

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

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

**31 December 2014**

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**Mobile Telecommunications Company K.S.C.P.  
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.P. ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Consolidated Financial Statements*

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

#### *Auditors' Responsibility*

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

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

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

#### *Opinion*

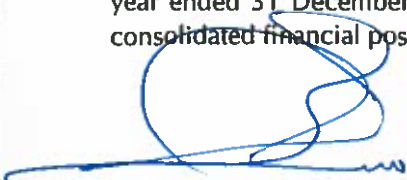
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Mobile Telecommunications Company K.S.C.P.  
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 Company and the consolidated financial statements, together with the contents of the report of the Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all the information that is required by the Companies Law No. 25 of 2012, as amended, and by the Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 25 of 2012, as amended, or of the Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2014 that might have had a material effect on the business of the Company or on its consolidated financial position.



**Bader A. Al-Wazzan  
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Deloitte & Touche  
Al-Wazzan & Co.**



**Dr. Saud Hamad Al-Humaidi  
License No. 51A  
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Member of Baker Tilly International**

Kuwait  
1 February 2015

Consolidated Statement of Financial Position as at 31 December 2014

		2014	2013
	Note		KD '000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and bank balances	4	343,570	399,242
Trade and other receivables	5	358,377	350,300
Inventories	6	16,836	14,922
Investment securities at fair value through profit or loss	7	1,941	1,930
		<u>720,724</u>	<u>766,394</u>
<b>Non-current assets</b>			
Investment securities available for sale	7	37,717	46,363
Investments in associates and joint ventures	8,9	238,977	265,197
Dues from associates	10	309,298	271,952
Other assets	11	22,772	18,726
Property and equipment	12	852,590	734,641
Intangible assets and goodwill	13	1,094,985	993,667
		<u>2,556,339</u>	<u>2,330,546</u>
<b>Total Assets</b>		<u>3,277,063</u>	<u>3,096,940</u>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Trade and other payables	14	656,064	542,566
Due to banks	15	171,616	198,402
		<u>827,680</u>	<u>740,968</u>
<b>Non-current liabilities</b>			
Due to banks	15	616,645	557,319
Other non-current liabilities	16	38,769	35,451
		<u>655,414</u>	<u>592,770</u>
<b>Equity</b>			
<b>Attributable to Company's shareholders</b>			
Share capital	17	432,706	432,268
Share premium	17	1,707,164	1,706,779
Treasury shares	17	(567,834)	(567,834)
Legal reserve	17	216,353	216,134
Foreign currency translation reserve		(677,007)	(684,716)
Treasury shares reserve		1,967	1,967
Investment fair valuation reserve		1,205	2,445
Share based compensation reserve		-	5,482
Hedge reserve		(1,931)	(1,164)
Retained earnings		512,780	509,296
		<u>1,625,403</u>	<u>1,620,657</u>
<b>Non-controlling interests</b>		168,566	142,545
<b>Total equity</b>		<u>1,793,969</u>	<u>1,763,202</u>
<b>Total Liabilities and Equity</b>		<u>3,277,063</u>	<u>3,096,940</u>

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

  
Asaad Ahmed Al Banwan  
Chairman

  
M. Scott Gegenheimer  
Chief Executive Officer

**Consolidated Statement of Profit or Loss – Year ended 31 December 2014**

	Note	2014	2013
		KD '000	
Revenue	18	1,213,229	1,240,035
Cost of sales		(336,029)	(351,569)
<b>Gross profit</b>		<b>877,200</b>	<b>888,466</b>
Operating and administrative expenses	19	(359,728)	(342,923)
Depreciation and amortization	12,13	(171,749)	(194,566)
Provision for impairment – trade and other receivables	5	(10,657)	(7,722)
<b>Operating profit</b>		<b>335,066</b>	<b>343,255</b>
Interest income		18,691	18,095
Investment income	20	(1,906)	1,972
Share of results of associates and joint ventures	8,9	(34,092)	(36,159)
Other (expense)/income		(3,200)	(7,860)
Finance costs		(26,283)	(23,548)
Loss from currency revaluation		(43,358)	(24,911)
Board of Directors' remuneration		(344)	(430)
Contribution to Kuwait Foundation for Advancement of Sciences		(1,296)	(1,467)
National Labour Support Tax and Zakat	21	(5,580)	(7,250)
Profit for the year before income tax		237,698	261,697
Income tax expenses	22	(23,543)	(17,756)
<b>Profit for the year</b>		<b>214,155</b>	<b>243,941</b>
<b>Attributable to:</b>			
Shareholders of the Company		194,301	216,445
Non-controlling interests		19,854	27,496
		<b>214,155</b>	<b>243,941</b>
<b>Earnings per share (EPS)</b>	23		
Basic – Fils		50	56
Diluted – Fils		50	56

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

**Consolidated Statement of Profit or Loss and Other Comprehensive Income – Year ended 31 December 2014**

	2014	2013
	KD '000	
<b>Profit for the year</b>	214,155	243,941
<b>Other comprehensive income:</b>		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translating foreign operations	13,449	10,028
Net unrealised (loss)/gain on available-for-sale investments	(4,605)	3,655
Net loss/(gain) transferred to consolidated statement of profit or loss on sale of available-for-sale investments (net of impairment losses)	3,365	(223)
Cash flow hedges	(767)	(1,164)
<b>Total comprehensive income for the year</b>	<u>225,597</u>	<u>256,237</u>
<b>Total comprehensive income attributable to:</b>		
Shareholders of the Company	200,003	228,181
Non-controlling interests	25,594	28,056
	<u>225,597</u>	<u>256,237</u>

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

Consolidated Statement of Changes in Shareholders' Equity – Year ended 31 December 2014

	Equity attributable to Company's shareholders										Non-controlling interests	Total	
	Share capital	Share premium	Treasury shares	Legal reserve	Foreign currency translation reserve	Treasury shares reserve	Equity issue costs	Investment valuation reserve	Share based compensation reserve	Hedge reserve			Retained earnings
Balance at 1 January 2014	432,268	1,706,779	(567,834)	216,134	(684,716)	1,967	-	2,445	5,482	(1,164)	509,296	142,545	1,763,202
Purchase of non-controlling interest (note 3)	-	-	-	-	-	-	-	-	-	-	(971)	(2,751)	(3,722)
Capital contribution	-	-	-	-	-	-	-	-	-	-	-	7,062	7,062
Effect of dilution of ownership interest	-	-	-	-	-	-	-	-	-	-	514	(751)	(237)
Transfer to reserves	-	-	-	219	-	-	-	-	-	-	(219)	-	-
Exercise of share options	438	385	-	-	-	-	-	-	-	-	-	-	823
Cash dividends (2013)	-	-	-	-	-	-	-	-	-	-	(195,033)	(2,646)	(197,679)
Equity issue transaction costs	-	-	-	-	-	-	(590)	-	-	-	-	(487)	(1,077)
Transfer to retained earnings	-	-	-	-	-	-	590	-	(5,482)	-	4,892	-	-
Total comprehensive income for the year	-	-	-	-	7,709	-	-	(1,240)	-	(767)	194,301	25,594	225,597
Balance at 31 December 2014	432,706	1,707,164	(567,834)	216,353	(677,007)	1,967	-	1,205	-	(1,931)	512,780	168,566	1,793,969
Balance at 1 January 2013	431,527	1,705,387	(567,834)	215,764	(694,184)	1,967	-	(987)	8,808	-	490,189	120,117	1,710,754
Transfer to reserves	-	-	-	370	-	-	-	-	-	-	(370)	-	-
Exercise of share options	741	1,392	-	-	-	-	-	-	(108)	-	-	-	2,025
Cash dividends (2012)	-	-	-	-	-	-	-	-	-	-	(194,789)	(3,297)	(198,086)
Equity issue transaction costs	-	-	-	-	-	-	(7,375)	-	-	-	-	(2,331)	(9,706)
Share based compensation	-	-	-	-	-	-	7,375	-	1,978	-	-	-	1,978
Transfer to retained earnings	-	-	-	-	-	-	-	-	(5,196)	-	(2,179)	-	-
Total comprehensive income for the year	-	-	-	-	9,468	-	-	3,432	-	(1,164)	216,445	28,056	256,237
Balance at 31 December 2013	432,268	1,706,779	(567,834)	216,134	(684,716)	1,967	-	2,445	5,482	(1,164)	509,296	142,545	1,763,202

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

## Consolidated Statement of Cash Flows – Year ended 31 December 2014

	2014	2013
	KD '000	
<b>Cash flows from operating activities</b>		
Profit for the year before income tax	237,698	261,697
Adjustments for:		
Depreciation and amortization	171,749	194,566
Interest income	(18,691)	(18,095)
Investment income	1,906	(1,972)
Share of results of associates and joint ventures	34,092	36,159
Finance costs	26,283	23,548
Loss from currency revaluation	43,358	24,911
Gain on sale of property and equipment	(2,788)	(432)
Operating profit before working capital changes	493,607	520,382
Increase in trade and other receivables	(15,744)	(28,945)
Increase in inventories	(1,549)	(3,235)
Provisions used (net)	(109)	(12,832)
Increase in trade and other payables	15,064	14,822
<i>Cash generated from operations</i>	491,269	490,192
<i>Payments:</i>		
Income tax	(14,532)	(14,098)
Kuwait Foundation for Advancement of Sciences (KFAS)	(3,949)	(5,058)
National Labour Support Tax and Zakat	(3,807)	(4,646)
<i>Net cash from operating activities</i>	468,981	466,390
<b>Cash flows from investing activities</b>		
Deposits maturing after three months and bank balances blocked (note 4)	(5,994)	(2,867)
Investments in a subsidiary	(3,513)	-
Proceeds from sale of investment securities	4,888	6,443
Investments in securities	(750)	(545)
Acquisition of property and equipment (net)	(172,465)	(171,078)
Acquisition of intangible assets	(140,584)	(55,450)
Interest received	9,152	5,358
Dividends received	608	539
<i>Net cash used in investing activities</i>	(308,658)	(217,600)
<b>Cash flows from financing activities</b>		
Proceeds from bank borrowings	459,107	596,069
Repayment of bank borrowings	(455,050)	(494,578)
Loan to associates	(22,876)	(24,230)
Capital contribution including share premium – employees stock option	823	2,025
Proceeds from share issue of a subsidiary (net) (note 3)	5,985	-
Dividends paid	(195,184)	(194,005)
Dividends paid to non-controlling interests	(3,206)	(3,274)
Purchase of its treasury shares by a subsidiary	(236)	-
Finance costs paid	(18,510)	(36,597)
<i>Net cash used in financing activities</i>	(229,147)	(154,590)
<b>Net (decrease)/increase in cash and cash equivalents</b>	(68,824)	94,200
Effects of exchange rate changes on cash and cash equivalents	7,158	(434)
Cash and cash equivalents at beginning of year	282,687	188,921
Cash and cash equivalents at end of year (note 4)	221,021	282,687

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

**1. Corporate Incorporation**

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

The Company and its subsidiaries (the "Group") along with associates provide mobile telecommunication services in Kuwait and 8 other countries (31 December 2013 - Kuwait and 8 other countries) under licenses from the governments of the countries in which they operate; purchase, deliver, install, manage and maintain mobile telephone and paging systems; and invest surplus funds in investment securities.

These consolidated financial statements were authorized and approved for issue by the Board of Directors of the Company on 1 February 2015 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", "available for sale" and "derivative financial instruments". These consolidated financial statements have been presented in Kuwaiti Dinars, rounded to the nearest thousand.

In 2014, indications have emerged that the economy of the Republic of Sudan, where one of the Group's telecom subsidiary operates has become hyperinflationary. According to the most recent data published by an international agency the three year cumulative inflation rate at the end of 2014 was projected to exceed 100% based on the inflation rates for 2012, 2013 and 2014 that are either estimated, preliminary or projected. Under International Accounting Standard 29: Financial Reporting in Hyperinflationary Economies (IAS 29) an entity applies the Standard from the beginning of the reporting period in which it identifies the existence of hyperinflation. However, there is no official information regarding either the consumer price index at the end of 2014 or the applicable consumer price indices in order to apply IAS 29. As a result, Group management is not in a position to reliably determine its impact. Group management is regularly monitoring the situation and will apply IAS 29 when it obtains reliable and official information regarding the inflation rates and re-measurement indices, which will have an impact on the amounts reported in that period and in the comparative period. The independent auditors' of the Sudan subsidiary have, without qualifying the audit opinion, drawn attention to this matter in the audit report dated 28 January 2015.

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 these consolidated financial statements are disclosed in note 32.

**2.2 New and revised accounting standards**

**Effective for the current year**

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

*IAS 32: Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities (Amendments)*

The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The adoption of these amendments has had no impact on the financial position or performance of the Group.

*IAS 36: Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendments)*

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognized or reversed during the period. The adoption of these amendments has not resulted in any material additional disclosures.

*IAS: 39 Novation of Derivatives and Continuation of Hedge Accounting (Amendments)*

The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness. The adoption of these amendments has had no impact on the disclosures or on the amounts recognized in these consolidated financial statements.

*IFRIC 21: Levies*

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. The application of this Interpretation has had no impact on the disclosures or on the amounts recognized these consolidated financial statements.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2014 did not have any material impact on the accounting policies, financial position or performance of the Group.

**Standards issued but not yet effective**

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

*IFRS 9: Financial Instruments*

The IASB issued IFRS 9 - Financial Instruments in its final form in July 2014 and is effective for annual periods beginning on or after 1 January 2018 with a permission to early adopt. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial assets. This Standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The adoption of this Standard will have an effect on the classification and measurement of Group's financial assets but is not expected to have a significant impact on the classification and measurement of financial liabilities. The impact of this Standard on the initial application in 2018 is not reasonable estimable at the present time.

*IFRS 15 – Revenue from Contracts with customers*

IFRS 15 was issued by IASB on 28 May 2014 is effective for annual periods beginning on or after 1 January 2017. IFRS 15 supersedes IAS 11 – Construction Contracts and IAS 18 – Revenue along with related IFRIC 13, IFRIC 18 and SIC 31 from the effective date. This new standard would remove inconsistencies and weaknesses in previous revenue recognition requirements, provide a more robust framework for addressing revenue issues and improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The Group is in the process of evaluating the effect and do not expect any significant impact on adoption of this Standard.

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

### 2.3 Business combinations

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

When a business combination is achieved in stages, the previously held equity interest in the acquiree is re-measured at its acquisition-date fair value and the resulting gain or loss is recognized in the consolidated statement of profit or loss. 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

The Group consolidates the financial statements of the Company and subsidiaries (i.e. investees that it controls) and investees controlled by its subsidiaries.

The Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- Voting rights and potential voting rights;

The financial statements of subsidiaries are included in the consolidated financial statements on a line-by-line basis, from the date on which control is transferred to the Group until the date that control ceases.

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

When the Company 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 profit or loss.

## 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 profit or loss 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 profit or loss 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 risk management or 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 profit or loss 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 present value of the amount required to settle any financial obligation arising as a result of the guarantee.

**Derivative financial instruments and hedging activities**

Derivative financial instruments 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 profit or loss. 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 profit or loss. 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 profit or loss.

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 profit or loss.

#### *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 profit or loss.

When the hedged cash flow affects the consolidated statement of profit or loss, the gain or loss on the hedging instrument is 'recycled' in the corresponding income or expense line of the consolidated statement of profit or loss. 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 profit or loss. 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 profit or loss.

#### *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 profit or loss. 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 Investments in associates**

Associates are those entities over which the Group has significant influence but not control, generally accompanying a direct or indirect shareholding of more than 20% 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 profit or loss, 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.

## 2.9 Interests in joint ventures

A joint arrangement is a contractual arrangement that gives two or more parties joint control. Joint control is a contractually agreed sharing of control of an arrangement, which exists only when decision about the relevant activities require unanimous consent of the parties sharing control. A joint venture is a joint arrangement whereby the parties that have the joint control of the arrangement have rights to the net assets of the arrangement. The Group recognises its interests in joint ventures as an investment and accounts for it using the equity method.

## 2.10 Property and equipment

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

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

	Years
Buildings and leasehold improvements	8 - 50
Cellular and other equipment	3 - 20
Aircraft	8 - 10
Furniture and fixtures	5

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 profit or loss. The residual value, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

## 2.11 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, Indefeasible Rights of Use (IRU), key money and software rights.

### *Intangible assets*

Intangible assets which have a finite life are amortized over their useful lives. For acquired network businesses whose operations are governed by fixed term licenses, the amortisation period is determined primarily by reference to the unexpired license period and the conditions for license renewal. Telecom license fees are amortised on a straight line basis over the life of the license. Key money and software rights are amortized on a straight line basis over a period of five years for software rights and over the lease period for operating leases. Customer contracts and relationships are amortised over a period of 4 to 5 years. To the extent handsets are provided below cost as part of the telecom service connection, it is treated as a subscriber acquisition cost and recognized as an intangible asset and amortised over the period of the contract.

IRU are the rights to use a portion of the capacity of a terrestrial or submarine transmission cable granted for a fixed period. IRUs are recognized at cost as an asset when the Group has the specific indefeasible right to use an identified portion of the underlying asset, generally optical fibers or dedicated wave length bandwidth and the duration of the right is for the major part of the underlying asset's economic life. They are amortised on a straight line basis over the shorter of the expected period of use and the life of the contract which ranges between 10 to 20 years.

### *Goodwill*

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

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 an entity include the carrying amount of goodwill relating to the entity or the portion sold.

#### **2.12 Impairment of non-financial assets**

If there is an indication that the carrying value of non-financial assets such as property, plant and equipment or intangible assets with a definite useful life is greater than its recoverable amount, it is tested for impairment and the asset is written down to its recoverable amount. Goodwill and intangible assets with indefinite useful lives are tested, at least annually, for impairment.

The recoverable amount is determined for an individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. In that case, they 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 property, plant and equipment and intangible assets as well as goodwill.

The 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 four to 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 four to 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.

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. An impairment loss is recognized immediately in the consolidated profit or loss unless the relevant assets are carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease to the extent of any previously recognized revaluation gain.

For non-financial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of profit or loss. That relating to goodwill cannot be reversed in a subsequent period.

#### **2.13 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 and tax rates in each jurisdiction that have been enacted or substantively enacted by the end of statement of financial position date.

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

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

Deferred tax assets are recognized for all deductible 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 deductible 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.

#### **2.14 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.

#### **2.15 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 equity. It recognizes the impact of the revision to the original estimates, if any in the consolidated statement of profit or loss, with a corresponding increase or decrease in the consolidated statement of equity.

#### **2.16 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.

#### **2.17 Treasury shares**

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

#### **2.18 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 profit or loss 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.

## 2.19 Revenue

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

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

Specific customer acquisition costs other than those recognised as intangible assets are charged to the consolidated statement of profit or loss 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.

## 2.20 Borrowing costs

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. Borrowing costs are recognized as an expense in the period in which they are incurred, except to the extent that they are capitalised.

## 2.21 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 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 profit or loss.

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 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 profit or loss as part of the gain or loss on sale.

## 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	
		2014	2013
Zain 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	54.78%	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%
Kuwaiti Sudanese Holding Company	Sudan	100%	100%
South Sudanese Mobile Telephone (Zain) Company Limited -“Zain South Sudan”	South Sudan	100%	100%
Al Khatem Telecom Company – “Al Khatem”	Iraq	76%	76%
Atheer Telecom Iraq Limited – “Atheer”	Cayman Islands	76%	76%
Al Mouakhaa Lil Kadamat Al-Logistya Wal Al-Itisalat	Jordan	99.1%	99.1%
<b>Associate</b>			
Mobile Telecommunications Company (“SMTC”)	Saudi Arabia	37.045%	37.045%
Wana Corporate S.A (associate of a joint venture, Zain Al Ajjal S.A)	Morocco	15.5%	15.5%

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

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

**Al Khatem/Atheer**

Under the terms of the telecom license agreement with the Iraqi telecom regulator CMC, Atheer and the other two telecom operators in Iraq were required to make an initial public offer (IPO) of at least 25% of the aggregate number of its qualifying shares in their Iraqi operations and list on the Iraqi Stock Exchange before 31 August 2011. The process for complying with the listing conditions is now ongoing. For this purpose, Al Khatem Telecom Company was incorporated as an Iraqi Private Shareholding Company in 2013 and became the direct parent company of Atheer through a share swap arrangement.

The unrest in Iraq since June 2014 has, to date, had a limited impact on the Group’s operations there. While noting the general uncertainty on this matter, the Group currently, does not expect that it could, materially affect the Group’s operation there in the foreseeable future.

**Zain Bahrain**

During the second quarter, the Group increased its shareholding in Zain Bahrain to 63% by acquiring additional shares from non-controlling interest holders. The difference between the consideration paid and the carrying value of the shares acquired is recorded in equity

The Group’s effective shareholding declined after Zain Bahrain made an initial public offering (IPO) of its shares in Bahrain during September 2014 to fulfil the terms of its telecom license agreement. The IPO was for 48 million new ordinary shares of par value of BD 0.100 per share at an offer price of BHD 0.190 per share and was fully subscribed to by 30 September 2014. The allotment was completed during first week of October 2014 and its shares were listed on the Bahrain Stock Exchange in December 2014.

**Zain South Sudan**

The Group provides telecom services in South Sudan through Zain South Sudan and is awaiting the issue of a formal telecom license.

**Financial support to Group companies**

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

**4. Cash and bank balances**

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

	2014	2013
	<u>KD '000</u>	
Cash on hand and at banks	225,175	242,983
Short-term deposits with banks	117,899	155,753
Government certificates of deposits held by subsidiaries	496	506
	<u>343,570</u>	<u>399,242</u>
Less:		
Bank balances blocked (refer note 27)	(121,583)	(112,068)
Cash at bank under lien	(470)	(3,981)
Government certificates of deposits held by subsidiaries	(496)	(506)
	<u>221,021</u>	<u>282,687</u>

**5. Trade and other receivables**

	2014	2013
	<u>KD '000</u>	
Trade receivables:		
Customers	89,335	77,964
Distributors	7,809	8,230
Other operators (interconnect)	39,420	24,885
Roaming partners	10,737	12,091
Provision for impairment	(49,581)	(40,845)
	<u>97,720</u>	<u>82,325</u>
Other receivables:		
Accrued income	3,965	5,310
Staff	2,610	2,703
Prepayments, advances and other deposits	116,119	126,921
Others (refer note below)	138,554	133,632
Provision for impairment	(591)	(591)
	<u>260,657</u>	<u>267,975</u>
	<u>358,377</u>	<u>350,300</u>

In 2011, the Group paid US\$ 473 million to settle the guarantees provided by the Company to lending banks for loans to a founding shareholder of SMTC. The Group is pursuing legal action for its recovery. This amount is secured by an agreement to transfer to the Group, the founding shareholder's shares in SMTC, which is currently pledged to the murabaha lenders of SMTC, and the shareholder loan in SMTC owed to the founding shareholder.

## Notes to the Consolidated Financial Statements – 31 December 2014

As of 31 December 2014, trade receivables of KD 44,223,000 (2013 - KD 32,619,000) were neither past due nor impaired. Trade receivables of KD 53,497,000 (2013 - KD 49,706,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. These trade receivables are uncollateralized and are due as follows:

	2014	2013
	KD '000	
Up to 3 months	17,272	17,953
3 – 6 months	14,492	10,110
6 – 12 months	3,661	9,379
More than 12 months	18,072	12,264
	<u>53,497</u>	<u>49,706</u>

As of 31 December 2014, trade receivables of KD 49,581,000 (2013 - KD 40,845,000) were impaired against which the Group carries a provision of KD 49,581,000 (2013 - KD 40,845,000). 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:

	2014	2013
	KD '000	
Kuwaiti dinar	50,581	47,326
US dollar	200,322	163,000
Euro	-	2,916
Bahraini dinar	12,901	12,741
Sudanese pound	12,123	19,645
Jordanian dinar	18,026	27,658
Iraqi Dinars	57,270	69,807
Others	7,154	7,207
	<u>358,377</u>	<u>350,300</u>

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

	2014	2013
	KD '000	
Opening balance - 1 January	41,436	35,401
Write off (net)	(1,921)	(1,687)
Charge for the year	10,657	7,722
Closing balance – 31 December	<u>50,172</u>	<u>41,436</u>

## 6. Inventories

	2014	2013
	KD '000	
Handsets and accessories	18,729	16,800
Provision for obsolescence	(1,893)	(1,878)
	<u>16,836</u>	<u>14,922</u>

7. Investment securities

	2014	2013
	KD '000	
<i>Current investments</i>		
<i>At fair value through profit or loss</i>		
Quoted equities	1,941	1,930
<i>Non-current investments</i>		
<i>Available for sale</i>		
Quoted equities	27,018	27,104
Funds	6,635	11,511
Unquoted equities	4,064	7,748
	<u>37,717</u>	<u>46,363</u>

Investment securities are denominated in the following currencies:

	2014	2013
	KD '000	
Kuwaiti dinar	27,547	35,616
US dollar	3,697	4,080
Other currencies	8,414	8,597
	<u>39,658</u>	<u>48,293</u>

Available for sale investments include unlisted securities amounting to KD 4.064 million (2013 - KD 7.748 million) carried at cost less impairment since it is not possible to reliably measure their fair value.

8. Investments in associates

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

Summarized financial information of SMTC:

	2014	2013
	KD '000	
Current assets	303,289	249,599
Non-current assets	1,714,217	1,726,419
Current liabilities	304,008	288,105
Non-current liabilities	1,287,304	1,178,986
Net asset of SMTC	426,194	508,927
Revenue	485,778	491,151
Loss	(96,206)	(124,723)
Total comprehensive income	(2,071)	(3,142)
Proportion Group's ownership interest in SMTC	37.045%	37.045%
Group's share of SMTC's net assets	157,884	188,533
Goodwill	11,994	11,569
Carrying amount of Group' interest in SMTC	<u>169,878</u>	<u>200,102</u>

As at 31 December 2014 the fair value of the Group's investment in SMTC, being its quoted market share price on the Saudi Stock Exchange, was KD 201.303 million (2013 – KD 280.204 million).

Goodwill arises from the acquisition in 2012 of additional 12.045% equity shares during the rights issue and capital restructuring.

The Company's shareholding and that of the other founding shareholders, in SMTC are pledged to the associate's murabaha lenders as continuing security for the payment and discharge in full by SMTC of the US\$ 2.3 billion syndicated murabaha debt that fully matures in 2018. Under the murabaha financing agreement, SMTC must also 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.

SMTC's independent auditor's review report dated 21 January 2015, has, without qualifying their conclusion, drawn attention to:

- its loss for the year, working capital deficit and accumulated losses;
- a technical deviation of the covenants of the Murabaha Financing agreement; its management receiving a waiver for the above breach as of 30 September 2014 and an agreement with the financing banks to revise these covenant calculations for 31 December 2014 and 31 March 2015; that its Board of Directors has approved a revised business plan subject to a final understanding with the financing banks to comply with the requirement of the financing agreements;
- recommendation of its Board of Directors to its shareholders to reduce the share capital from SAR 10,801,000,000 to SAR 5,837,291,750 representing a decrease of 45.96%, subject to the shareholders and regulatory authorities approval;
- a claim of SAR 2.2 billion (KD 171.600 million) plus penalties raised by Etihad Etisalat Company (Mobily) against it, arising on the service agreement entered into by the parties in May 2008 and that this is under arbitration since 20 December 2014; and whose ultimate outcome and the resultant effect, if any, on its accounts cannot be reliably determined at this stage.

#### 9. Interest in a joint venture

The Group incorporated a joint venture, Zain Al Ajial S.A. in the Kingdom of Morocco in 2009 which then acquired 31% of the equity shares and voting rights of Wana Corporate, (a Moroccan joint stock company which is specialized in the telecom sector in that country). The Group's share of profit for the year in the joint venture amounting to KD 1,548,000 (2013 - KD 10,045,000) has been recognized in the consolidated statement of profit or loss. The carrying value of this joint venture and its results for the year are determined by Group management using the equity method based on management information provided by Wana Corporate.

#### 10. Dues from associates

	2014	2013
	<u>KD '000</u>	
Loans	199,079	170,478
Others	110,219	101,474
	<u>309,298</u>	<u>271,952</u>

These amounts are due from SMTC. Loans are denominated in United States Dollar - KD 162.239 million (2013 - KD 133.638 million) and in KD 36.839 million (2013 - KD 36.839 million) at an effective interest rate of 6.75% and 4.25% per annum over six and three months Saudi Inter-Bank Offered Rate (SIBOR) respectively. These amounts, which include management fees and the interest on the loans, are subordinate to SMTC's borrowings from banks (refer note 8).

#### 11. Other assets

This includes US\$ 40 million; equivalent to KD 11.708 million (2013 - KD 11.292 million) receivable from a founding shareholder in SMTC secured by an agreement to transfer to the Group, the founding shareholder's shares in SMTC. In 2013, the Group won a legal action for its recovery and is pursuing further legal action for its implementation.

## 12. Property and equipment

	Land and buildings and leasehold improvements	Cellular and other equipment	Projects in progress	Total
	KD '000			
<b>Cost</b>				
<b>As at 31 December 2012</b>	70,097	1,353,955	121,023	1,545,075
Additions	10,854	126,455	61,713	199,022
Transfers	2,723	85,389	(88,112)	-
Adjustments	-	-	-	-
Disposals	(11)	(167,243)	(4)	(167,258)
Write off	-	(43,463)	-	(43,463)
Exchange adjustment	433	3,743	1,768	5,944
<b>As at 31 December 2013</b>	<b>84,096</b>	<b>1,358,836</b>	<b>96,388</b>	<b>1,539,320</b>
Additions	13,385	56,275	140,667	210,327
Transfers	2,136	91,135	(93,271)	-
Adjustments	-	(3,311)	-	(3,311)
Disposals	(10)	(94,142)	(899)	(95,051)
Write off	-	-	(195)	(195)
Exchange adjustment	2,527	36,622	14,328	53,477
<b>As at 31 December 2014</b>	<b>102,134</b>	<b>1,445,415</b>	<b>157,018</b>	<b>1,704,567</b>
<b>Accumulated depreciation</b>				
<b>As at 31 December 2012</b>	35,597	810,448	-	846,045
Charge for the year	2,966	125,608	-	128,574
On disposals	(8)	(126,964)	-	(126,972)
Write off	-	(43,414)	-	(43,414)
Adjustments	(221)	-	-	(221)
Exchange adjustment	192	475	-	667
<b>As at 31 December 2013</b>	<b>38,526</b>	<b>766,153</b>	<b>-</b>	<b>804,679</b>
Charge for the year	1,765	101,755	-	103,520
On disposals	(9)	(73,085)	-	(73,094)
Write off	-	-	-	-
Adjustments	(110)	-	-	(110)
Exchange adjustment	1,010	15,972	-	16,982
<b>As at 31 December 2014</b>	<b>41,182</b>	<b>810,795</b>	<b>-</b>	<b>851,977</b>
<b>Net Book Value</b>				
<b>As at 31 December 2014</b>	<b>60,952</b>	<b>634,620</b>	<b>157,018</b>	<b>852,590</b>
<b>As at 31 December 2013</b>	<b>45,570</b>	<b>592,683</b>	<b>96,388</b>	<b>734,641</b>

During the year, the Group reviewed and revised the estimated useful lives of certain assets. Assuming the assets are held until the end of their estimated useful lives, the financial effect of this reassessment is to decrease the depreciation expense in the current financial year and until the end the useful lives of the equipment. As a result of this change in accounting estimate, the depreciation charge for the current year decreased by KD 21.774 million.

## 13. Intangible assets and goodwill

	Goodwill	Licence fees	Others	Total KD '000
<b>Cost</b>				
As at 31 December 2012	699,972	447,163	105,537	1,252,672
Other additions	-	-	55,001	55,001
Exchange adjustments	3,709	3,482	416	7,607
As at 31 December 2013	703,681	450,645	160,954	1,315,280
Other additions	-	100,548	40,787	141,335
Adjustments	-	-	5,025	5,025
On disposals	-	-	(9)	(9)
Exchange adjustments	12,397	17,911	3,977	34,285
As at 31 December 2014	716,078	569,104	210,734	1,495,916
<b>Accumulated amortization and impairment losses</b>				
As at 31 December 2012	11,942	157,462	85,186	254,590
Charge for the year	-	29,330	36,662	65,992
Exchange adjustments	-	707	324	1,031
As at 31 December 2013	11,942	187,499	122,172	321,613
Charge for the year	-	29,963	38,266	68,229
Adjustments	-	-	670	670
On disposals	-	-	(6)	(6)
Exchange adjustments	-	7,310	3,115	10,425
As at 31 December 2014	11,942	224,772	164,217	400,931
<b>Net book value</b>				
As at 31 December 2014	704,136	344,332	46,517	1,094,985
As at 31 December 2013	691,739	263,146	38,782	993,667

During the year, Pella was awarded telecom licenses for an additional 3G spectrum and 4G (LTE) services by the Telecommunication Regulatory Commission of the Kingdom of Jordan for a total consideration amounting to JD 195.504 million (KD 78.716 million). LTE license is in two bands for a period of 15 years from January 2015 and January 2016 respectively.

In December 2014, Atheer was awarded a 3G telecom license by CMC for a fee of US\$ 307 million (KD 89.859 million) for a period up to August 2022. In accordance with the 3G license terms, Atheer paid US\$ 76.5 million (KD 21.832 million) being 25% of the fee as an advance. The remaining amount is to be paid in three equal instalments on 30 May 2015, 30 November 2015 and 30 May 2016. The license is effective from 1 January 2015.

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	2014	2013 KD '000
Pella Investment Company, Jordan	January 2031	79,516	79,516
Zain Bahrain B.S.C (Closed), Bahrain	September 2028	-	-
Sudanese Mobile Telephone Company Limited (Zain, Sudan)	February 2029	176,168	179,645
Atheer Telecom Iraq Limited, Cayman Islands	August 2022	441,877	426,177
Al Mouakhah Lil Khadamat Al-Logisteih Wa Al-Itisalat	December 2021	6,575	6,401
		704,136	691,739

## 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.

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 9.2% (2013 – 7.9%). Value assigned reflects past experience and changes in economic environment.

Cash flows beyond the four to five year period have been extrapolated using a growth rate of upto 3% (2013 – 2%). This growth rate does not exceed the long term average growth rate of the market in which the CGU operates.

**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 11.72% to 15.50% (2013 – 15.8% to 20.6%) per annum. Discount rates used are pre-tax and reflect specific risks relating to the relevant CGU.

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

These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a four to five year period. The recoverable amounts so obtained were higher than the carrying amount of the CGUs.

**14. Trade and other payables**

	2014	2013
	<u>KD '000</u>	
Trade payables & accruals	362,409	287,046
Deferred revenue	69,773	63,360
Due to roaming partners	20,801	11,468
Due to other operators (interconnect)	20,871	14,372
Due to Government of Jordan	17,275	14,060
Taxes – foreign subsidiaries	56,337	44,213
Kuwait Foundation for the Advancement of Sciences	4,388	7,041
National Labour Support Tax and Zakat	5,700	6,307
Dividend payable	13,957	14,404
Provisions	62,676	62,785
Directors' remuneration	344	430
Other payables	21,533	17,080
	<u>656,064</u>	<u>542,566</u>

15. Due to banks

	2014	2013
	KD '000	
<i>Company</i>		
Short term loans	142,587	33,876
Long term loans	477,004	526,023
	<u>619,591</u>	<u>559,899</u>
<i>Zain Sudan</i>		
Short term Murabaha financing	457	-
<i>Zain – Bahrain</i>		
Long term loans	17,028	14,978
<i>Zain – South Sudan</i>		
Long term loan	-	669
<i>Atheer – Iraq</i>		
Short term loan	-	84,690
Long term loans	151,185	95,485
	<u>151,185</u>	<u>180,175</u>
	<u>788,261</u>	<u>755,721</u>

The current and non-current amounts are as follows:

	2014	2013
	KD '000	
Current liabilities	171,616	198,402
Non-current liabilities	616,645	557,319
	<u>788,261</u>	<u>755,721</u>

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

	2014	2013
	KD '000	
US dollar	731,226	720,744
Kuwaiti dinar	39,550	20,000
Others	17,485	14,977
	<u>788,261</u>	<u>755,721</u>

The effective interest rate as at 31 December 2014 was 1.18% to 12.00% (2013 – 1.49% to 6.15%) per annum.

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

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

*Company*

During the year, the Company obtained:

- new long term loans amounting to US\$ 1.088 billion (equivalent to KD 306.666 million) which includes:
  - US\$ 800 million (KD 224.880 million) long term revolving credit facility maturing in February 2019. As of 31 December 2014 US\$ 340 million (KD 99.518 million) was outstanding on this facility;
  - US\$ 288.685 million (KD 81.786 million) from local commercial banks;
- new short term loans amounting to US\$ 183.703 million (KD 52.996 million);
- US\$ 287.743 million (KD 83.248 million) as a draw down from existing facilities.

The Company also repaid loans amounting to KD 351.420 million during the year. This includes:

- US\$ 540 million (KD 153.846 million) from the US\$ 800 million revolving credit facility availed in April 2013. As of 31 December 2014 US\$ 330 million (KD 96.591 million) (31 December 2013 - KD 225.840 million) was outstanding on this facility;
- US\$ 140 million (KD 39.522 million) paid to fully settle the US\$ 1.3 billion revolving credit facility that was availed in March 2011;
- US\$ 160 million (KD 45.024 million) to fully settle the long term loan availed in March 2012.

The above facilities carry a floating interest rate of a fixed margin over three or six month London Inter-Bank Offer Rate (LIBOR) or over Central Bank Discount rate.

*Zain – Bahrain*

This represents balance outstanding on the long term Bahraini Dinar denominated facilities, availed in 2013, at a fixed margin over Bahrain Inter Bank Overnight rate (BIBOR). These are amortising facilities with maturities over four years.

*Zain South Sudan*

During the year the US\$ denominated loan was repaid in full.

*Atheer*

Long term loans include:

- US\$ 400 million loan availed in 2011 from a syndicate of international development finance institutions and foreign banks. This is repayable in twenty four equal installments by January 2018. As of 31 December 2014, US\$ 216.520 million (KD 63.375 million) (2013 – KD 79.959 million) was outstanding from this facility;
- US\$ 300 million (KD 87.810 million) loan from a commercial bank that was rolled over as a long term loan maturing in December 2019.

These facilities are guaranteed by the Company and carry a floating interest rate of a fixed margin over three month LIBOR.

During the year, Atheer repaid long terms loans amounting to US\$ 121.720 million (KD 34.923 million).

*Zain Sudan*

This represents Sudanese Pounds short term financing availed from a local Islamic bank carrying an effective interest rate of 12% per annum. This facility is secured by cash at bank amounting to KD 457 thousand (note 4).

16. Other non-current liabilities

	2014	2013
	KD '000	
Customer deposits	5,382	5,506
Post employment benefits	32,962	29,532
Refundable deposits and others	425	413
	<u>38,769</u>	<u>35,451</u>

17. Share capital and reserves

*Share capital (par value of KD 0.100 per share)*

	2014	2013
	No. of shares	No. of shares
<i>Authorised</i>		
Opening balance	4,327,058,909	4,322,574,895
Net increase during the year	-	4,484,014
	<u>4,327,058,909</u>	<u>4,327,058,909</u>
<i>Issued and fully paid up</i>		
Opening balance	4,322,684,279	4,315,274,866
Shares issued for 2010 ESOP	-	3,418,612
Shares issued for 2011 ESOP	1,233,629	1,195,362
Shares issued for 2012 ESOP	3,141,001	2,795,439
	<u>4,327,058,909</u>	<u>4,322,684,279</u>

*Share premium*

Increase in share premium during the year represents issue of shares at a premium under the Employee Share Option Plan (ESOP).

*Treasury shares*

	2014	2013
Number of shares	425,711,648	425,711,648
Percentage of issued shares	9.84%	9.85%
Market value (KD '000)	225,627	293,741
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 until all these shares are disposed.

*Legal reserve*

In accordance with the Companies Law and the 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 Company's Articles of Association provide for the Board of Directors to propose appropriations to voluntary reserve up to a maximum of 50% of its share capital. During the year, the Board of Directors did not propose any transfer (2013 - Nil).

*Dividend – 2013*

The annual general meeting of shareholders for the year ended 31 December 2013 held on 20 February 2014 approved distribution of cash dividends of 50 fils per share for the year 2013.

*Proposed dividend*

The Board of Directors, subject to the approval of shareholders, recommends distribution of a cash dividend of 40 fils per share (2013 - 50 fils per share) to the registered shareholders as of the date of the Annual General Meeting.

<b>18. Revenue</b>	<b>2014</b>	<b>2013</b>
	<b>KD '000</b>	
Airtime, data and subscription	1,182,409	1,215,684
Trading income	30,820	24,351
	<u>1,213,229</u>	<u>1,240,035</u>

**19. Operating and administrative expenses**

This includes staff costs of KD 93.863 million (2013 – KD 88.891 million).

<b>20. Investment income</b>	<b>2014</b>	<b>2013</b>
	<b>KD '000</b>	
Loss on investments at fair value through profit or loss	(10)	(272)
Realized gains from available for sale investments	3,109	1,341
Impairment loss on available for sale investments	(5,921)	-
Dividend income	916	903
	<u>(1,906)</u>	<u>1,972</u>

**21. National Labour Support Tax (NLST) and Zakat**

	<b>2014</b>	<b>2013</b>
	<b>KD '000</b>	
NLST- Kuwait	2,307	3,126
Zakat- Kuwait	916	1,250
Zakat- Sudan	2,357	2,874
	<u>5,580</u>	<u>7,250</u>

NLST 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.

**22. Income tax expenses**

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

**23. Earnings per share**

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

	2014	2013
	KD '000	
Profit for the year	194,301	216,445
	Shares	Shares
Weighted average number of shares in issue	3,901,347,261	3,896,972,631
Effect of dilution	-	2,766,901
Weighted average number of shares in issue outstanding during the year adjusted for the effect of dilution	3,901,347,261	3,899,739,532
	Fils	Fils
<b>Basic earnings per share</b>	50	56
<b>Diluted earnings per share</b>	50	56

**24. Segment information**

The Company and its subsidiaries operate in a single business segment, telecommunications and related services in Kuwait and other countries. This forms the basis of the geographical segments.

Based on the quantitative thresholds, the Group has identified its operations in Kuwait, Jordan, Sudan and Iraq as the basis for disclosing the segment information.

## Notes to the Consolidated Financial Statements – 31 December 2014

	31 December 2014					Total KD '000
	Kuwait	Jordan	Sudan	Iraq	Others	
Segment revenues	346,245	133,313	190,389	455,015	88,267	1,213,229
Net profit before interest and tax	110,661	40,844	31,863	94,587	28,106	306,061
Interest income	3	1,212	1,467	252	195	3,129
Finance cost	-	(666)	-	(14,335)	(3,464)	(18,465)
Income tax expense	-	(9,061)	(5,635)	(7,950)	(472)	(23,118)
Unallocated items:	110,664	32,329	27,695	72,554	24,365	267,607
Investment income						
Share of results of associates and joint ventures						(1,906)
Others						(34,092)
Profit for the year						(17,454)
						<u>214,155</u>
Segment assets	250,876	340,268	477,629	1,108,573	255,261	2,432,607
Unallocated items:						
Investment securities at fair value through profit or loss						1,941
Investment securities available for sale						37,717
Investment in associates and joint ventures						238,977
Due from associates						309,298
Others						256,523
Consolidated assets						<u>3,277,063</u>
Segment liabilities	102,295	160,318	65,983	192,523	194,946	716,065
Due to banks	-	-	457	151,185	17,028	168,670
Unallocated items:	102,295	160,318	66,440	343,708	211,974	884,735
Due to banks						619,591
Others						(21,232)
Consolidated liabilities						<u>1,483,094</u>
Net consolidated assets						<u>1,793,969</u>
Capital expenditure incurred during the year	64,954	101,715	52,914	81,009	42,159	342,751
Unallocated						8,911
Total capital expenditure						<u>351,662</u>
Depreciation and amortization						
Unallocated	49,772	17,105	23,088	51,508	28,840	170,313
Total depreciation and amortization						<u>1,436</u>
						<u>171,749</u>

## Notes to the Consolidated Financial Statements – 31 December 2014

	31 December 2013					Total KD '000
	Kuwait	Jordan	Sudan	Iraq	Others	
Segment revenues	339,725	140,063	176,533	494,158	89,556	1,240,035
Net profit before interest and tax	107,048	42,571	29,503	123,630	(259)	302,493
Interest income	36	1,296	2,151	434	106	4,023
Finance cost	-	(99)	-	(16,591)	(6,936)	(23,626)
Income tax expense	-	(9,838)	(4,156)	(5,233)	2,142	(17,085)
	<u>107,084</u>	<u>33,930</u>	<u>27,498</u>	<u>102,240</u>	<u>(4,947)</u>	<u>265,805</u>
Unallocated items:						
Investment income						1,972
Share of results of associates and joint ventures						(36,159)
Others						12,323
<b>Profit for the year</b>						<u>243,941</u>
Segment assets						
Unallocated items:						
Investment securities at fair value through profit or loss	241,256	257,479	430,436	1,052,283	215,106	2,196,560
Investment securities available for sale						1,930
Investment in associates and joint ventures						46,363
Due from associates						265,197
Others						271,952
						<u>314,938</u>
<b>Consolidated assets</b>						<u>3,096,940</u>
Segment liabilities						
Due to banks	92,644	80,831	38,777	206,747	172,470	591,469
	-	-	-	180,175	15,647	195,822
	<u>92,644</u>	<u>80,831</u>	<u>38,777</u>	<u>386,922</u>	<u>188,117</u>	<u>787,291</u>
Unallocated items:						
Due to banks						559,899
Others						(13,452)
<b>Consolidated liabilities</b>						<u>1,333,738</u>
<b>Net consolidated assets</b>						<u>1,763,202</u>
Capital expenditure incurred during the year						
Unallocated	58,016	36,017	29,182	83,160	37,991	244,366
<b>Total capital expenditure</b>						<u>9,657</u>
						<u>254,023</u>
Depreciation and amortization						
Unallocated	51,400	18,324	26,848	65,417	30,019	192,008
<b>Total depreciation and amortization</b>						<u>2,558</u>
						<u>194,566</u>

**25. Subsidiaries with significant non-controlling interests**

The summarized financial information for the Group's subsidiaries that have significant non-controlling interests is set out below.

	KD'000			
	Al Khatem, Iraq		Zain Bahrain	
	2014	2013	2014	2013
Current assets	224,902	224,649	20,214	20,048
Non-current assets	719,668	669,459	66,573	60,312
Current liabilities	(189,212)	(281,732)	(28,850)	(27,874)
Non-current liabilities	(154,496)	(105,190)	(11,875)	(12,764)
Equity attributable to:				
- Owners of the Company	456,625	385,436	25,233	22,344
- Non-controlling interests	144,237	121,750	20,829	17,378
Revenue	455,015	494,158	55,237	60,344
Profit for the year	72,554	102,240	3,129	4,060
Other comprehensive income	-	-	-	-
Total comprehensive income	<u>72,554</u>	<u>102,240</u>	<u>3,129</u>	<u>4,060</u>
Total comprehensive income attributable to:				
- Company's shareholders	55,137	77,702	1,818	2,284
- Non-controlling interests	17,417	24,538	1,311	1,776
	<u>72,554</u>	<u>102,240</u>	<u>3,129</u>	<u>4,060</u>
Cash dividend paid to Non-controlling Interests	-	-	(1,474)	(2,104)
Net (decrease)/increase in cash flows	(20,354)	7,623	(54)	1,048

**26. 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:

	2014	2013
	KD '000	
<b>Transactions</b>		
Management fees (included in other income)	3,415	3,569
Interest income on loans to associates	9,967	11,616
<b>Key management compensation</b>		
Salaries and other short term employee benefits	7,931	6,904
Post-employment benefits	1,666	1,558
Share based payments	-	428

**27. Commitments and contingencies**

	2014	2013
	KD '000	
Capital commitments	209,723	81,384
Capital commitments – share of associates	83,909	7,683
Uncalled share capital of investee companies	162	157
Letters of credit	1,459	9,575
Letters of guarantee	470,381	465,009

The above include guarantees amounting to KD 420.853 million (2013 - KD 421.129 million) relating to loans availed by SMTC.

The Company is a guarantor for credit facilities amounting to KD 10.233 million (2013 – KD 9.869 million) granted to a founding shareholder in SMTC. The Company believes that the collaterals provided by the founding shareholder to the bank, covers the credit facilities.

The Iraq income tax authority, the General Commission for Taxes (the "Tax Authority"), has raised claims for additional income taxes of US\$ 109 million (KD 31.904 million) for Atheer's operations upto fiscal year 2008. The Group has reviewed these claims and has filed an appeal denying liability for these additional tax claims on the basis that they are arbitrary, and contrary to the applicable Iraqi tax law. Based on the appeal filed by Atheer, the Ministry of Finance has instructed the Tax Authority to re-open the assessment of the aforementioned tax years. The Group has paid 25% of the amount demanded for 2008 in order to comply with taxation laws and to protect its rights for appealing. In December 2014, the Tax Authority has raised additional claim for income tax for the fiscal year 2009 amounting to US\$ 34 million (KD 9.952 million) and for the fiscal year 2010 amounting to US\$ 34 million (KD 9.952 million). The Group intends to challenge these demands in accordance with the procedures of Income tax law by, among other things, depositing 25% of the amount. On the basis of the report of the attorneys, the Group believes that its chances of resolving these outstanding claims in its favor are reasonably good.

On 6 March 2011, the Iraqi Telecom Regulatory Authority, the Communication and Media Commission (CMC) claimed a total amount of US\$ 262 million (KD 76.687 million) (US\$ 100 million as a fine, and US\$ 162 million as the CMC's portion of the revenue share) (31 December 2013 - US\$ 262 million) from Atheer citing non-compliance with certain license terms. In response to the appeal made by Atheer, the Board of Appeals of the CMC issued an order dated 30 January 2012, which annulled the above claim and asked the CMC to review it again and determine the amounts that should be paid by Atheer. In March 2012, the CMC again demanded payment of US\$ 262 million. Atheer has appealed against this demand by citing the CMC's Board of Appeals order dated 30 January 2012 for cancellation of the penalty charged and its re-assessment. On the penalty of US\$ 100 million, the hearing panel has conducted a number of hearings and has not yet reached a decision on these matters. As for the US\$ 162 million portion of the penalty, the CMC issued a letter to Atheer on 18 November 2014 demanding the payment of this penalty. Atheer filed an appeal with the Appellate Panel of CMC on the basis that this matter was already addressed by the Appellate Panel. On the basis of the report of the attorneys, the Group is confident that the decision of hearing panel would be consistent with the previous decisions of the Board of Appeals of CMC.

Furthermore, CMC has also levied a penalty of US\$ 18 Million (KD 5.268 million) (31 December 2013 - US\$ 18 million) citing breach of network quality covenants. The Group filed an appeal with the Court of Cassation which issued a decision that the cabinet did not have the authority to impose such penalties, especially prior to assessing the real damages. In April 2014, CMC demanded the payment of this penalty and Atheer paid US\$ 18 million as a prepayment of potential penalty, which would be returned if Atheer is not deemed liable for the penalty. The matter has been remanded to the Court of Appeals which is still to hear the case. The Group believes that it has complied with the license terms and the network quality covenants and that it has strong meritorious defenses against these claims. On the basis of the report of the attorneys, the Group believes that its chances of resolving this outstanding claim in its favor are reasonably good.

In 2007, Atheer acquired Iraqna Company for Mobile Phone Services Limited (Iraqna) from Orascom Telecom Iraq Corp. Limited (the Seller). Under the terms of the Share Purchase Agreement (SPA), the Seller is responsible for all income tax payable by Iraqna upto the Closing Date of the SPA. The Tax Authority has raised claims for additional corporate income taxes of US\$ 89 million (KD 26.050 million) for Iraqna upto 2007. Atheer has reviewed these claims and has filed appeals denying liability for these claims on the basis that they are arbitrary and contrary to the applicable Iraqi tax law. Based on the appeal filed by Atheer, the Ministry of Finance has instructed the Tax Authority to re-open the assessment of the aforementioned tax years. On the basis of the report of the attorneys, the Group believes that its chances of resolving these outstanding claims in its favor are reasonably good. Furthermore, under the SPA, Atheer can recover from the Seller, any such Iraqna related tax claims, up to US\$ 60 million (KD 17.562 million) and on that basis has commenced legal proceedings in an English court to secure this right.

In December 2011, the Tax Authority has also claimed from Atheer the capital gains taxes payable by the Seller amounting to US\$ 187 million (KD 54.735 million) arising on sale of Iraqna to Atheer and instructed the various banks in Iraq to block Atheer's bank balances with them to the extent of an equivalent amount. Atheer filed legal action in Iraqi courts requesting an order preventing the Tax Authority from continuing to block Atheer's bank accounts or claim the amount of the capital gains tax from Atheer. On 13 November 2012, the Court of First Instance of Rusafah, passed a decision in favour of Atheer canceling the capital gains tax claim and to release the freeze on Atheer's bank account. The Tax Authority appealed against this decision in the Court of Appeals, and the Court of Appeals issued an order on 9 December 2012 affirming the Court of First Instance of Rusafah's decision and ordered the Tax Authority to release the freeze on Atheer's bank accounts and to claim the capital gains tax from the Seller and not from Atheer or Iraqna. In January 2013, the Tax Authority filed an appeal against this order with the Court of Cassation of Iraq. The Court of Cassation ruled that the lower courts do not have the jurisdiction to hear tax related matters. Accordingly, the Court of Appeals reversed its earlier ruling. Atheer filed a new appeal in the Court of Cassation against the ruling of Court of Appeals. However, the Court of Cassation has ruled that the civil judicial system does not have the jurisdiction to address this matter which is to be handled by the tax authorities. The tax authorities commenced enforcement proceedings to force the banks holding the amounts to pay such amounts to the tax authorities. The Group filed a suit and obtained a judgment dated 28 August 2014 from the Court of Appeals halting any such enforcement proceedings. In September 2014, the lawyers of Atheer gave personal guarantee amounting to US\$ 19 million (KD 5.561 million) which was counter guaranteed by Atheer. Atheer filed a case with the Court of First Instance stipulating that the tax authorities do not have exclusive jurisdiction to hear this case which is pending at that court. In February 2013, Iraq's Ministry of Finance issued an order to limit the amount blocked to the extent of claim of US\$ 187 million (KD 54.735 million) and to release the balance amounts (refer note 4). On the advice of attorneys, the Group expects a favorable outcome on this and does not consider that these matters could have an adverse impact on the Group's business or its operations in Iraq.

In August 2013, a telecom operator in Iraq filed a claim against CMC as the first defendant and Atheer as the second defendant in the Court of First Instance, alleging that certain actions by the CMC and Atheer in 2007 deprived the telecom operator from acquiring the business of Iraqna, which ended up being acquired by Atheer. The telecom operator claimed US\$ 4.5 billion (KD 1.317 billion) from Atheer and made a combined claim of US\$ 1 billion from CMC and Atheer. The telecom operator's claim focuses on alleged lost revenues attributed to the subscribers of Iraqna that were migrated to Atheer's network after the acquisition. In conjunction with the claim, the telecom operator made an application to the Court of First Instance in a separate case, for the appointment of an administrator to manage and collect revenues that are attributed to such Iraqna subscribers pending the outcome of the original claim. In January 2014, the court issued a decision appointing an administrator to collect and manage the disputed revenues on a monthly basis and hold such revenues in custody with an Iraqi bank pending the final outcome of the case. On 9 July 2014, the Court of First Instance issued a decision on the case dismissing the case on the basis that the plaintiff did not appropriately submit its case. In particular, and as it related to the claim against Atheer, the court indicated that the plaintiff violated the laws of civil procedure. On 13 July 2014, in light of its earlier decision dismissing the claim, the Court of First Instance issued a decision ceasing the measures related to the appointment of the court appointed administrator, indicating that Atheer need not deposit on an ongoing basis the monthly revenues in the relevant bank account. The court further indicated that, with respect to the amounts already deposited in the said account (which amounts to only one-month's revenues of US\$ 17 million (KD 4.976 million) attributed to the former Iraqna subscribers), such moneys will remain in the said account until all stages of appeal have been exhausted. When the Court of First Instance dismissed the case on procedural grounds, the telecom operator appealed the case to the Court of Appeals. In November 2014, the Court of Appeals issued a decision against Atheer for an amount of US\$ 2.14 billion. However, Atheer filed an appeal before the Court of Cassation and on 14 December 2014 the Court of Cassation issued a favorable decision dismissing the telecom operator's claim on the basis that Atheer was following the regulations imposed by CMC and the stipulations of the interim telecommunication license, as well as the requirements imposed by the tender rules for the permanent license. The Court of Cassation then remanded the matter to the Court of Appeals to amend its decision in a manner consistent with the decision of the Court of Cassation. On 22 January 2015 the Court of Appeals issued such a decision in favor of Atheer and dismissed the claims of the telecom operator. The telecom operator has the right to appeal such decision within 30 days from the date it was issued, which has not taken place until the date of these consolidated financial statements.

In October 2014, Atheer received a claim of US\$ 84 million (KD 24.587 million) from the CMC as spectrum usage fees from August 2007 to 31 December 2013. Atheer appealed the assessment on the basis of (i) the fact that assessment is not based on any appropriate announced formulae and (ii) the fact that it is against Iraqi law to issue assessments on a retroactive basis. In December 2014, the Appellate Panel of the CMC issued a decision in favor of Atheer, instructing the CMC Director General to address the issue of the spectrum fees in a manner consistent with its decision. The CMC is yet to respond to this. The Group's position is based on the Iraqi civil code and the legal norms that prohibit the Government from imposing penalties on activities on a retroactive basis.

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

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

#### Operating lease commitments – Group as lessee

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

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

	2014	2013
	KD '000	
Not later than 1 year	13,363	11,189
Later than 1 year and no later than 5 years	34,971	28,404
Later than 5 years	39,810	31,890
	<u>88,144</u>	<u>71,483</u>

## 28. Financial risk management

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

	Loans and receivables	Assets at fair value through profit or loss	Available for sale
	KD '000		
<b>31 December 2014</b>			
Cash and bank balances	343,570	-	-
Trade and other receivables	358,377	-	-
Investment securities	-	1,941	37,717
Dues from associates	309,298	-	-
Other assets	11,732	-	-
	<u>1,022,977</u>	<u>1,941</u>	<u>37,717</u>
<b>31 December 2013</b>			
Cash and bank balances	399,242	-	-
Trade and other receivables	350,300	-	-
Investment securities	-	1,930	46,363
Dues from associates	271,952	-	-
Other assets	11,357	-	-
	<u>1,032,851</u>	<u>1,930</u>	<u>46,363</u>

All financial liabilities as of 31 December 2014 and 31 December 2013 are categorized as 'other than at fair value through profit or loss'.

**Financial risk factors**

The Group's use of financial instruments exposes it to a variety of financial risks such as market risk, credit risk and liquidity risk. The Group continuously reviews its risk exposures and takes measures to limit it to acceptable levels. The Board of Directors has the overall responsibility for the establishment and oversight of the Group's risk management framework and developing and monitoring the risk management policies in close co-operation with the Group's operating units. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and Group's activities. The Group through its training and management standards and procedures aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The Group's Board Committee oversees how management monitors compliance with the risk management policies and procedures and reviews adequacy of the risk management framework in relation to the risks faced by the Group. The Board Committee is assisted in its oversight role by the Internal audit and the Group risk management department. The significant risks that the Group is exposed to are discussed below:

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

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

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

The Group is primarily exposed to foreign currency risk as a result of foreign exchange gains/losses on translation of foreign currency denominated assets and liabilities such as trade and other receivables, trade and other payables and due to banks. The impact on the post tax consolidated profit arising from a 10% weakening/strengthening of the functional currency against the major currencies to which the Group is exposed is given below:

Currency	2014	2013
	KD '000	
US Dollar	13,823	9,880
Euro	601	153
SAR	200	166

**(ii) Equity price risk**

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

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

Market indices	2014		2013	
	Impact on net profit	Effect on equity	Impact on net profit	Effect on Equity
				KD '000
Kuwait Stock Exchange	± 97	± 1,631	± 96	± 1,854

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. The Group's borrowings at variable rates are denominated mainly in US Dollars.

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 profit or loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions. The Group manages interest rate risk by monitoring interest rate movements and by using Interest Rate Swaps to hedge interest rate risk exposures.

At 31 December 2014, if interest rates at that date had been 50 basis points higher/lower with all other variables held constant, consolidated profit for the year would have been lower/higher by KD 4,009,000 (2013 - KD 3,870,000).

b) *Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. Financial assets, which potentially subject the Group to credit risk, consist principally of fixed and short notice bank deposits, bonds, trade and other receivables and loans to associates. The Group manages this risk by placing fixed and short term bank deposits with high credit rating financial institutions. Credit risk with respect to trade receivables is limited due to dispersion across large number of customers and by using experienced collection agencies. The Group considers the credit quality of amounts that are neither past due nor impaired to be high.

For more information refer to Notes 4, 5, 10 and 11.

(c) *Liquidity risk*

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

The Group has committed to provide working capital and other financial support to some of its affiliates (refer note 3). Other than cash and bank balance of KD 88.326 million (2013 - KD 72.897 million) equivalent held in Sudanese pounds and KD 12.959 million (2013 - KD 8.139 million) held in South Sudanese pounds, all other cash and bank balance are maintained in freely convertible currencies.

Notes to the Consolidated Financial Statements – 31 December 2014

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			
<b>At 31 December 2014</b>				
Bank borrowings	186,658	156,415	433,447	63,929
Trade and other payables	586,291	-	-	-
Customer deposits	444	601	-	4,337
Refundable deposits and others	-	425	-	-
<b>At 31 December 2013</b>				
Bank borrowings	210,470	366,743	198,275	20,717
Trade and other payables	479,206	-	-	-
Customer deposits	523	540	4,443	-
Refundable deposits and others	-	413	-	-

**29. Derivative financial instruments**

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

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

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

**At 31 December 2014:**

	Notional amounts by term to maturity					
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	Over 1 year
	KD '000					
<i>Derivatives held for hedging:</i>						
<i>Cash flow hedges</i>						
Profit rate swaps - share of an associate	-	(1,931)	124,694	-	-	124,694
<i>Derivatives held for trading:</i>						
Fx forwards	-	(1,752)	73,175	73,175	-	-

**At 31 December 2013:**

	Notional amounts by term to maturity					
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	Over 1 year
	KD '000					
<i>Derivatives held for hedging:</i>						
<i>Cash flow hedges</i>						
Profit rate swaps - share of an associate	-	(1,164)	120,378	-	-	120,378
<i>Derivatives held for trading:</i>						
Fx forwards	-	-	-	-	-	-

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.

**30. Capital risk management**

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

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

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

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

	2014	2013
	KD '000	
Total borrowings	788,261	755,721
Less: Cash and bank balances (refer note 4)	(343,570)	(399,242)
Net debt	444,691	356,479
Total equity	1,793,969	1,763,202
Total capital	2,238,660	2,119,681
<b>Gearing ratio</b>	<b>20%</b>	<b>17%</b>

**31. Fair value of financial instruments**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Determination of fair value and fair value hierarchy:

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

Level 1 : Quoted (unadjusted) prices in active market for the same instrument;

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

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

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For financial instruments quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities. The fair value of investments in mutual funds, unit trusts or similar investment vehicles are based on the last published net assets value.

For unquoted financial instruments fair value is determined by reference to the market value of a similar investment, discounted cash flows, other appropriate valuation models or brokers' quotes.

Fair values of the financial instruments carried at amortized cost approximate their carrying value. This is based on Level 3 inputs, with the discount rate that reflects the credit risk of counterparties, being the most significant input.

For investments in equity instruments, where a reasonable estimate of fair value cannot be determined, the investment is carried at cost.

## 31 December 2014

	Kuwaiti Dinars			
	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value:</b>				
Investments at fair value through profit or loss	1,941	-	-	1,941
Available for sale investments	27,018	6,635	-	33,653
<b>Total assets</b>	<b>28,959</b>	<b>6,635</b>	<b>-</b>	<b>35,594</b>

## 31 December 2013

	Kuwaiti Dinars			
	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value:</b>				
Investments at fair value through profit or loss	1,930	-	-	1,930
Available for sale investments	27,104	11,511	-	38,615
<b>Total assets</b>	<b>29,034</b>	<b>11,511</b>	<b>-</b>	<b>40,545</b>

## 32. Significant accounting judgments and estimates

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

**Judgments***Business combinations*

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

*Classification of investments*

On acquisition of an investment, management has to decide whether it should be classified as “at fair value through profit or loss”, “available for sale” or as “loans and receivables”. In making that judgment the Group considers the primary purpose for which it is acquired and how it intends to manage and report its performance. Such judgment determines whether it is subsequently measured at cost or at fair value and if the changes in fair value of instruments are reported in the statement of profit or loss 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 non-financial assets may be impaired. The determination of impairment requires considerable judgment and involves evaluating factors including, industry and market conditions.

*Contingent liabilities/liabilities*

Contingent liabilities are potential liabilities that arise from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Provisions for liabilities are recorded when a loss is considered probable and can be reasonably estimated. The determination of whether or not a provision should be recorded for any potential liabilities or litigation 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. Changes in technology or intended period of use of these assets as well as changes in business prospects or economic industry factors may cause the estimate useful of life of these assets to change.

*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.

*Impairment of non-financial assets*

The Group annually tests non-financial assets for impairment to determine their recoverable amounts based on value-in-use calculations or at fair value less costs to sell. The value in use includes estimates on growth rates of future cash flows, number of years used in the cash flow model and the discount rates. The fair value less cost to sell estimate is based on recent/intended market transactions and the related EBITDA multiples used in such transactions.

*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.

**33. Comparative figures**

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