiary	177	-
Write off (net)	(5,413)	(2,188)
Charge for the year	8,187	9,654
Closing balance – 31 December	<u>35,401</u>	<u>32,450</u>

6. Inventories

	<u>2012</u>	<u>2011</u>
	<u>KD '000</u>	
Handsets and accessories	13,130	22,274
Provision for obsolescence	(1,224)	(1,076)
Write off	-	(16)
	<u>11,906</u>	<u>21,182</u>

7. Investment securities

	<u>2012</u>	<u>2011</u>
	<u>KD '000</u>	
<i>Current investments</i>		
<i>At fair value through profit or loss</i>		
Quoted equities	2,693	5,879
<i>Non-current investments</i>		
<i>Available for sale</i>		
Quoted equities	27,285	39,004
Funds	13,640	15,232
Unquoted equities	7,734	8,234
	<u>48,659</u>	<u>62,470</u>

Investment securities are denominated in the following currencies:

	<u>2012</u>	<u>2011</u>
	<u>KD '000</u>	
Kuwaiti dinar	39,222	55,615
US dollar	4,365	4,826
Other currencies	<u>7,765</u>	<u>7,908</u>
	<u>51,352</u>	<u>68,349</u>

Available for sale investments include unlisted securities with original cost of KD 7,734,000 (2011 - KD 8,234,000) carried at cost less impairment since it is not possible to reliably measure their fair value.

During the year, the Group recognized an unrealized loss of KD 2,076,000 (2011 - KD 14,449,000) in investment fair valuation reserve arising from fair valuation of 'available for sale' investments and transferred a loss of KD 2,580,000 (2011 - gain of KD 1,205,000) from investment fair valuation reserve to the consolidated statement of income, arising from disposals. The Group also recognized an impairment loss of KD 8,555,000 (2011 - KD 1,076,000) in the consolidated statement of income. Quoted equities are traded in active markets. Investments in funds of KD 13,641,000 (2011 - KD 15,232,000) are valued based on observable market data.

8. Investments in associates

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

	<u>2012</u>	<u>2011</u>
	<u>KD '000</u>	
Opening balance	81,131	116,096
Capital contribution during the year	97,696	397
Conversion of shareholder loans in SMTC to equity	112,640	-
Share of loss for the year	(41,053)	(35,507)
Foreign currency translation adjustment	80	(1,530)
Share of comprehensive income	(2,964)	1,675
Adjustments - transfer to subsidiary	(1,507)	-
Closing balance	<u>246,023</u>	<u>81,131</u>

The carrying amount of the Group's investment in SMTC included above is KD 246,023,000 (2011 - KD 79,636,000) and the Group's total investment in SMTC including loans and receivables (notes 10 and 13) is KD 477,899,000 (2011 - KD 329,447,000). The fair value of the Group's investment in SMTC as at 31 December 2012 is KD 236,758,000 (2011 - KD 144,133,000).

SMTC completed capital restructuring and rights issue in July 2012.

The Extraordinary General Assembly meeting of the shareholders of SMTC held on 4 July 2012 approved the Board of Director's plan to restructure the share capital of SMTC, as follows:

- Reduce share capital from SAR 14 billion (KD 1.04 billion) to SAR 4.8 billion (KD 358 million) by cancellation of 919.9 million shares in order to absorb the accumulated losses as of 30 September 2011;
- Subsequently, to increase the share capital by SAR 6 billion (KD 447 million) through conversion of shareholders' loans (SAR 2.5 billion) and a rights issue (SAR 3.5 billion).

The Group's shareholding in SMTC increased to 37.045% from 25%, after cash subscription of SAR 1.3 billion (KD 97.696 million) and conversion of shareholder loan of SAR 1.5 billion (KD 112.64 million) during the year.

The cash portion of the share issue proceeds was partially used for settlement of rights issue costs, network expansion and repayment of a part of the syndicated murabaha facility amounting to SAR 750 million.

SMTC with the consent of the murabaha facility investors extended the maturity of the syndicated murabaha facility to February 2013 from July 2012, while finalising a revised five year US\$ 2.4 billion murabaha facility (for which there are firm commitments from banks) at a lower financing cost.

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. The Parent Company's shareholding in SMTC is pledged to the 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 1.750 billion (KD 131 million) for the year ended 31 December 2012 (2011 – KD 142 million) and accumulated losses of SAR 2.349 billion (KD 176 million) as of that date (2011 – KD 710 million). SMTC's current liabilities also exceed current assets by SAR 11.146 billion (KD 835 million) as of 31 December 2012 (2011 – KD 970 million).

SMTC's independent auditor's modified review report dated 20 January 2013 draws attention to SMTC's negative working capital and accumulated deficit and discloses that its financial statements for the year ended 31 December 2012 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 profitability is as follows:

	2012	2011
	KD '000	
Assets	775,523	500,197
Liabilities	541,011	419,066
Revenue	148,770	124,746
Net (loss)/profit for the year:		
SMTC, Saudi Arabia	(41,066)	(35,446)
Other	13	(61)
	<u>(41,053)</u>	<u>(35,507)</u>

9. Interest in a jointly controlled entity

The Group incorporated a jointly controlled entity Zain Al Ajial 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 profit for the year in the jointly controlled entity amounting to KD 9,479,000 (2011 - KD 5,872,000) 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 management estimates provided by Wana Corporate.

10. Loans to associates

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

US\$ 388 million (KD 108.99 million) (2011 - KD 66.73 million) carries an interest rate of 6.75% per annum over six month Saudi Inter-Bank Offered Rate (SIBOR).

The Kuwaiti Dinar loan of KD 36.84 million carries an interest rate of 4.25% per annum over three month SIBOR.

During the year, loans aggregating KD 112.640 million (SAR 1.5 billion) were converted to equity share capital of SMTC as part of the capital restructuring.

These loans are subordinate to SMTC's borrowings from banks and are repayable only after repayment of the Murabaha loan availed by SMTC (refer note 8).

11. Property and equipment

	Land and buildings and leasehold improvements	Cellular and other equipment	Projects in progress	Total
				KD '000
Cost				
As at 31 December 2010	67,794	1,319,647	116,624	1,504,065
Additions	1,375	46,040	114,827	162,242
Transfers and adjustments	907	77,625	(78,532)	-
Disposals	(60)	(20,358)	(471)	(20,889)
Exchange adjustment	(815)	(31,703)	(6,295)	(38,813)
As at 31 December 2011	69,201	1,391,251	146,153	1,606,605
Additions	1,761	53,048	131,815	186,624
Transfers	2,252	101,657	(103,909)	-
On acquisition of a subsidiary	-	9,378	-	9,378
Adjustments	(27)	(17,563)	-	(17,590)
Disposals	(59)	(9,136)	(1,480)	(10,675)
Exchange adjustment	(3,031)	(174,680)	(51,556)	(229,267)
As at 31 December 2012	70,097	1,353,955	121,023	1,545,075
Accumulated depreciation				
As at 31 December 2010	30,998	679,381	-	710,379
Charge for the year	2,491	126,891	-	129,382
On disposals	(37)	(17,338)	-	(17,375)
Exchange adjustment	(262)	(11,163)	-	(11,425)
As at 31 December 2011	33,190	777,771	-	810,961
Charge for the year	2,833	128,113	-	130,946
On acquisition of a subsidiary	-	2,601	-	2,601
On disposals	(53)	(8,416)	-	(8,469)
Adjustments	(27)	(17,563)	-	(17,590)
Exchange adjustment	(346)	(72,058)	-	(72,404)
As at 31 December 2012	35,597	810,448	-	846,045
Net Book Value				
As at 31 December 2012	34,500	543,507	121,023	699,030
As at 31 December 2011	36,011	613,480	146,153	795,644

Projects in progress represent cellular and other equipment amounting to KD 121,023,000 (2011-KD 146,153,000).

Notes to the Consolidated Financial Statements – 31 December 2012

12. Intangible assets

	Goodwill	Licence fees	Others	Total
	KD '000			
Cost				
At 31 December 2010	941,223	464,148	46,164	1,451,535
Additions	-	19,624	17,227	36,851
Write off	-	-	(1,026)	(1,026)
Exchange adjustments	(35,884)	(9,104)	(448)	(45,436)
At 31 December 2011	905,339	474,668	61,917	1,441,924
On acquisition of a subsidiary	6,396	4,020	-	10,416
Other additions	-	-	28,410	28,410
Adjustments	-	-	14,668	14,668
Exchange adjustments	(211,763)	(31,525)	542	(242,746)
As at 31 December 2012	699,972	447,163	105,537	1,252,672
Accumulated amortization and impairment losses				
At 31 December 2010	11,942	102,846	32,298	147,086
Charge for the year	-	29,820	11,498	41,318
Write off	-	-	(1,026)	(1,026)
Exchange adjustments	-	(1,269)	(279)	(1,548)
At 31 December 2011	11,942	131,397	42,491	185,830
On acquisition of a subsidiary	-	1,251	-	1,251
Charge for the year	-	29,788	32,313	62,101
Adjustments	-	-	9,946	9,946
Exchange adjustments	-	(4,974)	436	(4,538)
As at 31 December 2012	11,942	157,462	85,186	254,590
Net book value				
As at 31 December 2012	688,030	289,701	20,351	998,082
As at 31 December 2011	893,397	343,271	19,426	1,256,094

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:

	License expiry date	2012	2011
		KD '000	
Pella Investment Company, Jordan	February 2021	79,516	79,516
Zain Bahrain B.S.C (Closed), Bahrain	April 2018	-	-
Sudanese Mobile Telephone Company Limited (Zain, Sudan)	February 2029	178,075	393,743
Atheer Telecom Iraq Limited, Cayman Islands	September 2022	424,063	420,138
Al Mouakhah Lil Khadamat Al-Logisteih Wa Al-Itisalat	December 2021	6,376	-
		688,030	893,397

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	<p>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.</p> <p>Average revenue in the period immediately before budget period increased each year for anticipated growth in revenue of up to 7.9% (2011 – 7.9%). Value assigned reflects past experience and changes in economic environment.</p> <p>Cash flows beyond the five year period have been extrapolated using a growth rate of 2% (2011 – 2%). This growth rate does not exceed the long term average growth rate of the market in which the CGU operates.</p>
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 20.6% (2011 – 15.8% to 18.6%) 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 results 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.

13. Other assets

	2012	2011
	<u>KD '000</u>	
Due from an associate (refer note 8)	86,043	63,923
Others	16,186	28,267
	<u>102,229</u>	<u>92,190</u>

'Others' include:

- US\$ 40 million; equivalent to KD 11 million (2011 – KD 11 million) receivable from a founding shareholder in SMTC secured by an agreement to transfer to the Group, the founding shareholder's shares in SMTC. The Group has initiated the process of legal action for its recovery.

14. Trade and other payables

	2012	2011
	<u>KD '000</u>	
Trade payables	84,487	63,756
Accruals	184,635	163,307
Deferred revenue	60,006	60,981
Due to roaming partners	11,999	9,227
Due to other operators (interconnect)	8,539	6,221
Due to Government of Jordan	14,072	12,413
Taxes – foreign subsidiaries	38,703	52,133
Kuwait Foundation for the Advancement of Sciences	10,414	12,890
National Labour Support Tax and Zakat	6,489	5,126
Dividend payable	13,595	13,705
Provisions	75,617	83,141
Directors' remuneration	430	430
Other payables	26,128	23,211
	<u>535,114</u>	<u>506,541</u>

15. Due to banks

	2012	2011
	KD '000	
<i>MTC (the Parent Company)</i>		
Bank overdraft	-	16,698
Short term loans	146,068	153,993
Long term loans	291,200	63,081
	<u>437,268</u>	<u>233,772</u>
<i>JMTS – Jordan</i>		
Long term loan	12,381	17,198
<i>Zain – Bahrain</i>		
Bank overdraft	6,907	619
<i>Zain – Sudan</i>		
Short term loans	-	4,971
Long term loans	-	74,706
	-	<u>79,677</u>
<i>Al Mouakhah Lil Khadamat Al-Logisteih Wa Al-Itisalat- Jordan</i>		
Long term loans	1,426	-
<i>Atheer – Iraq</i>		
Bank overdraft	11,236	13,906
Short term loan	84,270	83,490
Long term loan	98,304	111,320
	<u>193,810</u>	<u>208,716</u>
	<u>651,792</u>	<u>539,982</u>

The current and non-current amounts are as follows:

	2012	2011
	KD '000	
Current liabilities	270,656	313,823
Non-current liabilities	381,136	226,159
	<u>651,792</u>	<u>539,982</u>

The Group's borrowings reprice within six months.

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

	2012	2011
	KD '000	
US dollar	593,624	442,488
Euro	-	79,677
Saudi Arabian Riyal	37,454	-
Jordanian dinar	13,807	17,198
Others	6,907	619
	<u>651,792</u>	<u>539,982</u>

The effective interest rate as at 31 December 2012 was 1.61% to 8.71% (2011 - 1.29% to 4.8%) per annum.

The Group is compliant with the principal covenant ratios, which include:

- consolidated net borrowings to adjusted consolidated Earnings Before Interest Tax Depreciation and Amortisation (EBITDA);
- adjusted consolidated EBITDA to consolidated net interest payable;
- equity to total assets;
- net debt to EBITDA.

MTC

During the year, the Parent Company:

- obtained short term loans of US\$ 267.667 million (KD 75.375 million) and SAR 500 million (KD 37.454 million);
- obtained a long term loan of US\$ 175 million (KD 49 million) repayable within three years from the date of the facility. Balance outstanding as of 31 December 2012 was US\$ 170 million (KD 47.753 million);
- extended the maturity of a short term loan of US\$ 120 million (KD 33.708 million) availed in 2011 to 2013;
- repaid the short term loan of US\$ 433.33 million (KD 120 million) availed in March 2011.

In March 2011, the Parent Company secured a revolving credit facility of US\$ 866.67 million from a consortium of foreign banks. The revolving credit facility has been classified as non-current since the Parent Company has complied with the conditions to extend the repayment date by further two years till March 2014. As of 31 December 2012, US\$ 866.67 million (KD 243.447 million) (2011- KD 63.081 million) was outstanding from this revolving credit facility.

The above facilities carry a floating interest rate of a fixed margin over London Inter Bank Offer Rate (LIBOR) or SIBOR.

Zain Jordan

This represents JD 50 million unsecured loan obtained in 2010 payable in eight equal installments starting December 2011. As of 31 December 2012, JD 31.25 million (KD 12.381 million) (2011 – KD 17.198 million) was outstanding on this credit facility. This facility carries a floating interest rate in the range of 5% - 7% per annum.

Zain – Bahrain

The overdraft facility is denominated in Bahraini Dinar.

Zain Sudan

During the year, all Euro denominated loans equivalent to KD 82 million were repaid.

Atheer

In April 2011, Atheer availed a long term loan amounting to US\$ 400 million from a syndicate of international development finance institutions and foreign banks, which was guaranteed by the Parent Company. This facility is repayable in twenty four equal installments by January 2018. As of 31 December 2012, US\$ 349.96 million (KD 98.303 million) (2011- KD 111.320 million) was outstanding from this facility

Short term loan represents US Dollar credit facilities guaranteed by the Parent Company. During the year, the maturity of the loan was renewed for another year.

The overdraft facility is denominated in US Dollar and is guaranteed by the Parent Company.

The above facilities carry a floating interest rate of a fixed margin over LIBOR.

Al Mouakhah Lil Khadamat Al-Logisteih Wa Al-Itisalat, Jordan

This represents a long term loan availed in 2011 and is repayable in semi-annual installments from March 2013 until September 2016. This facility carries a fixed margin over the prime lending rate.

16. Other non-current liabilities

	2012	2011
	KD '000	
Customer deposits	5,244	5,515
Post employment benefits	26,284	27,883
Refundable deposits and others	1,803	1,775
	<u>33,331</u>	<u>35,173</u>

17. Share capital and reserves

Share capital (par value of KD 0.100 per share)

	2012	2011
	No of shares	No of shares
<i>Authorised</i>		
Opening balance	4,331,982,637	4,315,097,117
Net (decrease)/increase for Employee Share Option Plan (ESOP)	(9,407,742)	16,885,520
	<u>4,322,574,895</u>	<u>4,331,982,637</u>
<i>Issued and fully paid up</i>		
Opening balance	4,307,534,661	4,297,426,891
Shares issued for 2008 ESOP	-	2,350,202
Shares issued for 2009 ESOP	2,202,064	3,120,596
Shares issued for 2010 ESOP	3,823,187	4,636,972
Shares issued for 2011 ESOP	1,714,954	-
	<u>4,315,274,866</u>	<u>4,307,534,661</u>

At the extraordinary general meeting held on 12 April 2012, the Parent Company's shareholders approved the decrease in authorized share capital by 18,422,725 shares and then to increase it by 9,014,983 shares to 4,322,574,895 shares, subject to regulatory approval.

At the extraordinary general meeting held on 12 April 2011, the Parent Company's shareholders approved decrease in authorized share capital by 7,562,456 shares and then to increase it by 24,447,976 shares to 4,331,982,637 shares.

Share premium

Increase in share premium during the year represents issue of ESOP shares at a premium.

Treasury shares

	2012	2011
Number of shares	425,711,648	425,711,648
Percentage of issued shares	9.87%	9.88%
Market value (KD '000)	332,055	383,140
Cost (KD '000)	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 Companies Law 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 transfer (2011 - Nil).

Foreign currency translation reserve

This reserve increased during the year due to a significant decline in the exchange rate of the Sudanese Pound.

Dividend – 2011

The annual general meeting of shareholders for the year ended 31 December 2011 held on 29 March 2012 approved distribution of cash dividends of 65 fils per share for the year 2011.

Proposed dividend

The Board of Directors, subject to the approval of shareholders, recommends distribution of a cash dividend of 50 fils per share (2011 - 65 fils per share) to the registered shareholders as of the date of the Annual General Meeting.

18. Revenue

	<u>2012</u>	<u>2011</u>
	<u>KD '000</u>	
Airtime and subscription	1,258,113	1,291,429
Trading income	23,790	30,492
	<u>1,281,903</u>	<u>1,321,921</u>

19. Investment income

	<u>2012</u>	<u>2011</u>
	<u>KD '000</u>	
Gain/(loss) on investments at fair value through profit or loss	139	(1,699)
Realised (loss)/gain from available for sale investments	(1,683)	1,763
Impairment loss on available for sale investments	(8,555)	(1,076)
Dividend income	1,288	1,752
	<u>(8,811)</u>	<u>740</u>

20. National Labour Support Tax and Zakat

	<u>2012</u>	<u>2011</u>
	<u>KD '000</u>	
NLST- Kuwait	4,459	3,749
Zakat - Kuwait	1,784	1,500
Zakat- Sudan	3,908	3,621
	<u>10,151</u>	<u>8,870</u>

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.

21. Income tax expenses

This represents the income tax expenses of subsidiaries and withholding taxes (refer note 24).

22. Earnings per share

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

	<u>2012</u>	<u>2011</u>
	<u>KD '000</u>	
From continuing operations	252,145	268,546
From discontinued operations	-	16,320
	<u>252,145</u>	<u>284,866</u>
	<u>Shares</u>	<u>Shares</u>
Weighted average number of shares in issue	3,889,563,218	3,881,823,013
Effect of dilution (ESOP - note 23)	6,700,513	6,160,133
Weighted average number of shares in issue outstanding during the year adjusted for the effect of dilution	<u>3,896,263,731</u>	<u>3,887,983,146</u>
	<u>Fils</u>	<u>Fils</u>
Basic earnings per share		
From continuing operations	65	69
From discontinued operations	-	4
	<u>65</u>	<u>73</u>
Diluted earnings per share		
From continuing operations	65	69
From discontinued operations	-	4
	<u>65</u>	<u>73</u>

23. 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:

	2009 Plan		2010 Plan		2011 Plan		2012 Plan	
	Numbers	Weighted average exercise price KD	Numbers	Weighted average exercise price KD	Numbers	Weighted average exercise price KD	Numbers	Weighted average exercise price KD
Granted	16,843,774	0.672	14,076,900	0.816	4,502,949	0.295	5,609,092	0.295
Exercised in 2009	-	-	-	-	-	-	-	-
Stock options outstanding at 31 Dec 2009	16,843,774	0.624	-	-	-	-	-	-
Exercised in 2010	(5,542,650)	0.624	-	-	-	-	-	-
Additional shares granted	1,002,522	-	-	-	-	-	-	-
Stock options forfeited	(6,286,735)	-	(1,500)	-	-	-	-	-
Stock options outstanding at 31 Dec 2010	6,016,911	0.467	14,075,400	0.816	-	-	-	-
Additional shares granted/option regranted	344,286	-	275,900	-	-	-	-	-
Exercised in 2011	(3,120,596)	0.467	(4,636,972)	0.658	-	-	-	-
Stock options forfeited	(1,004,294)	-	(1,888,775)	-	-	-	-	-
Stock options outstanding at 31 Dec 2011	2,236,307	0.278	7,825,553	0.470	-	-	-	-
Exercised in 2012	(2,202,064)	0.278	(3,823,187)	-	(1,714,954)	-	-	-
Stock options forfeited	(34,243)	-	(468,630)	-	(11,212)	-	-	-
Stock options outstanding at 31 Dec 2012	-	-	3,533,736	0.470	2,776,783	0.234	5,609,092	0.295
Stock options exercisable as at 31 Dec 2012	-	-	3,533,736	-	-	-	2,813,388	-
Weighted average remaining contractual life (in years)	-	-	-	-	2	-	3	-
Weighted average share price of options exercised during the year	0.760	-	0.760	-	0.760	-	-	-

The Group has determined the fair value of the share options granted using the Black-Scholes valuation model. The expected volatility used in the model is the standard deviation of expected share prices based on statistical analysis of daily share prices over the last three years.

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 5,086,819. 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 Nil (2011 – KD 579,000) 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 506,000 (2011 – KD 1,242,000) related to this plan.

2011 Plan

The Parent Company granted 4,502,949 shares at an exercise price of KD 0.295 per share. The options vest over three years at the rate of 33%, 33% and 34% each year, beginning 31 December 2012 exercisable from the date of vesting and up to three years from the service date. The fair value of these options was KD 0.592 per share with a total fair value of KD 2,666,000. The significant inputs into the fair value model were a share price of KD 0.870 - the market price at the grant date 26 December 2011, 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 1.93%.

During the year, the Group recognised total expenses of KD 1,704,000 (2011 – KD 1,242,000) related to this plan.

2012 Plan

The Parent Company granted 4,529,092 shares at an exercise price of KD 0.295 per share. The options vest over three years at the rate of 33%, 33% and 34% each year, beginning 1 January 2013 exercisable from the date of vesting and up to three years from the service date. The fair value of these options was KD 0.622 per share with a total fair value of KD 2,816,000. The significant inputs into the fair value model were a share price of KD 0.900 - the market price at the grant date 1 January 2012, 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 1.93%. The Parent Company has also approved issue of an additional 1,080,000 shares at exercise price of KD Nil which vest on the date of approval. During the year, the Group recognised total expenses of KD 2,642,000 (2011 - KD Nil) related to this plan.

The average market price per share of the Parent Company for the year ended 31 December 2012 was KD 0.760 (2011 - KD 1.102).

24. Segment information

The Parent Company and its subsidiaries operate in a single business segment, telecommunications and related services. Apart from its main operations in Kuwait, the Parent Company also operates through its foreign subsidiaries in Jordan, Bahrain, Lebanon, Sudan (North and South) and Iraq. Based on the quantitative thresholds, the Group has identified its operations in Kuwait, Jordan, Sudan and Iraq as the basis for disclosing the segment information.

Notes to the Consolidated Financial Statements – 31 December 2012

	31-Dec-12					Total KD '000
	Kuwait	Jordan	Sudan	Iraq	Others	
Segment revenues	331,878	142,477	255,733	484,657	67,158	1,281,903
Net profit before interest and tax	114,174	44,003	11,452	138,265	9,290	317,184
Interest income	6	982	3,957	913	906	6,764
Finance cost	-	(1,144)	(8,915)	(15,490)	(466)	(26,015)
Income tax expense	-	(9,445)	(9,368)	(20,427)	(1,008)	(40,248)
	<u>114,180</u>	<u>34,396</u>	<u>(2,874)</u>	<u>103,261</u>	<u>8,722</u>	<u>257,685</u>
<i>Unallocated items:</i>						
Investment income						(8,811)
Share of loss of associates						(41,053)
Share of profit of a jointly controlled entity						9,479
Others						62,892
						<u>280,192</u>
Profit for the year - continuing operations						-
Profit for the year - discontinued operations						<u>280,192</u>
Profit for the year						<u>280,192</u>
Segment assets	219,313	235,890	611,992	1,016,628	146,345	2,230,168
<i>Unallocated items:</i>						
Investment securities at fair value through profit or loss						2,693
Investment securities available for sale						48,659
Investment in associates						246,023
Interest in a jointly controlled entity						54,819
Loans to associates						145,832
Others						202,797
						<u>2,930,991</u>
Consolidated assets						<u>2,930,991</u>
Segment liabilities	77,623	51,795	260,098	252,496	91,108	733,120
<i>Unallocated items:</i>						
Due to banks						651,792
Others						(164,675)
						<u>1,220,237</u>
Consolidated liabilities						<u>1,220,237</u>
Net consolidated assets						<u>1,710,754</u>
Capital expenditure incurred during the year	55,774	13,618	56,460	41,929	22,050	189,831
Unallocated						124
						<u>189,955</u>
Total capital expenditure						<u>189,955</u>
Depreciation and amortization	43,265	19,770	41,352	68,833	16,403	189,623
Unallocated						3,424
						<u>193,047</u>
Total depreciation and amortization from continuing operation						<u>193,047</u>

	31-Dec-11					Total KD '000
	Kuwait	Jordan	Sudan	Iraq	Others	
Segment revenues	344,161	139,532	301,151	446,370	90,707	1,321,921
Net profit before interest and tax	128,467	46,732	90,046	134,520	19,182	418,947
Interest income	3	1,057	3,710	1,088	141	5,999
Finance cost	-	(1,033)	(5,413)	(21,141)	-	(27,587)
Income tax expense	-	(10,478)	(16,383)	(18,418)	(1,527)	(46,806)
	128,470	36,278	71,960	96,049	17,796	350,553
<i>Unallocated items:</i>						
Investment income						740
Share of loss of associates						(35,507)
Share of profit of a jointly controlled entity						5,872
Others						(20,450)
Profit for the year - continuing operations						301,208
Profit for the year - discontinued operations						16,320
Profit for the year						317,528
Segment assets	215,766	240,688	981,830	926,802	76,194	2,441,280
<i>Unallocated items:</i>						
Investment securities at fair value through profit or loss						5,879
Investment securities available for sale						62,470
Investment in associates						81,131
Interest in a jointly controlled entity						44,871
Loans to associates						190,166
Others						461,437
Consolidated assets						3,287,234
Segment liabilities	76,669	37,665	333,699	108,433	27,599	584,065
<i>Unallocated items:</i>						
Due to banks						539,982
Others						(42,351)
Consolidated liabilities						1,081,696
Net consolidated assets						2,205,538
Capital expenditure incurred during the year	41,386	11,406	82,076	167,693	10,121	312,682
Unallocated						618
Total capital expenditure						313,300
Depreciation and amortization	32,914	17,614	41,874	66,552	8,149	167,103
Unallocated						3,597
Total depreciation and amortization from continuing operation						170,700

25. Related party transactions

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

	<u>2012</u>	<u>2011</u>
	<u>KD '000</u>	
Transactions		
Management fees (included in other income)	12,897	13,306
Interest income on loans to associates	8,830	11,109
Key management compensation		
Salaries and other short term employee benefits (refer note below)	8,393	8,004
Post-employment benefits	2,321	2,503
Share based payments	1,440	416

In 2011, the Group reversed KD 20.057 million from the opening balance provision (net of KD 1.1 million foreign currency translation adjustments) of key management compensation. Of this amount, KD 16.320 million was released in discontinued operations and the balance in continuing operations.

26. Commitments and contingencies

	<u>2012</u>	<u>2011</u>
	<u>KD '000</u>	
Capital commitments	61,909	109,049
Capital commitments – share of associates	20,320	7,712
Uncalled share capital of investee companies	156	276
Letters of credit	28,872	66,558
Letters of guarantee	322,931	317,889

The above include guarantees/letters of credit amounting to US\$ 1.027 billion (KD 289 million) (2011 - KD 325 million) relating to a loan and other vendor financing availed by SMTC.

The Parent Company is a guarantor for credit facilities of US\$ 35 million (KD 10 million) (2011 – KD 10 million) granted to a founding shareholder in SMTC. The Parent Company believes that the collaterals provided by the founding shareholder to the bank, covers the credit facilities.

The Iraq income tax authority, the General Commission for Taxes (the "Tax Authority"), has raised claims for additional income taxes of US\$ 65 million (KD 18 million) for Atheer's operations upto fiscal year 2007. The Group has reviewed these claims and has filed an appeal denying liability for these additional tax claims on the basis that they are arbitrary, and contrary to the applicable Iraqi tax law.

On 6 March 2011, the Iraqi Telecom Regulatory Authority, the Communication and Media Commission (CMC) claimed a total amount of US\$ 262 million (KD 74 million) (US\$ 100 million as a fine, and US\$ 162 million as the CMC's portion of the revenue share) (31 December 2011 - US\$ 262 million) from Atheer citing non-compliance with certain license terms. In response to the appeal made by Atheer, the Board of Appeals of the CMC issued an order dated 30 January 2012, which annulled the above claim and asked the CMC to review it again and determine the amounts that should be paid by Atheer. In March 2012, the CMC again demanded payment of US\$ 262 million. Atheer has appealed against this demand by citing the CMC's Board of Appeals order dated 30 January 2012 for cancellation of the penalty charged and its re-assessment. Furthermore, CMC has also levied a penalty of US\$ 18 Million (KD 5 million) (31 December 2011 - US\$ 18 million) citing breach of network quality covenants. The Group believes that it has complied with the license terms and the network quality covenants and that it has strong meritorious defenses against these claims.

In 2007, Atheer acquired Iraqna Company for Mobile Phone Services Limited (Iraqna) from Orascom Telecom Iraq Corp. Limited (the Seller). Under the terms of the Share Purchase Agreement (SPA), the Seller is responsible for all income tax payable by Iraqna upto the Closing Date of the SPA. The Tax Authority has raised claims for additional corporate income taxes of US\$ 89 million (KD 25 million) for Iraqna upto 2007. Atheer has reviewed these claims and has filed appeals denying liability for these claims on the basis that they are arbitrary and contrary to the applicable Iraqi tax law. Atheer also has a contingent asset in the form of a right, under the SPA to make claims against the Seller for Iraqna tax claims upto US\$ 60 million (KD 17 million).

The Tax Authority has also claimed from Atheer the capital gains taxes payable by the Seller amounting to US\$ 187 million (KD 53 million) arising on sale of Iraqna to Atheer and instructed the various banks in Iraq to block Atheer's bank balances with them to the extent of an equivalent amount. Atheer filed legal action in Iraqi courts requesting an order preventing the Tax Authority from continuing to block Atheer's bank accounts or claim the amount of the capital gains tax from Atheer.

On 13 November 2012, the Court of First Instance of Rusafah, passed a decision in favour of Atheer canceling the capital gains tax claim and to release the freeze on Atheer's bank account. The Tax Authority appealed against this decision in the Court of Appeals, and the Court of Appeals issued an order on 9 December 2012 affirming the Court of First Instance of Rusafah's decision and ordered the Tax Authority to release the freeze on Atheer's bank accounts and to claim the capital gains tax from the Seller and not from Atheer or Iraqna. In January 2013, the Tax Authority filed an appeal against this order with the Court of Cassation of Iraq. In February 2013, Iraq's Ministry of Finance issued an order to limit the amount blocked to the extent of claim of US\$ 187 million (KD 53 million) and to release the balance amounts (refer note 4).

The Group expects a favorable outcome on this matter and does not consider that these matters could have an adverse impact on the Group's business or its operations in Iraq.

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

In addition, legal proceedings have been initiated by and against the Group in a number of jurisdictions. On the basis of information currently available and the advice of the legal advisors, Group management is of the opinion that the outcome of these proceedings is unlikely to have a material adverse effect on the consolidated financial position or the consolidated performance of the Group.

Operating lease commitments – Group as lessee

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

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

	2012	2011
	KD '000	
Not later than 1 year	6,935	4,416
Later than 1 year and no later than 5 years	27,399	16,815
Later than 5 years	26,288	5,562
	<u>60,622</u>	<u>26,793</u>

27. Financial risk management

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

	Loans and receivables	Assets at fair value through profit and loss	Available for sale
	KD '000		
31 December 2012			
Cash and bank balances	302,609	-	-
Trade and other receivables	319,109	-	-
Investment securities	-	2,693	48,659
Loans to associates	145,832	-	-
Other assets	97,382	-	-
	<u>864,932</u>	<u>2,693</u>	<u>48,659</u>
31 December 2011			
Cash and bank balances	404,764	-	-
Trade and other receivables	332,843	-	-
Investment securities	-	5,879	62,470
Loans to associates	190,166	-	-
Other assets	91,753	-	-
	<u>1,019,526</u>	<u>5,879</u>	<u>62,470</u>

All financial liabilities as of 31 December 2012 and 31 December 2011 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. The Board of Directors has the overall responsibility for the establishment and oversight of the Group's risk management framework and developing and monitoring the risk management policies in close co-operation with the Group's operating units. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and Group's activities. The Group through its training and management standards and procedures aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The Group's Board Committee oversees how management monitors compliance with the risk management policies and procedures and reviews adequacy of the risk management framework in relation to the risks faced by the Group. The Board Committee is assisted in its oversight role by the Internal audit and the Group risk management department. 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 consolidated 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	2012	2011
	KD '000	
US Dollar	16,624	24,051
Euro	1,841	11,720
SAR	3,738	-

(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 consolidated 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	2012		2011	
	Impact on net profit	Effect on equity	Impact on net profit	Effect on Equity
KD '000				
Kuwait Stock Exchange	± 135	± 1,956	± 294	± 2,586

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 2012 and 2011, the Group's borrowings at variable rates were denominated mainly in US Dollar, Bahraini Dinar, Euro, SAR 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 by using Interest Rate Swaps to hedge interest rate risk exposures.

At 31 December 2012, if interest rates at that date had been 50 basis points higher/lower with all other variables held constant, consolidated profit for the year would have been lower/higher by KD 2,249,000 (2011 - KD 2,237,000).

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, trade and other receivables and loans to associates. The Group manages this risk by placing fixed and short term bank deposits with high credit rating financial institutions. Credit risk with respect to trade receivables is limited due to dispersion across large number of customers and by using experienced collection agencies. The Group considers the credit quality of amounts that are neither past due nor impaired to be high.

For more information refer to Notes 4, 5, 10 and 13.

(c) Liquidity risk

Liquidity risk is the risk that the Group may not be able to meet its funding requirements. The Group manages this risk by maintaining sufficient cash and marketable securities, availability of funding from committed credit facilities and its ability to close out market positions on short notice. 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 affiliates (refer note 3).

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Other than cash and bank balance of KD 64.2 million (2011 - KD 108.6 million) equivalent held in Sudanese pounds and KD 6.4 million (2011- KD Nil) held in South Sudanese pounds, all other cash and bank balance are maintained in freely convertible currencies.

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.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	KD '000			
At 31 December 2012				
Bank borrowings	277,209	320,952	62,683	15
Trade and other payables	399,491	-	-	-
Customer deposits	-	628	-	4,616
Refundable deposit	-	1,803	-	-
At 31 December 2011				
Bank borrowings	322,506	147,030	70,241	19,069
Trade and other payables	362,419	-	-	-
Customer deposits	-	1,491	-	4,024
Refundable deposit	-	1,775	-	-

28. 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 2012:

	Notional amounts by term to maturity					
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3 -12 months	Over 1 year
	KD '000					
<i>Derivatives held for hedging:</i>						
<i>Cash flow hedges</i>						
Commission rate swaps - share of an associate	-	-	-	-	-	-
	-	-	-	-	-	-

At 31 December 2011:

	Notional amounts by term to maturity					
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3 -12 months	Over 1 year
	KD '000					
<i>Derivatives held for hedging:</i>						
<i>Cash flow hedges</i>						
Commission rate swaps - share of an associate	-	(849)	153,733	153,733	-	-
	-	(849)	153,733	153,733	-	-

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.

29. 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 consolidated statement of financial position dates were as follows:

	2012	2011
	KD '000	
Total borrowings	651,792	539,982
Less: Cash and bank balances (refer note 4)	(302,609)	(404,764)
Net debt	349,183	135,218
Total equity	1,710,754	2,205,538
Total capital	2,059,937	2,340,756
Gearing ratio	17%	6%

30. Fair value of financial instruments

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair values of financial instruments are not significantly different from their carrying values. For financial assets and liabilities that are liquid or having a short term maturity or with variable interest rate, 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 (unadjusted) 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:

	At 1 January 2012	Gain/(loss) recorded in the statement of income	Gain/(loss) recorded in statement of comprehensive income	Other movements	At 31 December 2012
Investment securities available for sale:					KD '000
Unquoted securities/funds (net of impairment losses)	8,234	-	-	(500)	7,734

	At 1 January 2011	Gain/(loss) recorded in the statement of income	Gain/(loss) recorded in statement of comprehensive income	Other movements	At 31 December 2011
Investment securities available for sale:					KD '000
Unquoted securities/funds (net of impairment losses)	9,641	(661)	-	(746)	8,234

31. 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 significantly 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.

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.

32. Comparative figures

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