

**Mobile Telecommunications Company KSC and subsidiaries  
Kuwait**

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

**31 December 2004**

**Mobile Telecommunications Company KSC and subsidiaries  
Kuwait**

**CONTENTS**

Auditors' Report	1
Consolidated Balance Sheet	2
Consolidated Statement of Income	3
Consolidated Statement of Changes in Shareholders' Equity	4
Consolidated Statement of Cash flows	5
Notes to Consolidated Financial Statements	6-22

**Bader & Co. PricewaterhouseCoopers**

P.O. Box 20174, Safat 13062

4<sup>th</sup> Floor, Kuwait Investment Co. Building

Opp. Al-Ahli Bank H.O. Kuwait

Telephone (965) 2408844

Facsimile (965) 2408855

E-mail: pwc.kwt@kw.pwc.com

**Awdah Jaber Al-Ali & Co.**

**Auditors & Consultants**



**ASSOCIATED WITH**  
**Moores Rowland International**

P.O. Box 21111 Safat

13081 Kuwait

Tel : (965) 2425700

Fax: (965) 2404944

E-mail: kgg@qualitynet.net

**Mobile Telecommunications Company KSC**

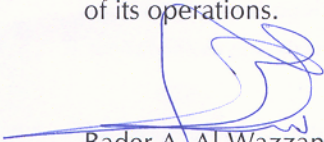
**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS**

We have audited the accompanying consolidated balance sheet of Mobile Telecommunications Company KSC (the Parent Company) and subsidiaries (collectively called "the Group") as at 31 December 2004, the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2004, and the consolidated results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Furthermore, in our opinion, proper books of accounts have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Board of Directors relating to these consolidated financial statements are in agreement therewith. We further report that we obtained all the information and explanations, that we required for the purpose of our audit and the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended and by the Parent Company's Articles of Association; that an inventory was duly carried out and that to the best of our knowledge and belief, no violations of the Law of Commercial Companies of 1960 or of the Parent Company's Articles of Association have occurred during the year ended 31 December 2004 that might have had a material effect on the business of the Group or its consolidated financial position or results of its operations.

  
Bader A. Al-Wazzan  
Licence No. 62-A  
PricewaterhouseCoopers

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

Kuwait  
13 February 2005

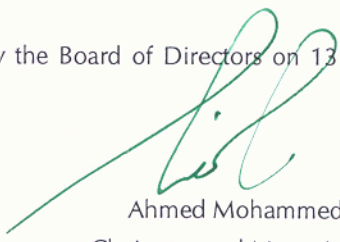
Consolidated Balance Sheet as of 31 December 2004

	Note	2004	2003
			KD'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash on hand and at banks		43,018	26,697
Short-term deposits with banks	3	108,454	71,590
Trade and other receivables	4	48,855	40,076
Inventories	5	1,568	3,153
Investments	6	11,818	31,677
<b>Total current assets</b>		<u>213,713</u>	<u>173,193</u>
<b>Non-current assets</b>			
Investments	6	130,292	109,857
Investment in associate	7	5,362	-
Property and equipment	8	219,580	216,935
Intangible assets	9	80,734	87,187
		<u>435,968</u>	<u>413,979</u>
<b>Total assets</b>		<u>649,681</u>	<u>587,172</u>
<b>LIABILITIES, SHAREHOLDERS' EQUITY AND MINORITY INTEREST</b>			
<b>Current liabilities</b>			
Trade and other payables	10	132,028	114,681
Due to banks	11	26,525	28,052
		<u>158,553</u>	<u>142,733</u>
<b>Non-current liabilities</b>			
Due to banks	11	85,804	96,553
Other non-current liabilities	12	13,952	8,668
		<u>99,756</u>	<u>105,221</u>
<b>Minority interest</b>		2,006	2,927
<b>Shareholders' equity:</b>			
Share capital	13	51,796	49,330
Treasury shares	14	(4,028)	(4,028)
Legal reserve	13	49,330	49,330
Voluntary reserve	13	44,733	44,733
Foreign currency translation reserve		(702)	(1,019)
Investment fair valuation reserve		30,080	24,108
Retained earnings		218,157	173,837
<b>Total shareholders' equity</b>		<u>389,366</u>	<u>336,291</u>
<b>Total liabilities and shareholders' equity</b>		<u>649,681</u>	<u>587,172</u>

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

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

  
Dr. Saad Hamad Al Barrak  
Director General

  
Ahmed Mohammed Al Nassar  
Chairman and Managing Director

Mobile Telecommunications Company KSC and subsidiaries

Consolidated Income Statement – Year ended 31 December 2004

	Note	2004	2003
		<u>KD'000</u>	
Revenues	15	322,327	262,606
Cost of sales		<u>(47,521)</u>	<u>(42,561)</u>
<b>Gross profit</b>		274,806	220,045
Distribution, marketing & operating expenses		(84,379)	(59,511)
General and administrative expenses		(23,777)	(16,538)
Depreciation and amortisation		(41,251)	(37,237)
Provision for impairment – trade and other receivables		<u>(2,392)</u>	<u>(4,458)</u>
<b>Operating profit</b>		123,007	102,301
Interest income		2,519	1,614
Investment income	16	9,682	12,288
Share of profit of an associate		277	-
Other income		2,484	162
Finance cost		(5,309)	(5,642)
Foreign currency revaluation (loss)/gain		(1,432)	1,012
Board of Directors' remuneration		(28)	(28)
Contribution to Kuwait Foundation for Advancement of Sciences		(1,236)	(1,054)
National Labour Support Tax	17	<u>(2,403)</u>	<u>(2,109)</u>
<b>Profit for the year before income tax</b>		127,561	108,544
Income tax expense of subsidiaries	18	(10,297)	(7,890)
<b>Profit for the year before minority interest</b>		117,264	100,654
Minority interest		<u>2,977</u>	<u>1,558</u>
<b>Net profit for the year</b>		<u>120,241</u>	<u>102,212</u>
		<u>Fils</u>	<u>Fils</u>
<b>Earnings per share</b>	19	<u>237</u>	<u>201</u>

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

Consolidated Statement of Changes in Shareholders' Equity – 31 December 2004

	Share capital	Treasury shares	Legal reserve	Voluntary reserve	Foreign currency translation reserve	Investment fair valuation reserve	Retained earnings	Total shareholders' equity
	KD '000							
<b>At 31 December 2002</b>	<b>49,330</b>	<b>(4,028)</b>	<b>49,330</b>	<b>44,733</b>	<b>-</b>	<b>10,640</b>	<b>134,161</b>	<b>284,166</b>
Cash dividends (2002 - 140%)	-	-	-	-	-	-	(67,665)	(67,665)
Net profit for the year – 2003	-	-	-	-	-	-	102,212	102,212
Foreign currency translation differences	-	-	-	-	(1,019)	-	-	(1,019)
Reclassification of investment fair valuation reserve	-	-	-	-	-	(5,388)	5,388	-
Transfer of reserve pertaining to investment in subsidiary	-	-	-	-	-	(4,800)	-	(4,800)
Realised gains on available-for-sale investments	-	-	-	-	-	(199)	(259)	(458)
Changes in fair value of available-for- sale investments	-	-	-	-	-	23,855	-	23,855
<b>At 31 December 2003</b>	<b>49,330</b>	<b>(4,028)</b>	<b>49,330</b>	<b>44,733</b>	<b>(1,019)</b>	<b>24,108</b>	<b>173,837</b>	<b>336,291</b>
Cash dividends (2003 - 150%)	-	-	-	-	-	-	(72,498)	(72,498)
Issue of bonus shares (2003 – 5%)	2,466	-	-	-	-	-	(2,466)	-
Net profit for the year – 2004	-	-	-	-	-	-	120,241	120,241
Foreign currency translation differences	-	-	-	-	317	-	-	317
Realised gains on available-for-sale investments	-	-	-	-	-	(1,249)	(957)	(2,206)
Changes in fair value of available-for- sale investments	-	-	-	-	-	7,221	-	7,221
<b>At 31 December 2004</b>	<b>51,796</b>	<b>(4,028)</b>	<b>49,330</b>	<b>44,733</b>	<b>(702)</b>	<b>30,080</b>	<b>218,157</b>	<b>389,366</b>

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

Mobile Telecommunications Company KSC and subsidiaries

Consolidated Cash Flow Statement – year ended 31 December 2004

	2004	2003
		KD '000
<b>Cash flows from operating activities</b>		
Profit for the year before income tax	127,561	108,544
Adjustments for:		
Depreciation and amortization	41,251	37,237
Property and equipment (disposed)/written off	(301)	1,605
Interest income	(2,519)	(1,614)
Investment income	(9,682)	(12,288)
Share of profit of an associate	(277)	-
Finance cost	5,309	5,642
Operating profit before working capital changes	161,342	139,126
(Increase)/decrease in trade and other receivables	(6,264)	3,993
Decrease in inventories	1,586	322
Increase in trade and other payables	9,790	35,223
Increase in other non-current liabilities	5,284	2,933
<i>Cash generated from operations</i>	171,738	181,597
<i>Payments:</i>		
Income tax	(2,656)	(7,030)
Board of directors' remuneration	(28)	(28)
Kuwait Foundation for Advancement of Sciences	(1,054)	(765)
National Labour Support Tax	(2,109)	(1,574)
<i>Net cash from operating activities</i>	165,891	172,200
<b>Cash flows from investing activities</b>		
Acquisition of investments	(42,947)	(12,484)
Acquisition of investment in associate	(5,312)	-
Proceeds from sale of investments	57,231	39,741
Acquisition of subsidiary	-	(108,847)
Acquisition of property and equipment	(38,269)	(65,254)
Proceeds from disposal of property and equipment	1,587	418
Acquisition of intangible assets	(57)	(195)
Interest received	2,519	1,614
<i>Net cash used in investing activities</i>	(25,248)	(145,007)
<b>Cash flows from financing activities</b>		
Due to banks	(12,701)	68,724
Minority interest	-	(4)
Dividends paid	(72,423)	(67,183)
Minority shareholder's capital contribution - Bahraini subsidiary	3,131	3,156
Finance cost	(5,345)	(5,642)
<i>Net cash used in financing activities</i>	(87,338)	(949)
Net increase in cash and cash equivalents	53,305	26,244
Effects of exchange rate changes on cash and cash equivalents	14	(313)
Cash and cash equivalents at beginning of year	98,023	72,092
Cash and cash equivalents at end of year (Note 20)	151,342	98,023

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

**1. Incorporation and activities**

The Mobile Telecommunications Company KSC (the Parent Company) is a Kuwaiti shareholding company incorporated in 1983 in accordance with the Law of Commercial Companies. Its shares are traded on the Kuwait Stock Exchange.

The registered office of the Parent Company is at P.O. Box 22244, 13083 Safat, State of Kuwait.

***Subsidiaries***

The principal subsidiaries are :

	<b>Percentage of ownership</b>
<b><i>Kuwait</i></b>	
Communication & Information Consultancy Group Company K.S.C. (Closed)	100%
Etisalat Plus Company K.S.C. (Closed)	100%
E - Communication Company W.L.L.	100%
<b><i>Foreign</i></b>	
Pella Investment Company LLC, Jordan	96.516%
MTC Vodafone Bahrain B.S.C. (Closed), Bahrain	60%
Mobile Telecommunications Company Lebanon (MTC) S.A.R.L., Lebanon	100%

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

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

***Associate***

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

**2. Basis of preparation and significant accounting policies**

**2.1 Basis of preparation**

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

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that may affect the amounts reported in these financial statements.

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

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

**2.2 Consolidation**

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements on a line-by-line basis, from the date on which control is transferred to the Group until the date that control ceases. Equity and net income attributable to minority shareholders' interests are shown separately in the balance sheet and statement of income respectively. At the acquisition date, the minority interests are measured by the proportion of the pre-acquisition carrying amounts of the identifiable assets and liabilities of the subsidiaries.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses resulting from inter-company transactions are also eliminated unless cost cannot be recovered. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances based on latest audited financial statements of the subsidiaries.

**Significant accounting policies (Contd.)**

**2.3 Financial instruments**

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

Financial instruments are classified as "held for trading", "loans and receivables originated by the enterprise" or "available for sale". Derivative instruments are classified as "held for trading" unless they are designated as effective hedging instruments. Financial liabilities, which are not held for trading, are classified as non-trading financial liabilities. Management determines the appropriate classification of each instrument at the time of acquisition.

A financial asset or a financial liability is recognized at cost on the trade date when the Group becomes a party to the contractual provisions of the instrument. A financial asset is de-recognised when the obligation specified in the contract is discharged, is cancelled or expires.

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

**2.4 Cash and cash equivalents**

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

**2.5 Inventories**

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

**2.6 Investments**

Investments are classified as under :

*Held for trading* are those investments, which are acquired principally for the purpose of generating a profit from short term fluctuations in price and are subsequently measured and carried at fair value. Resultant unrealised gains and losses arising from changes in fair value are included in the income statement.

*Available for sale* investments are principally those acquired to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates or equity prices. These are subsequently measured and carried at fair value. Any resultant unrealised gains and losses arising from changes in fair value are taken to investment fair valuation reserve in equity. When the "available for sale" asset is disposed off or impaired, any prior fair value adjustments earlier reported in equity is transferred to the income statement.

**Significant accounting policies (Contd.)**

**2.7 Investments in associates**

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

**2.8 Property and equipment**

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

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

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

These assets are reviewed periodically for any impairment. If there is an indication that the carrying value of an asset is greater than its recoverable amount, the asset is written down to its recoverable amount and the resultant impairment loss is taken to the income statement.

**2.9 Intangible assets**

Identifiable non-monetary assets acquired in connection with the business and from which future benefits are expected to flow are treated as intangible assets. Intangible assets comprise of goodwill arising from acquisition of subsidiaries; telecom licence fees; key money and software rights.

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets and liabilities of the acquiree at the date of the acquisition. The amortisation period of goodwill is determined based on the best estimate of the period during which future economic benefits are expected to flow from the acquisition. For acquired network businesses whose operations are governed by fixed term licences, the amortisation period is determined primarily by reference to the unexpired licence period and the conditions for licence renewal. Telecom licence fees are amortised on a straight line basis over the life of the licence. Other intangible assets are amortised on a straight line basis over a period of five years.

If there is an indication that the carrying value of an intangible asset is greater than its recoverable amount, the intangible asset is written down to its recoverable amount and the resultant impairment loss is taken to the income statement.

**2.10 Notes payable**

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

**Significant accounting policies (Contd.)**

**2.11 Provisions for liabilities**

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

**2.12 Post employment benefits**

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

**2.13 Treasury shares**

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

**2.14 Accounting for leases**

*Where the Group is the lessee*

Operating leases

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

Finance leases

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

**2.15 Revenue**

Airtime revenue is recognized based on actual usage. Subscription income is recognized on a time proportion basis. Other revenues primarily comprising of handset equipment and simcard starter pack sales are recognized upon delivery to customers. Interest income is recognized on a time proportion basis and dividend income is recognized when the right to receive payment is established.

**Significant accounting policies (Contd.)**

**2.16 Foreign currencies**

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

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

The income and cash flow statements of foreign entities are translated into the Parent Company's reporting currency at average exchange rates for the year and their balance sheets are translated at exchange rates ruling at the year-end. Exchange differences arising from the translation of the net investment in foreign entities and of borrowings and other currency instruments designated as hedges of such instruments, are taken to shareholders' equity. When a foreign operation is sold, any resultant exchange differences are recognised in the income statement as part of the gain or loss on sale.

**2.17 Contingencies**

Contingent assets are not recognised as an asset till realisation becomes virtually certain.

Contingent liabilities are not recognized as a liability unless as a result of past events it is probable that an outflow of economic resources will be required to settle a present, legal or constructive obligation; and the amount can be reliably estimated.

**3. Short-term deposits with banks**

	<u>2004</u>	<u>2003</u>
		<b>KD'000</b>
Term deposits with original maturities of less than three months	<u>108,454</u>	<u>71,590</u>
	<u>108,454</u>	<u>71,590</u>

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

4. Trade and other receivables

	<u>2004</u>	<u>2003</u>
	<u>KD'000</u>	
Subscribers	42,751	45,905
Distributors	13,673	7,015
Provision for impairment	<u>(21,039)</u>	<u>(19,238)</u>
	35,385	33,682
Accrued income	3,847	451
Staff	947	719
Ministry of Communication	639	639
Due from the associate	790	-
Prepayments, advances and deposits	7,247	4,585
	<u>48,855</u>	<u>40,076</u>

5. Inventories

	<u>2004</u>	<u>2003</u>
	<u>KD'000</u>	
Handsets and accessories	3,322	8,455
Provision for obsolescence	<u>(1,754)</u>	<u>(5,302)</u>
	<u>1,568</u>	<u>3,153</u>

6. Investments

	<u>2004</u>	<u>2003</u>
	<u>KD'000</u>	
<b>Current investments</b>		
<i>Held for trading</i>		
Quoted equities	8,751	20,515
Funds	<u>3,067</u>	<u>11,162</u>
	<u>11,818</u>	<u>31,677</u>
<b>Non current investments</b>		
<i>Available for sale</i>		
Quoted equities	80,795	70,749
Funds	42,695	35,876
Unquoted equities	8,566	4,994
Impairment loss	<u>(1,764)</u>	<u>(1,762)</u>
	<u>130,292</u>	<u>109,857</u>

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

Available for sale investments include unlisted securities with original cost of KD 7,503,000 (2003 – KD 5,427,000) carried at cost less impairment since it is not possible to reliably measure its fair value.

During the year the Group recognized KD 7,221,000 (2003 – KD 23,855,000) in investment fair valuation reserve as net unrealized gain arising from fair valuation of 'available for sale' investments and transferred a profit of KD 1,249,000 (2003 – KD 199,000) from investment fair valuation reserve to the income statement arising from disposals.

**7. Investment in associate**

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

	<u>2004</u>	<u>2003</u>
		<u>KD'000</u>
Capital contribution during the year	5,312	-
Share of profit for the year	277	-
Inter-company gains eliminated	<u>(227)</u>	-
	<u>5,362</u>	-

8. Property and equipment

	Land	Buildings	Cellular & other equipment	Projects in Progress	Total
					KD '000s
<b>Cost</b>					
As at 31 December 2003	502	36,573	309,730	17,769	364,574
Additions	-	777	8,935	29,117	38,829
Transfers and adjustments	-	1,512	27,727	(29,239)	-
Disposals	-	(65)	(2,753)	(169)	(2,987)
As at 31 December 2004	<u>502</u>	<u>38,797</u>	<u>343,639</u>	<u>17,478</u>	<u>400,416</u>
<b>Depreciation</b>					
As at 31 December 2003	-	11,849	135,790	-	147,639
Charge for the year	-	2,552	32,189	-	34,741
Disposals	-	(3)	(1,541)	-	(1,544)
As at 31 December 2004	<u>-</u>	<u>14,398</u>	<u>166,438</u>	<u>-</u>	<u>180,836</u>
<b>Net Book Value</b>					
As at 31 December 2004	<u>502</u>	<u>24,399</u>	<u>177,201</u>	<u>17,478</u>	<u>219,580</u>
As at 31 December 2003	<u>502</u>	<u>24,724</u>	<u>173,940</u>	<u>17,769</u>	<u>216,935</u>

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

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

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

Projects in progress comprise of:

	<u>2004</u>	<u>2003</u>
	<u>KD'000</u>	
Buildings	108	249
Cellular & other equipment	17,370	17,520
	<u>17,478</u>	<u>17,769</u>

9. Intangible assets

	<u>Goodwill</u>	<u>Licence fees</u>	<u>Others</u>	<u>Total</u>
	<u>KD'000</u>			
<b>Cost</b>				
As at 31 December 2003	91,457	2,934	1,422	95,813
Additions	-	-	57	57
As at 31 December 2004	<u>91,457</u>	<u>2,934</u>	<u>1,479</u>	<u>95,870</u>
<b>Accumulated amortization</b>				
As at 31 December 2003	5,843	1,826	957	8,626
Charge for the year	6,097	196	217	6,510
As at 31 December 2004	<u>11,940</u>	<u>2,022</u>	<u>1,174</u>	<u>15,136</u>
<b>Net book value</b>				
As at 31 December 2004	<u>79,517</u>	<u>912</u>	<u>305</u>	<u>80,734</u>
As at 31 December 2003	<u>85,614</u>	<u>1,108</u>	<u>465</u>	<u>87,187</u>

Goodwill represents the excess of the cost of acquisition over the Parent Company's interest in the net fair value of the identifiable assets and liabilities of Pella Investment Company, Jordan. The telecom licence of its wholly owned subsidiary is valid up to 1 November 2009. Renewal is not automatic and must be renegotiated. The Board of Directors of the Parent Company has determined a period of fifteen years to be appropriate for amortising goodwill by reference to the unexpired licence period as well as matters factored into the valuation of the acquisition by independent experts.

## 10. Trade and other payables

	<u>2004</u>	<u>2003</u>
		<b>KD'000</b>
Trade payables	32,838	36,404
Deferred revenue	12,245	11,841
Due to roaming partners	1,999	3,655
Due to Government of Jordan	13,677	8,509
Provision for income taxes – foreign subsidiaries	10,822	3,181
Kuwait Foundation for the Advancement of Sciences	1,236	1,054
National Labour Support Tax	2,725	2,596
Dividend payable	4,829	3,605
Accrued expenses	42,689	38,513
Directors' remuneration	28	28
Unrealised losses on cash flow hedges	68	359
Other payables	<u>8,872</u>	<u>4,936</u>
	<u>132,028</u>	<u>114,681</u>

## 11. Due to banks

	<u>2004</u>	<u>2003</u>
		<b>KD'000</b>
<i>Parent Company</i>		
Long term loans	<u>88,654</u>	<u>88,654</u>
<i>Operating Jordanian subsidiary</i>		
Long term loans	3,829	13,318
Notes payable	5,030	16,357
Finance lease obligations	<u>3,469</u>	<u>5,183</u>
	<u>12,328</u>	<u>34,858</u>
<i>Operating Bahraini subsidiary</i>		
Bank overdraft	130	264
Long term loan	10,376	489
Finance lease obligations	<u>841</u>	<u>340</u>
	<u>11,347</u>	<u>1,093</u>
	<u>112,329</u>	<u>124,605</u>

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

These dues mature as follows:

	<u>2004</u>	<u>2003</u>
		<u>KD '000</u>
Less than one year	26,525	28,052
Between one and two years	18,327	34,632
Between two and five years	61,549	61,678
Over five years	<u>5,928</u>	<u>243</u>
	<u>112,329</u>	<u>124,605</u>

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

**12. Other non-current liabilities**

	<u>2004</u>	<u>2003</u>
		<u>KD '000</u>
Subscribers' deposits	5,703	5,589
Post employment benefits	3,671	2,994
Provisions for claims against the Jordanian subsidiary	4,578	-
Unrealised losses on cash flow hedges	<u>-</u>	<u>85</u>
	<u>13,952</u>	<u>8,668</u>

**13. Share capital and reserves**

*Share capital*

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

*Legal reserve*

The legal reserve exceeds 50% of share capital and as permitted by its Articles of Association, the Parent Company resolved in the General Assembly meeting held on 22 March 2003 to discontinue appropriations to legal reserve. This reserve can be utilised only for distribution of a maximum dividend of 5% in years when the retained earnings are inadequate for this purpose.

*Voluntary reserve*

The voluntary reserve exceeds 50% of share capital and as permitted by its Articles of Association, the Parent Company resolved in the General Assembly meeting held on 22 March 2003 to discontinue appropriations to voluntary reserve. There is no restriction on distribution of this reserve.

*Proposed dividend*

The Board of Directors, subject to approval of shareholders, recommends distribution of a cash dividend of 160 fils per share (2003 - 150 fils per share) and bonus shares of 7% of the paid up capital (2003 – 5%) to the registered shareholders as of the date of the Annual General Meeting.

**14. Treasury shares**

	<u>2004</u>	<u>2003</u>
Number of shares	10,474,306	9,975,530
Percentage of issued shares	2.02%	2.02%
Market value (KD '000)	35,613	39,503
Cost (KD '000)	4,028	4,028

These shares were acquired based on an authorization granted to the Board of Directors by the shareholders and in accordance with Ministerial Decrees No.10 of 1987 and No. 11 of 1988. Reserves equivalent to the cost of treasury shares held are not distributable.

**15. Revenue**

	<u>2004</u>	<u>2003</u>
		<u>KD'000</u>
Airtime and subscription	316,177	253,282
Trading income	<u>6,150</u>	<u>9,324</u>
	<u>322,327</u>	<u>262,606</u>

**16. Investment income**

	<u>2004</u>	<u>2003</u>
		<u>KD'000</u>
Gain from held for trading investments	2,993	7,855
Realised gains from available for sale investments	2,744	1,083
Dividend income	3,945	3,283
Income from held to maturity investment	<u>-</u>	<u>67</u>
	<u>9,682</u>	<u>12,288</u>

**17. National Labour Support Tax**

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

**18. Income tax expense of subsidiaries**

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

**19. Earnings per share**

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

	<u>2004</u>	<u>2003</u>
		<u>KD'000</u>
Net profit for the year	<u>120,241</u>	<u>102,212</u>
	Shares	Shares
Number of shares issued and paid-up	517,963,522	517,963,522
Weighted average number of treasury shares	<u>(10,474,306)</u>	<u>(10,474,306)</u>
	<u>507,489,216</u>	<u>507,489,216</u>
	Fils	Fils
Earnings per share	<u>237</u>	<u>201</u>

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

**20. Cash and cash equivalents**

	<u>2004</u>	<u>2003</u>
		<u>KD'000</u>
Cash on hand and at banks	43,018	26,697
Short-term deposits with banks	108,454	71,590
Bank overdraft	<u>(130)</u>	<u>(264)</u>
	<u>151,342</u>	<u>98,023</u>

**21. Staff costs**

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

**22. Financial instruments, risk management and fair values**

The Group's use of financial instruments exposes it to a variety of financial risks such as credit risk, market risk and liquidity risk. The Group continuously reviews its risk exposures and takes measures to limit it to acceptable levels. The significant risks that the Group is exposed to are discussed below:

**Credit risk**

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

**Market risk**

Market risk, comprising of price risk, interest rate risk and currency risk arises due to movements in market prices of assets, interest rates and foreign currency rates. The Group manages this risk by setting limits on exposures on investments, currency and counterparty and transacting business in Kuwaiti Dinars and other major currencies with counterparties of repute. Hedging transactions are used to manage currency risks.

The operating Jordanian subsidiary has entered into cash flow hedges by purchasing foreign currency forward contracts of US Dollars against Jordanian Dinars. The hedged item is the notes payable denominated in US Dollars.

The total value of such forward contracts amount to USD 4,250,000, equivalent KD 1,254,000 (2003 – USD 25,265,000, equivalent KD 7,456,000) maturing on 30 June 2005 (2003 – maturity dates ranging from 25 April 2004 to 30 June 2005).

**Liquidity risk**

Liquidity risk is the risk that the Group may not be able to meet its funding requirements. The Group manages this risk by monitoring on a regular basis that sufficient funds are available to meet maturing obligations.

**Fair value of financial instruments**

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

23. Parent Company – Financial position and results

The Parent Company's unconsolidated condensed financial position and operating results using the equity method of accounting is as follows:

	<u>2004</u>	<u>2003</u>
		<u>KD'000</u>
<b>Assets</b>		
Current assets	173,367	140,484
Non current assets	<u>406,027</u>	<u>376,946</u>
Total	579,394	517,430
<b>Liabilities</b>		
Current liabilities	105,460	84,800
Non current liabilities	<u>84,568</u>	<u>96,339</u>
Total	<u>190,028</u>	<u>181,139</u>
<b>Net assets</b>	<u>389,366</u>	<u>336,291</u>
<b>Operating results – Income and expenses</b>		
Revenue	<u>180,207</u>	<u>157,327</u>
Net profit of the parent	91,172	77,528
Profit of Kuwaiti subsidiaries	437	6,389
Profit of foreign subsidiaries	<u>28,632</u>	<u>18,295</u>
<b>Net profit of the Group</b>	<u>120,241</u>	<u>102,212</u>

24. Segment information

The Parent Company and its subsidiaries operate in a single business segment; telecommunications and related services. Apart from its main operations in Kuwait the Parent Company also operates through foreign subsidiaries in Jordan, Bahrain and Lebanon. This forms the basis of the geographical segments.

	<u>2004</u>				
	<u>Kuwait</u>	<u>Jordan</u>	<u>Bahrain</u>	<u>Lebanon</u>	<u>Total</u>
					KD '000
Revenue	<u>180,207</u>	<u>123,129</u>	<u>10,243</u>	<u>8,748</u>	<u>322,327</u>
Segment result	<u>91,609</u>	<u>33,546</u>	<u>(5,742)</u>	<u>828</u>	<u>120,241</u>
Total assets	490,884	126,615	26,966	5,216	649,681
Total liabilities	<u>166,032</u>	<u>65,346</u>	<u>25,408</u>	<u>3,529</u>	<u>260,315</u>
Net assets	<u>324,852</u>	<u>61,269</u>	<u>1,558</u>	<u>1,687</u>	<u>389,366</u>

Notes to the Financial Statements - 31 December 2004

	2003				
	Kuwait	Jordan	Bahrain	Lebanon	Total
	KD '000				
Revenue	157,327	105,195	84	-	262,606
Segment result	83,917	21,813	(3,518)	-	102,212
Total assets	447,318	124,283	15,571	-	587,172
Total liabilities	163,448	74,333	13,100	-	250,881
Net assets	283,870	49,950	2,471	-	336,291

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

**25. Related party transactions**

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

	2004	2003
	KD '000	
Sale of equipment	1,801	-
Management fees (included in other income)	460	-

**26. Commitments and contingencies**

	2004	2003
	KD '000	
Capital expenditure	22,444	31,214
Uncalled share capital of investee companies	2,606	8,487
Letters of credit	5,955	33
Letters of guarantee	5,936	3,573

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

**27. Comparative figures**

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