

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

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

31 December 2010

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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 2010, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

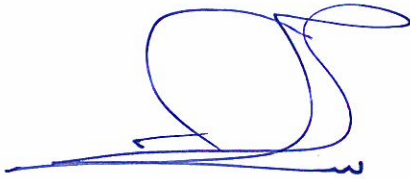
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

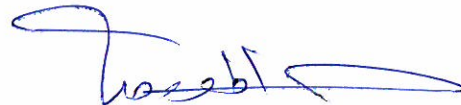
INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (Continued)

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 information that is required by Commercial Companies Law of 1960, as amended, and by the Parent Company's Articles of Association; that an inventory was duly carried out; and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, or of the Articles of Association have occurred during the year ended 31 December 2010 that might have had a material effect on the business of the Group or on its consolidated financial position.



**Bader A. Al Wazzan
Licence No. 62A
Deloitte & Touche
Al-Fahad, Al-Wazzan & Co.**



**Nasser Abdullah Al Muqait
Licence No.9A
Al-Ahli Bureau
Certified Accountants**

Kuwait
03 March 2011

Consolidated Statement of Financial Position as at 31 December 2010

	Note	2010	2009
		KD '000	
ASSETS			
Current assets			
Cash and bank balances	5	644,215	267,175
Trade and other receivables	6	472,570	405,434
Inventories	7	13,258	32,554
Investment securities at fair value through profit or loss	8	7,465	7,464
		<u>1,137,508</u>	<u>712,627</u>
Non-current assets			
Deferred tax assets	9	375	134,049
Investment securities available for sale	8	98,641	98,492
Investments in associates	10	116,096	165,771
Interest in a jointly controlled entity	11	40,270	44,063
Loans to associates	12	187,263	141,996
Property and equipment	13	793,686	2,151,768
Intangible assets	14	1,304,449	2,245,453
Other assets	15	31,649	2,539
		<u>2,572,429</u>	<u>4,984,131</u>
Total Assets		<u>3,709,937</u>	<u>5,696,758</u>
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	16	593,221	939,944
Due to banks	17	124,933	536,472
		<u>718,154</u>	<u>1,476,416</u>
Non-current liabilities			
Due to banks	17	94,734	1,615,994
Deferred tax liabilities	9	-	38,704
Other non-current liabilities	18	149,132	87,166
		<u>243,866</u>	<u>1,741,864</u>
Equity			
Attributable to Parent Company's shareholders			
Share capital	19	429,743	428,285
Share premium	19	1,697,788	1,691,105
Treasury shares	19	(567,834)	(567,834)
Legal reserve	19	214,871	147,989
Voluntary reserve	19	-	63,091
Foreign currency translation reserve		(143,767)	(21,174)
Treasury shares reserve		1,967	1,967
Equity issue transaction cost of associate		(1,779)	(1,814)
Investment fair valuation reserve		4,532	(7,719)
Share based compensation reserve		7,386	18,361
Hedge reserve		(2,524)	(49,298)
Retained earnings		1,006,607	593,643
		<u>2,646,990</u>	<u>2,296,602</u>
Non-controlling interests		<u>100,927</u>	<u>181,876</u>
Total equity		<u>2,747,917</u>	<u>2,478,478</u>
Total Liabilities and Equity		<u>3,709,937</u>	<u>5,696,758</u>

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


Asaad Ahmed Al Banwan
Chairman


Nabeel Bin Salamah
Chief Executive Officer

Mobile Telecommunications Company K.S.C.

Consolidated Statement of Income – Year ended 31 December 2010

		2010	2009 (Restated)
	Note	<u>KD '000</u>	
Continuing operations			
Revenue	20	1,351,681	1,263,039
Cost of sales		(354,836)	(325,535)
Gross profit		996,845	937,504
Distribution, marketing and operating expenses		(266,956)	(237,082)
General and administrative expenses		(107,947)	(113,847)
Depreciation and amortization	13,14	(166,279)	(149,673)
Provision for impairment – trade and other receivables		(6,184)	(3,110)
Operating profit		449,479	433,792
Interest income		17,813	11,167
Investment income	21	(1,945)	(8,231)
Share of loss of associates	10	(45,018)	(61,145)
Share of loss of jointly controlled entity	11	(4,836)	(4,229)
Other income		20,038	14,366
Finance costs		(55,254)	(93,736)
Gain/ (loss) from currency revaluation		12,517	(47)
Board of Directors' remuneration		(32)	(32)
Contribution to Kuwait Foundation for Advancement of Sciences	22	(2,335)	(1,818)
National Labour Support Tax and Zakat	22	(8,244)	(7,694)
Profit for the year before income tax		382,183	282,393
Income tax expense of subsidiaries	23	(36,174)	(36,760)
Profit from continuing operations		346,009	245,633
Discontinued operations			
Profit/ (loss) from discontinued operations	4	741,809	(34,392)
		1,087,818	211,241
Attributable to:			
Shareholders of the Parent Company		1,062,805	195,008
Non-controlling interests		25,013	16,233
		<u>1,087,818</u>	<u>211,241</u>
Earnings per share (EPS)			
24			
Basic – Fils			
From continuing operations		80	55
From discontinued operations		195	(4)
		<u>275</u>	<u>51</u>
Diluted – Fils			
From continuing operations		79	54
From discontinued operations		195	(4)
		<u>274</u>	<u>50</u>

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

Consolidated Statement of Comprehensive Income – Year ended 31 December 2010

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

	Equity attributable to Parent Company's Shareholders											Non-controlling interests	Total	
	Share Capital	Share premium	Treasury shares	Legal reserve	Voluntary reserve	Foreign currency translation reserve	Treasury shares reserve	Equity issue transaction cost of associate	Investment fair valuation reserve	Share based compensation reserve	Hedge reserve			Retained earnings
	KD '000													
Balance at 1 January 2010	428,285	1,691,105	(567,834)	147,989	63,091	(21,174)	1,967	(1,814)	(7,719)	18,361	(49,298)	593,643	181,876	2,478,478
Transfer to reserves	-	-	-	66,882	-	-	-	-	-	-	-	(66,882)	-	-
Sale of shares in a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	(93,080)	(93,080)
Exercise of share options	1,458	6,683	-	-	-	-	-	-	-	-	-	(227)	-	7,914
Cash dividends (2009)	-	-	-	-	(63,091)	-	-	-	-	-	-	(594,257)	(10,495)	(667,843)
Transfer to retained earnings	-	-	-	-	-	-	-	-	-	(11,525)	-	11,525	-	-
Total comprehensive income for the year	-	-	-	-	-	(122,593)	-	35	12,251	550	46,774	1,062,805	22,626	1,022,448
Balance at 31 December 2010	<u>429,743</u>	<u>1,697,788</u>	<u>(567,834)</u>	<u>214,871</u>	<u>-</u>	<u>(143,767)</u>	<u>1,967</u>	<u>(1,779)</u>	<u>4,532</u>	<u>7,386</u>	<u>(2,524)</u>	<u>1,006,607</u>	<u>100,927</u>	<u>2,747,917</u>
Balance at 1 January 2009	427,240	1,690,772	(567,834)	127,788	63,091	(97,692)	1,967	(1,746)	(9,201)	20,395	(60,382)	625,014	181,717	2,401,129
Transfer to reserves	-	-	-	20,201	-	-	-	-	-	-	-	(20,201)	-	-
Adjustments to non-controlling interest share	-	-	-	-	-	-	-	-	-	-	-	-	(1,393)	(1,393)
Sale/ purchase of shares to/ from non-controlling interest (Note 3)	-	-	-	-	-	-	-	-	-	-	-	(22,477)	4,101	(18,376)
Exercise of share options	1,045	333	-	-	-	-	-	-	-	-	-	(468)	-	910
Cash dividends (2008)	-	-	-	-	-	-	-	-	-	-	-	(192,474)	(9,362)	(201,836)
Transfer to retained earnings	-	-	-	-	-	-	-	-	-	(9,241)	-	9,241	-	-
Total comprehensive income for the year	-	-	-	-	-	76,518	-	(68)	1,482	7,207	11,084	195,008	6,813	298,044
Balance at 31 December 2009	<u>428,285</u>	<u>1,691,105</u>	<u>(567,834)</u>	<u>147,989</u>	<u>63,091</u>	<u>(21,174)</u>	<u>1,967</u>	<u>(1,814)</u>	<u>(7,719)</u>	<u>18,361</u>	<u>(49,298)</u>	<u>593,643</u>	<u>181,876</u>	<u>2,478,478</u>

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

Consolidated Statement of Cash Flows – Year ended 31 December 2010

	2010	2009
		KD '000
Cash flows from operating activities		
Profit for the year before income tax	1,119,796	250,671
Adjustments for:		
Depreciation, amortization and goodwill written off	280,342	420,957
Interest income	(19,943)	(13,372)
Investment income	1,945	8,226
Gain from disposal of a subsidiary	(778,134)	-
Share of loss of associates	45,018	61,145
Share of loss of jointly controlled entity	4,836	4,229
Finance costs	78,609	160,710
Gain on sale of property and equipment	(18)	(8)
(Gain)/ loss from currency revaluation	(3,286)	38,172
<i>Operating profit before working capital changes</i>	729,165	930,730
Increase in trade and other receivables	(305,700)	(83,925)
Decrease/ (increase) in inventories	2,744	(1,149)
Increase in trade and other payables	150,129	23,696
<i>Cash generated from operations</i>	576,338	869,352
<i>Payments:</i>		
Income tax	(38,630)	(12,685)
Board of Directors' remuneration	(28)	-
Kuwait Foundation for Advancement of Sciences (KFAS)	(4,159)	(2,841)
National Labour Support Tax and Zakat	(5,528)	(6,247)
<i>Net cash from operating activities</i>	527,993	847,579
Cash flows from investing activities		
Deposits under lien and those maturing after three months(Note 5)	(180,866)	-
Proceeds from sale of investment securities	312	5,561
Investments in securities	(4)	(1,404)
Investments in associates/ jointly controlled entity	(1,308)	(70,891)
Proceeds from disposal of a subsidiary (Note 4)	2,277,429	-
Deferred purchase consideration paid	-	(192,915)
Acquisition of property and equipment (net)	(269,687)	(469,385)
Acquisition of intangible assets	(37,791)	(7,072)
Interest received	19,522	24,888
Dividends received	1,640	2,216
<i>Net cash from/ (used) in investing activities</i>	1,809,247	(709,002)
Cash flows from financing activities		
(Repayment of)/ proceeds from bank borrowings (net)	(1,342,769)	184,308
Loan to an associate	(9,040)	(59,246)
Proceeds from issue of share capital	7,914	910
Dividends paid	(653,934)	(191,086)
Dividends paid to non-controlling interests	(10,478)	(9,362)
Finance costs paid	(80,760)	(178,772)
<i>Net cash used in financing activities</i>	(2,089,067)	(253,248)
Net increase/ (decrease) in cash and cash equivalents	248,173	(114,671)
Effects of exchange rate changes on cash and cash equivalents	(51,999)	13,975
Cash and cash equivalents at beginning of year	267,175	367,871
Cash and cash equivalents at end of year (Note 5)	463,349	267,175

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

1. Incorporation and activities

Mobile Telecommunications Company K.S.C. (the Parent Company) is a Kuwaiti shareholding company incorporated in 1983 in accordance with the Law of Commercial Companies of 1960. Its shares are traded on the Kuwait Stock Exchange. The registered office of the Parent Company is at P.O. Box 22244, 13083 Safat, State of Kuwait.

The Parent Company and its subsidiaries (the Group) along with associates provide mobile telecommunication services in Kuwait and 7 other countries (31 December 2009 - Kuwait and 22 other countries) under licenses from the Governments of the countries in which they operate; purchase, deliver, install, manage and maintain mobile telephone and paging systems; and invest surplus funds in investment securities.

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

The principal subsidiaries and associates are listed in Note 3.

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

2. Basis of preparation and significant accounting policies

2.1 Basis of preparation

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

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

2.2 Changes in accounting policies

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

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

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

Standards and Interpretations issued but not yet effective

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

For annual periods beginning on or after 1 July 2010

IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments

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

For annual periods beginning on or after 1 January 2011

IAS 24 (Revised) : Related Party Transactions

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

Improvements to IFRS

In May 2010, IASB issued amendments to various standards and interpretations as part of its annual improvements project. These amendments have not been adopted as they become effective for annual periods beginning on or after 1 January 2011:

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

For annual periods beginning on or after 1 February 2010

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

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

For annual periods beginning on or after 1 January 2013

IFRS 9 : Financial Instruments: Classification and Measurement

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

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

2.3 Business combinations

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

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

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

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

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

2.4 Consolidation

Subsidiaries are those enterprises, including special purpose entities, controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements on a line-by-line basis, from the date on which control is transferred to the Group until the date that control ceases.

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

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances based on latest audited financial statements of subsidiaries. Intra group balances, transactions, income, expenses and dividends are eliminated in full. Profits and losses resulting from intra group transactions that are recognized in assets are eliminated in full. If a parent loses control of a subsidiary, it derecognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost as well as related non-controlling interests. Any investment retained is recognized at fair value at the date when control is lost. Any resulting difference along with amounts previously directly recognized in equity is transferred to the consolidated statement of income.

2.5 Financial instruments

Classification

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

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

Recognition/ derecognition

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

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

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

Measurement

Financial instruments

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Available for sale

These are non-derivative financial assets not included in any of the above classifications and principally acquired to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. These are subsequently measured and carried at fair value and any resultant gains or losses are recognized in the consolidated statement of comprehensive income. When the “available for sale” asset is disposed of or impaired, the related accumulated fair value adjustments are transferred to the consolidated statement of income as gains or losses.

Financial liabilities/ equity

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

Financial guarantees

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

Fair values

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

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

Derivative financial instruments and hedging activities

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

Fair value hedge

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

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

Cash flow hedge

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

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

Net investment hedge

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

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

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

Impairment

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

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

2.6 Cash and cash equivalents

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

2.7 Inventories

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

2.8 Income taxes

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

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

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

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

2.9 Investments in associates

Associates are those entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The excess of the cost of investment over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recognised as goodwill. Goodwill on acquisition of associates is included in the carrying values of investments in associates. Investments in associates are initially recognised at cost and are subsequently accounted for by the equity method of accounting from the date of significant influence to the date it ceases. Under the equity method, the Group recognises in the consolidated statement of income, its share of the associate's post acquisition results of operations and in equity, its share of post acquisition movements in reserves that the associate directly recognises in equity. The cumulative post acquisition adjustments, and any impairment, are directly adjusted against the carrying value of the associate. Appropriate adjustments such as depreciation, amortisation and impairment losses are made to the Group's share of profit or loss after acquisition to account for the effect of fair value adjustments made at the time of acquisition.

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

2.10 Interests in joint ventures

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

2.11 Property and equipment

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

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

	Years
Buildings	8 – 50
Cellular and other equipment	4 – 15
Aircraft	10
Furniture	1 – 12

These assets are reviewed periodically for impairment. If there is an indication that the carrying value of an asset is greater than its recoverable amount, the asset is written down to its recoverable amount and the resultant impairment loss is taken to the consolidated statement of income. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.12 Intangible assets and goodwill

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

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

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

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

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

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

2.13 Provisions for liabilities

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

2.14 Share-based payment transactions

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

2.15 Post employment benefits

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

2.16 Treasury shares

The cost of the Parent Company's own shares purchased, including directly attributable costs, is classified under equity. Gains or losses arising on sale are separately disclosed under shareholders' equity and these amounts are not available for distribution. These shares are not entitled to cash dividends. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares. Reserves equal to the cost of treasury shares held are not available for distribution.

2.17 Accounting for leases

Where the Group is the lessee

Operating leases

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

Finance leases

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

2.18 Revenue

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

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

Specific customer acquisition costs are charged to marketing expenses or dealer commissions when the subscriber is activated.

Interest income is recognized on a time proportion basis using the effective yield method and dividend income is recognized when the right to receive payment is established.

2.19 Borrowing costs

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

2.20 Foreign currencies

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

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

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

2.21 Discontinued operations

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

2.22 Contingencies

Contingent assets are not recognized as an asset until realisation becomes virtually certain. Contingent liabilities, other than those arising on acquisition of subsidiaries, are not recognized as a liability unless as a result of past events it is probable that an outflow of economic resources will be required to settle a present, legal or constructive obligation; and the amount can be reliably estimated. Contingent liabilities arising in a business combination are recognized if their fair value can be measured reliably.

3. Subsidiaries and Associates

The principal subsidiaries and associates are:

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

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

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

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

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

MTCL

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

Atheer, Iraq

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

ZABV

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

Financial support to Group companies

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

4. Disposal of Zain Africa BV

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

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

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

Gain on disposal

	<u>KD'000</u>
Cash flows upon disposal of subsidiary	
Enterprise value (US\$ 10.7 billion)	3,107,280
Less: Consolidated net debt obligations assumed by the buyer (US\$ 1.7 billion)	<u>(493,680)</u>
Equity and shareholder loan value of ZABV (US\$ 9 billion)	2,613,600
Less:	
Amount receivable on expiry of twelve months from First Closing Date (US\$ 700 million)	(203,280)
Other amounts receivable under SSA (US\$ 83 million)	(24,104)
Other deductions under per SSA (US\$54 million)	<u>(15,557)</u>
Net cash received	2,370,659
Less: Cash and cash equivalents of ZABV as on the first closing date	<u>(93,230)</u>
Net proceeds from disposal of subsidiary (as disclosed in the consolidated statement of cash flows)	<u>2,277,429</u>

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

Notes to the Consolidated Financial Statements – 31 December 2010

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

	KD'000
Equity and shareholder loan value of ZABV (US\$ 9 billion)	2,613,600
Less: Inter-company shareholder loans	(720,960)
Equity value	1,892,640
Less:	
Carrying value of investment in ZABV	(787,879)
Transaction and other costs (see below)	(326,627)
Gain on disposal of ZABV	<u>778,134</u>

Transaction and other costs

	KD'000
Professional and advisory fees	17,322
Personnel costs- termination and other dues	38,149
Cash flow hedge and underwriting fee loss	38,632
Provisions for estimated income taxes under SSA	117,520
Provisions for other potential claims	
including penalties assumed by Group under the SSA	89,832
Other charges under SSA	25,172
	<u>326,627</u>

The details of gain on disposal is as follows:

	KD'000
Gain on disposal before transfers from other comprehensive income	930,770
<i>Transfers from other comprehensive income:</i>	
Cumulative exchange differences	(114,483)
Cash flow hedges	(37,006)
Investment fair valuation reserve	(1,147)
Gain on disposal before contribution to KFAS	<u>778,134</u>

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

	2010	2009
	KD'000	
Gain on disposal before contribution to KFAS	778,134	-
Related KFAS	(7,781)	-
Net gain on disposal of discontinued operations	<u>770,353</u>	<u>-</u>
Operating results of ZABV up to 8 June 2010		
Revenue	406,903	1,055,333
Expenses	(295,124)	(721,285)
Depreciation and amortization	(114,063)	(271,284)
Interest income	2,130	2,206
Finance cost	(23,355)	(66,974)
Loss on currency revaluation	(9,231)	(38,126)
Loss for the year before tax	(32,740)	(40,130)
Income tax expense	4,196	5,738
Loss from discontinued operations	<u>(28,544)</u>	<u>(34,392)</u>
Total profit/ (loss) from discontinued operations	<u>741,809</u>	<u>(34,392)</u>
Attributable to:		
Shareholders of the Parent Company	751,441	(16,457)
Non-controlling interests	(9,632)	(17,935)
	<u>741,809</u>	<u>(34,392)</u>

Cash flows

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

	<u>2010</u>	<u>2009</u>
		<u>KD'000</u>
Operating cash flows	57,645	350,016
Investing cash flows	(77,278)	(335,766)
Financing cash flows	20,444	34,432
Total cash flows	<u>811</u>	<u>48,682</u>

5. Cash and bank balances

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

	<u>2010</u>	<u>2009</u>
		<u>KD '000</u>
Cash on hand and at banks	255,965	169,277
Short-term deposits with banks	377,133	97,898
Government certificates of deposits held by Zain Sudan	11,117	-
	<u>644,215</u>	<u>267,175</u>
Less:		
Deposits with a foreign bank under lien (Note 10)	(169,749)	-
Government certificates of deposits held by Zain Sudan with maturities exceeding three months	(11,117)	-
	<u>463,349</u>	<u>267,175</u>

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

6. Trade and other receivables

	<u>2010</u>	<u>2009</u>
		<u>KD '000</u>
Trade receivables:		
Customers	66,040	90,453
Distributors	10,081	19,334
Other operators (interconnect)	44,212	83,639
Roaming partners	5,765	15,788
Provision for impairment	(24,747)	(51,458)
	<u>101,351</u>	<u>157,756</u>
Other receivables:		
Accrued income	5,831	7,339
Staff	2,106	5,162
Due from associates	41,308	44,678
Due from sale of ZABV (refer Note 4)	220,180	-
Prepayments, advances and other deposits	102,031	190,499
Provision for impairment	(237)	-
	<u>371,219</u>	<u>247,678</u>
	<u>472,570</u>	<u>405,434</u>

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

Notes to the Consolidated Financial Statements – 31 December 2010

The ageing analysis of these trade receivables is as follows:

	<u>2010</u>	<u>2009</u>
		<u>KD '000</u>
Up to 3 months	29,381	27,911
3 – 6 months	16,190	13,267
6 – 12 months	19,880	19,492
More than 12 months	<u>35,704</u>	<u>62,125</u>
	<u>101,155</u>	<u>122,795</u>

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

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

	<u>2010</u>	<u>2009</u>
		<u>KD '000</u>
Kuwaiti dinar	54,713	19,089
US dollar	327,823	155,599
Euro	11,151	19,674
Bahraini dinar	16,144	20,837
Sudanese pound	32,330	33,972
Jordanian dinar	13,708	45,271
Others	<u>16,701</u>	<u>110,992</u>
	<u>472,570</u>	<u>405,434</u>

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

	<u>2010</u>	<u>2009</u>
		<u>KD '000</u>
Opening balance - 1 January	51,458	50,014
On disposal of a subsidiary	(32,461)	-
Recoveries/ write back of provisions	(2,331)	(9,530)
Charge for the year	<u>8,318</u>	<u>10,974</u>
Closing balance – 31 December	<u>24,984</u>	<u>51,458</u>

The Group does not hold any collateral as security.

7. Inventories

	<u>2010</u>	<u>2009</u>
		<u>KD '000</u>
Handsets and accessories	14,104	36,784
Provision for obsolescence	<u>(846)</u>	<u>(4,230)</u>
	<u>13,258</u>	<u>32,554</u>

8. Investment securities

	<u>2010</u>	<u>2009</u>
		<u>KD '000</u>
<i>Current investments</i>		
<i>At fair value through profit or loss</i>		
Quoted equities	<u>7,465</u>	<u>7,464</u>
<i>Non-current investments</i>		
<i>Available for sale</i>		
Quoted equities	61,877	53,120
Funds	32,054	26,665
Unquoted equities	12,823	26,043
Impairment loss	<u>(8,113)</u>	<u>(7,336)</u>
	<u>98,641</u>	<u>98,492</u>

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Investment securities are denominated in the following currencies:

	<u>2010</u>	<u>2009</u>
	<u>KD '000</u>	
Kuwaiti dinar	75,074	71,714
US dollar	19,597	26,915
Other currencies	11,435	7,327
	<u>106,106</u>	<u>105,956</u>

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

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

9. Deferred tax assets/ liabilities

	<u>2010</u>	<u>2009</u>
	<u>KD '000</u>	
Deferred tax assets:		
Deferred tax assets to be recovered after more than 12 months	375	128,597
Deferred tax assets to be recovered within 12 months	-	5,452
	<u>375</u>	<u>134,049</u>
Deferred tax liabilities:		
Deferred tax liability payable after more than 12 months	-	36,474
Deferred tax liability payable within 12 months	-	2,230
	<u>-</u>	<u>38,704</u>

10. Investments in associates

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

	<u>2010</u>	<u>2009</u>
	<u>KD '000</u>	
Opening balance	165,771	216,389
Capital contribution during the year	260	1,779
Share of loss for the year (See below)	(45,018)	(61,145)
Foreign currency translation adjustment	(2,393)	8,748
Share of comprehensive income	<u>(2,524)</u>	<u>-</u>
Closing balance	<u>116,096</u>	<u>165,771</u>

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

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

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

- Reduce share capital from Saudi Riyal (SAR) 14 billion (KD 1.05 billion) to SAR 7.328 billion (KD 550 million) by cancellation of 667 million shares in order to absorb the accumulated losses of the Company as of 30 June 2010;

- Subsequently to increase the share capital by SAR 4.383 billion (KD 329 million) through conversion of shareholders' loans and a rights issue.

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

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

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

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

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

	<u>2010</u>	<u>2009</u>
		<u>KD '000</u>
Assets	529,992	537,228
Liabilities	413,896	371,457
Revenue	114,173	57,935
Net (loss)/ profit for the year:		
SMTC, Saudi Arabia	(45,076)	(59,514)
Others	58	(1,631)
	<u>(45,018)</u>	<u>(61,145)</u>

11. Interest in a jointly controlled entity

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

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

12. Loans to associates

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

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

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

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

Notes to the Consolidated Financial Statements – 31 December 2010

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

13. Property and equipment

	Land and buildings	Cellular and other equipment	Projects in progress	Total KD '000
Cost				
As at 31 December 2008	97,343	2,580,848	456,527	3,134,718
Additions	28,030	499,555	37,837	565,422
Transfers and adjustments	4,164	165,432	(171,386)	(1,790)
Disposals	(14,872)	(54,654)	(71,867)	(141,393)
Exchange adjustment	3,028	38,486	(16,200)	25,314
As at 31 December 2009	117,693	3,229,667	234,911	3,582,271
Additions	3,210	145,818	154,418	303,446
Transfers and adjustments	779	110,502	(149,241)	(37,960)
On disposal of a subsidiary	(49,864)	(2,065,835)	(98,790)	(2,214,489)
Disposals	(2,548)	(14,101)	(15,290)	(31,939)
Exchange adjustment	(1,476)	(86,404)	(9,384)	(97,264)
As at 31 December 2010	67,794	1,319,647	116,624	1,504,065
Accumulated depreciation				
As at 31 December 2008	37,290	1,070,638	-	1,107,928
Charge for the year	5,891	337,823	-	343,714
On disposals	(11)	(35,190)	-	(35,201)
Exchange adjustment	1,158	12,904	-	14,062
As at 31 December 2009	44,328	1,386,175	-	1,430,503
Charge for the year	3,984	232,159	-	236,143
On disposal of a subsidiary	(15,235)	(882,047)	-	(897,282)
On disposals	(304)	(9,596)	-	(9,900)
Exchange adjustment	(1,775)	(47,310)	-	(49,085)
As at 31 December 2010	30,998	679,381	-	710,379
Net Book Value				
As at 31 December 2010	36,796	640,266	116,624	793,686
As at 31 December 2009	73,365	1,843,492	234,911	2,151,768

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

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

14. Intangible assets

	Goodwill	Licence fees	Others	Total KD '000
Cost				
At 31 December 2008	1,735,706	654,161	49,987	2,439,854
Additions	5,966	4,910	2,228	13,104
Disposals	(512)	-	(19)	(531)
Adjustments to identifiable assets	(11,008)	(8,950)	183	(19,775)
Exchange adjustments	76,472	8,578	3,546	88,596
At 31 December 2009	1,806,624	658,699	55,925	2,521,248
Additions	-	-	2,641	2,641
On disposal of subsidiary	(790,606)	(175,593)	(11,693)	(977,892)
Exchange adjustments	(74,795)	(18,958)	(709)	(94,462)
As at 31 December 2010	941,223	464,148	46,164	1,451,535
Accumulated amortization and impairment losses				
At 31 December 2008	76,883	104,800	23,748	205,431
On disposals	-	-	(13)	(13)
Adjustments to identifiable assets	-	(4,176)	4,333	157
Impairment losses	22,864	-	-	22,864
Charge for the year	-	45,621	8,758	54,379
Exchange adjustments	2,568	(8,600)	(991)	(7,023)
At 31 December 2009	102,315	137,645	35,835	275,795
On disposal of subsidiary	(91,854)	(69,420)	(10,112)	(171,386)
Charge for the year	-	37,381	6,818	44,199
Exchange adjustments	1,481	(2,760)	(243)	(1,522)
As at 31 December 2010	11,942	102,846	32,298	147,086
Net book value				
As at 31 December 2010	929,281	361,302	13,866	1,304,449
As at 31 December 2009	1,704,309	521,054	20,090	2,245,453

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

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

	License expiry date	2010	2009 KD '000
Pella Investment Company, Jordan	February 2021	79,516	79,516
Zain Bahrain B.S.C (Closed), Bahrain	April 2018	-	-
Celtel Burkina Faso S.A	-	-	32,743
Celtel Tchad S.A	-	-	31,889
Celtel Congo (DRC) SARL	-	-	105,838
Celtel Congo S.A	-	-	77,959
Celtel Gabon S.A	-	-	107,226
Celtel Kenya Limited	-	-	36,839
Celtel Malawi Limited	-	-	17,724
Celtel Niger S.A	-	-	27,747
Celtel (S.L) Limited	-	-	31,448
Celtel Limited Uganda	-	-	6,860
Celtel Zambia Limited	-	-	61,323
Celtel Tanzania	-	-	4,371
Celtel, Madagascar	-	-	28,166
Celtel, Nigeria	-	-	104,389
Zain Ghana Limited	-	-	32,310
Sudanese Mobile Telephone Company Limited (Zain, Sudan)	February 2029	425,249	484,841
Atheer Telecom Iraq Limited, Cayman Islands	September 2022	424,516	433,120
		929,281	1,704,309

Impairment testing

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

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

Key assumption Basis used to determine value to be assigned to key assumption

Growth rate Increase in competition expected but no significant change in market share of any CGU as a result of ongoing service quality improvements and expected growth in market penetration but excluding that from improving or enhancing the asset's performance.

Average revenue in the period immediately before budget period increased each year for anticipated growth in revenue of up to 7.9% (2009 – 12%). Value assigned reflects past experience and changes in economic environment.

Cash flows beyond the five year period have been extrapolated using a growth rate of 2% (2009 – 3%). This growth rate does not exceed the long term average growth rate of the market in which the CGU operate.

Exchange rate Average market forward rate over the budget period. Value assigned is consistent with external sources of information.

Discount rate Discount rates range from 15.8% to 18.6% (2009 – 14% to 15.8%) per annum. Discount rates used are pre-tax and reflect specific risks relating to the relevant CGU.

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

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

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

15. Other assets

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

16. Trade and other payables

	2010	2009
	KD '000	
Trade payables	47,202	209,985
Deferred revenue	49,161	104,168
Due to roaming partners	7,084	10,936
Due to other operators (interconnect)	5,211	11,571
Due to Government of Jordan	13,519	12,906
Income taxes – foreign subsidiaries	29,628	88,870
Kuwait Foundation for the Advancement of Sciences	11,812	2,939
National Labour Support Tax and Zakat	5,429	4,762
Dividend payable	11,134	7,638
Accrued expenses	340,164	277,322
Directors' remuneration	32	64
License fee payable (See note below)	35,150	179,313
Other payables	37,695	29,470
	<u>593,221</u>	<u>939,944</u>

Notes to the Consolidated Financial Statements – 31 December 2010

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

17. Due to banks

	2010	2009
	KD '000	
<i>MTC (the Parent Company)</i>		
Short term loans	-	40,535
Long term loans	-	67,418
	-	107,953
<i>JMTS – Jordan</i>		
Long term loan	19,885	-
Finance lease obligations	-	17
	19,885	17
<i>MTCB – Bahrain</i>		
Long term loans	-	1,967
Finance lease obligations	-	333
	-	2,300
<i>ZABV – The Netherlands</i>		
Short term loans	-	156,901
Long term loans	-	422,149
	-	579,050
<i>Zain – Sudan</i>		
Long term loans	101,362	111,346
Finance lease obligations	-	161
	101,362	111,507
<i>Atheer – Iraq</i>		
Short term loan	84,360	178,549
Bank overdraft	14,060	14,014
	98,420	192,563
<i>ZIBV – The Netherlands</i>		
Short term loan	-	11,476
Long term loan	-	1,147,600
	-	1,159,076
	219,667	2,152,466

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

	2010	2009
	KD '000	
Current liabilities	124,933	536,472
Non-current liabilities	94,734	1,615,994
	219,667	2,152,466

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

	<u>2010</u>	<u>2009</u>
		<u>KD '000</u>
Less than 6 months	199,782	941,772
6 – 12 months	19,885	-
Fixed rate borrowings	-	1,210,694
	<u>219,667</u>	<u>2,152,466</u>

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

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

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

MTC

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

MTCB

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

Zain Sudan

This represents two Euro denominated loans availed from foreign banks. Euro 270 million (KD 103 million) (2009 - Euro 270 million - KD 111 million) Islamic murabaha financing was obtained from a consortium of foreign banks in 2007 and is guaranteed by the Parent Company. In August 2010, loan repayment was rescheduled to twelve quarterly installments starting from November 2010.

Euro 26 million Islamic murabaha loan was obtained in January 2010 from a foreign bank guaranteed by the Swedish Export Credit Guarantee Corporation and is repayable in five half yearly installments starting in February 2010.

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

Atheer

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

ZIBV

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

18. Other non-current liabilities

	<u>2010</u>	<u>2009</u>
		<u>KD '000</u>
Customer deposits	7,213	11,284
Post employment benefits	27,721	19,364
Licence fee payable (Note 16)	105,450	-
Derivative liability (Note 30)	-	49,298
Refundable deposits and others	8,748	7,220
	<u>149,132</u>	<u>87,166</u>

19. Share capital and reserves

Share capital (par value of KD 0.100 per share)

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

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

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

<i>Treasury shares</i>	<u>2010</u>	<u>2009</u>
Number of shares	425,711,648	425,711,648
Percentage of issued shares	9.91%	9.94%
Market value (KD '000)	647,082	434,226
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 Law of Commercial Companies and the Parent Company's Articles of Association, 10% of the profit for the year, subject to a maximum of 50% of the share capital, has been appropriated towards legal reserve. This reserve can be utilized only for distribution of a maximum dividend of 5% in years when retained earnings are inadequate for this purpose.

Voluntary reserve

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

Dividend - 2009

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

Proposed dividend

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

20. Revenue

	2010	2009 (Restated)
	KD '000	
Airtime and subscription	1,333,606	1,246,044
Trading income	18,075	16,995
	<u>1,351,681</u>	<u>1,263,039</u>

21. Investment income

	2010	2009 (Restated)
	KD '000	
Loss on investments at fair value through profit or loss	(62)	(2,468)
Realised loss from available for sale investments	(2,746)	(6,306)
Impairment loss on available for sale investments	(777)	(1,673)
Dividend income	1,640	2,216
	<u>(1,945)</u>	<u>(8,231)</u>

22. National Labour Support Tax, Zakat and KFAS

National Labour Support Tax and Zakat

	2010	2009 (Restated)
	KD '000	
NLST- Kuwait	3,942	3,670
Zakat - Kuwait	1,577	1,486
Zakat- Sudan	2,725	2,538
	<u>8,244</u>	<u>7,694</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.

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Contributions to <i>KFAS</i>	2010	2009
	<u>KD '000</u>	
From continuing operations	2,335	1,818
From discontinued operations (Note 4)	7,781	-
	<u>10,116</u>	<u>1,818</u>

23. Income tax expense of subsidiaries

	2010	2009
	<u>(Restated)</u>	
	<u>KD '000</u>	
JMTS	11,605	13,980
MTCL	1,617	1,109
Zain Sudan	6,292	6,963
Atheer	16,660	14,708
	<u>36,174</u>	<u>36,760</u>

24. Earnings per share

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

	2010	2009
	<u>(Restated)</u>	
	<u>KD '000</u>	
From continuing operations	311,364	211,465
From discontinued operations	751,441	(16,457)
	<u>1,062,805</u>	<u>195,008</u>
	<u>Shares</u>	<u>Shares</u>
Weighted average number of shares in issue	3,871,715,243	3,857,141,857
Effect of dilution (ESOP - Note 25)	11,306,791	12,710,249
Weighted average number of shares in issue outstanding during the year adjusted for the effect of dilution	<u>3,883,022,034</u>	<u>3,869,852,106</u>
	<u>Fils</u>	<u>Fils</u>
Basic earnings per share		
From continuing operations	80	55
From discontinued operations	195	(4)
	<u>275</u>	<u>51</u>
Diluted earnings per share		
From continuing operations	79	54
From discontinued operations	195	(4)
	<u>274</u>	<u>50</u>

25. Share-based compensation plans

Kuwait

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

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

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

2007 Plan

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

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

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

2008 Plan

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

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

2009 Plan

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

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

2010 Plan

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

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

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

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

26. 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 and Iraq. The Group's operations in Sub-Saharan Africa are classified as a disposal group, in accordance with IFRS (note 4). This forms the basis of the geographical segments.

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Notes to the Consolidated Financial Statements – 31 December 2010

	31-Dec-10						Total KD '000
	Kuwait	Jordan	Bahrain	Lebanon	Sudan	Iraq	
Segment revenues	344,957	147,297	71,169	30,578	328,003	429,677	1,351,681
Net profit before interest and tax	127,992	51,766	16,449	9,356	124,555	134,205	464,323
Interest income	22	1,593	218	48	3,198	-	5,079
Finance cost	-	(586)	(45)	-	(5,868)	(26,002)	(32,501)
Income tax expense	-	(11,605)	-	(1,617)	(6,292)	(16,660)	(36,174)
	<u>128,014</u>	<u>41,168</u>	<u>16,622</u>	<u>7,787</u>	<u>115,593</u>	<u>91,543</u>	<u>400,727</u>
<i>Unallocated items:</i>							
Investment income							(1,945)
Share of loss of associates							(45,018)
Share of loss of jointly controlled entity							(4,836)
Others							(2,919)
Profit for the year - continuing operations							<u>346,009</u>
Profit for the year - discontinued operations							<u>741,809</u>
Profit for the year							<u>1,087,818</u>
Segment assets	197,499	277,571	70,292	10,410	976,720	1,048,219	2,580,711
<i>Unallocated items:</i>							
Investment securities at fair value through profit or loss							7,465
Deferred tax assets							375
Investment securities available for sale							98,641
Investment in associates							116,096
Interest in jointly controlled entity							40,270
Loans to an associate							187,263
Others							679,116
Consolidated assets							<u>3,709,937</u>
Segment liabilities	67,598	45,427	23,016	6,212	254,551	268,712	665,516
<i>Unallocated items:</i>							
Due to banks							219,667
Others							76,837
Consolidated liabilities							<u>962,020</u>
Net consolidated assets							<u>2,747,917</u>
Capital expenditure incurred during the year	17,083	17,627	11,537	11	110,747	30,981	187,986
Unallocated							2,280
Capital expenditure of discontinued operations							79,421
Total capital expenditure							<u>269,687</u>
Depreciation and amortization	29,654	15,328	7,644	16	36,869	69,781	159,292
Unallocated							6,987
Total depreciation and amortization from continuing operation							<u>166,279</u>

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	31-Dec-09 (Restated)							Total
	Kuwait	Jordan	Bahrain	Lebanon	Sudan	Iraq	Sub-Saharan Africa	
								KD '000
Segment revenues	351,463	138,147	75,047	25,922	286,117	386,343	-	1,263,039
Net profit before interest and tax	131,122	51,830	21,461	6,483	106,898	129,511	-	447,305
Interest income	391	2,552	261	43	3,663	-	-	6,910
Finance cost	-	(1,318)	(406)	-	(6,505)	(31,858)	-	(40,087)
Income tax expense	-	(13,980)	-	(1,109)	(6,963)	(14,708)	-	(36,760)
	<u>131,513</u>	<u>39,084</u>	<u>21,316</u>	<u>5,417</u>	<u>97,093</u>	<u>82,945</u>	-	377,368
<i>Unallocated items:</i>								
Investment income								(8,231)
Share of loss of associates								(61,145)
Share of loss of jointly controlled entity								(4,229)
Others								(58,130)
Profit for the year- continuing operations								245,633
Loss for the year- discontinued operations								(34,392)
Profit for the year								211,241
Segment assets	214,759	249,900	91,554	10,714	1,031,807	1,003,400	2,449,232	5,051,366
<i>Unallocated items:</i>								
Investment securities at fair value through profit or loss								7,464
Deferred tax assets								134,049
Investment securities available for sale								98,492
Investment in associates								165,771
Interest in jointly controlled entity								44,063
Loans to an associate								141,996
Others								53,557
Consolidated assets								5,696,758
Segment liabilities	76,797	39,526	21,709	6,499	89,585	289,850	382,402	906,368
<i>Unallocated items:</i>								
Due to banks								2,152,466
Deferred tax liabilities								38,704
Others								120,742
Consolidated liabilities								3,218,280
Net consolidated assets								2,478,478
Capital expenditure incurred during the year	33,676	8,962	7,276	16	67,067	28,944	317,126	463,067
Unallocated								6,318
Total capital expenditure								469,385
Depreciation and amortization	26,643	18,258	6,334	14	32,583	63,488	-	147,320
Unallocated								2,353
Total depreciation and amortization from continuing operations								149,673

27. Related party transactions

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

	2010	2009
	KD '000	
Transactions		
Management fees (included in other income)	14,490	9,671
Interest income on loans to an associate	11,010	3,307
Balances		
Trade and other receivables	4,430	3,090
Trade and other payables	3,861	1,021
Due to banks	-	39,859
Key management compensation		
Salaries and other short term employee benefits (includes provision of KD 27.5 million of which KD 23.8 million is on account of sale of ZABV)	33,184	6,133
Post-employment benefits	673	891
Share based payments	2,887	3,604

28. Commitments and contingencies

	2010	2009
	KD '000	
Capital commitments	86,657	258,906
Capital commitments – share of associates	26,116	38,033
Uncalled share capital of investee companies	289	411
Letters of credit	13,531	66,886
Letters of guarantee (including those related to SMTC)	436,592	394,903

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

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

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

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

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

Operating lease commitments – Group as lessee

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

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

	2010	2009
	KD '000	
Not later than 1 year	4,272	13,779
Later than 1 year and no later than 5 years	15,741	43,288
Later than 5 years	5,527	14,446
	<u>25,540</u>	<u>71,513</u>

Financial guarantees

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

29. Financial risk management

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

	Loans and receivables	Assets at fair value through profit and loss	Available for sale
	KD '000		
31 December 2010			
Cash and bank balances	644,215	-	-
Trade and other receivables	472,570	-	-
Investment securities	-	7,465	98,641
Loans to associates	187,263	-	-
Other assets	11,763	-	-
Total	1,315,811	7,465	98,641
31 December 2009			
Cash and bank balances	267,175	-	-
Trade and other receivables	405,434	-	-
Investment securities	-	7,464	98,492
Loan to an associate	141,996	-	-
Other assets	2,539	-	-
Total	817,144	7,464	98,492

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

Financial risk factors

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

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

(a) Market risk

(i) Foreign exchange risk

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

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

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

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

Currency	2010	2009
	KD '000	
US Dollar	17,411	3,694
Euro	11,695	13,561
SAR	4,426	-

(ii) Equity price risk

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

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

Market indices	2010		2009	
	Impact on net profit	Effect on equity	Impact on net profit	Effect on Equity
KD '000				
Kuwait Stock Exchange	373	3,781	373	3,245

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

(iii) Cash flow and fair value interest rate risk

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

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

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

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

b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. Financial assets, which potentially subject the Group to credit risk, consist principally of fixed and short notice bank deposits, bonds and receivables. The Group manages this risk by placing fixed and short term bank deposits with high credit rating financial institutions. Credit risk with respect to receivables is limited due to dispersion across large number of customers and by using experienced collection agencies. The maximum exposure of the Group to credit risk is from bank deposits and trade and other receivables. For more information refer to Notes 5 and 6.

(c) Liquidity risk

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

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

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

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	KD '000			
At 31 December 2010				
Bank borrowings	131,456	30,086	69,342	-
Trade and other payables	593,221	-	-	-
Customer deposits	-	3,178	-	4,035
Refundable deposit	-	8,748	-	-
Licence fee payable	-	70,300	35,150	-
Commitments	79,390	28,598	-	-
At 31 December 2009				
Bank borrowings	599,329	1,353,295	339,526	24,585
Trade and other payables	939,944	-	-	-
Derivative financial instruments - cash flow hedge	-	49,298	-	-
Customer deposits	-	11,284	-	-
Refundable deposit	-	7,220	-	-
Licence fee payable	179,313	-	-	-
Commitments	326,203	-	-	-

30. Derivative financial instruments

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

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

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

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At 31 December 2010:	Notional amounts by term to maturity					
	Positive fair value	Negative fair value	Notional amount Total	Within 3 months	3-12 months	Over 1 year
						KD '000
<i>Derivatives held for hedging:</i>						
<i>Cash flow hedges</i>						
Interest rate swaps	-	-	-	-	-	-
Commission rate swaps - share of an associate	-	(2,524)	155,391	-	-	155,391
	-	(2,524)	155,391	-	-	155,391

At 31 December 2009:	Notional amounts by term to maturity					
	Positive fair value	Negative fair value	Notional amount Total	Within 3 months	3-12 months	Over 1 year
						KD '000
<i>Derivatives held for hedging:</i>						
<i>Cash flow hedges</i>						
Interest rate swaps	-	(49,298)	1,204,980	-	-	1,204,980
	-	(49,298)	1,204,980	-	-	1,204,980

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

31. Capital risk management

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

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

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

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

	2010	2009
	KD '000	
Total borrowings	219,667	2,152,466
Less: Cash and bank balances (Note 5)	644,215	267,175
Net debt	(424,548)	1,885,291
Total equity	-	2,478,478
Total capital	-	4,363,769
Gearing ratio	-	43%

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

32. Fair value of financial instruments

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

Determination of fair value and fair value hierarchy:

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

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

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

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

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

	At 1 January 2010	Gain/loss recorded in the statement of income	Gains/ loss recorded in equity	Other movements	At 31 December 2010
					KD '000
Investment securities available for sale:					
Unquoted securities/ funds (net of impairment losses)	22,742	(627)	(535)	(11,939)	9,641
	At 1 January 2009	Gain/ loss recorded in the statement of income	Gains recorded in equity	Other movements	At 31 December 2009
					KD '000
Investment securities available for sale:					
Unquoted securities/ funds (net of impairment losses)	12,612	-	10,130	-	22,742

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

33. Significant accounting judgments and estimates

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

Judgments

Business combinations

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

Classification of investments

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

Impairment

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

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

Contingent liabilities/ liabilities

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

Sources of estimation uncertainty

Fair values - unquoted equity investments and business combinations

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

Accounts receivable

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

Tangible and intangible assets

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

Taxes

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

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

Goodwill

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

Share based compensation

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

34. Comparative figures

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