

**Mobile Telecommunications Company KSC and subsidiaries  
Kuwait**

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

**31 December 2005**

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**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 its subsidiaries (collectively called "the Group") as at 31 December 2005 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Parent Company's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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 financial position of the Group as at 31 December 2005, and of the results of its operations and 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 financial statements, together with the contents of the report of the Board of Directors relating to these 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 the financial statements incorporate all the 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 violation of the Commercial Companies Law of 1960, as amended, or of the Articles of Association have occurred during the year ended 31 December 2005 that might have had a material effect on the business of the Group or on its consolidated financial position.



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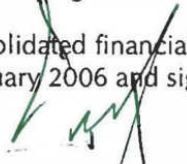
Kuwait  
20 February 2006


## Consolidated Balance Sheet as of 31 December 2005

	Note	2005	2004
		KD'000	
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and bank balances	4	292,879	151,472
Trade and other receivables	5	80,021	48,855
Inventories	6	7,025	1,568
Investment securities	7	14,566	11,818
<b>Total current assets</b>		<b>394,491</b>	<b>213,713</b>
<b>Non-current assets</b>			
Deferred tax assets	8	6,723	-
Investment securities	7	147,111	130,292
Investment in associates	9	45,458	5,362
Property and equipment	10	499,853	219,580
Intangible assets	11	942,752	80,734
Other financial assets	12	14,908	-
		<b>1,656,805</b>	<b>435,968</b>
<b>Total assets</b>		<b>2,051,296</b>	<b>649,681</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Trade and other payables	13	240,956	132,028
Due to banks	14	248,417	26,525
		<b>489,373</b>	<b>158,553</b>
<b>Non-current liabilities</b>			
Due to banks	14	190,342	85,804
Deferred tax liabilities	8	5,879	-
Other non-current liabilities	15	9,523	13,952
Due to minority interest holders	16	142,647	-
		<b>348,391</b>	<b>99,756</b>
<b>Equity</b>			
<b>Attributable to Parent Company's shareholders</b>			
Share capital	17	109,723	51,796
Treasury shares	17	(15,576)	(4,028)
Share premium	17	624,465	-
Legal reserve	17	54,862	49,330
Voluntary reserve	17	54,862	44,733
Foreign currency translation reserve		2,352	(702)
Investment fair valuation reserve		55,540	30,080
Retained earnings		303,521	218,157
		<b>1,189,749</b>	<b>389,366</b>
<b>Minority interest</b>		<b>23,783</b>	<b>2,006</b>
<b>Total equity</b>		<b>1,213,532</b>	<b>391,372</b>
<b>Total Liabilities and Equity</b>		<b>2,051,296</b>	<b>649,681</b>

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 20 February 2006 and signed on its behalf by:

  
Asa'ad Ahmed Al Banwan  
Chairman

  
Dr. Saad Hamad Al Barrak  
Deputy Chairman and Managing Director

Mobile Telecommunications Company KSC and subsidiaries

Consolidated Statement of Income – Year ended 31 December 2005

	Note	2005	2004
		<u>KD'000</u>	
Revenue	18	579,496	322,327
Cost of sales		(90,741)	(47,521)
<b>Gross profit</b>		<u>488,755</u>	<u>274,806</u>
Distribution, marketing & operating expenses		(158,396)	(83,511)
General and administrative expenses		(56,079)	(24,194)
Depreciation and amortization	10,11	(63,673)	(41,251)
Provision for impairment – trade and other receivables		(7,075)	(2,393)
<b>Operating profit</b>		<u>203,532</u>	<u>123,457</u>
Interest income		4,613	2,519
Investment income	19	20,930	9,682
Share of profit of associates (net)		25,300	277
Other income		4,213	2,484
Finance cost		(50,224)	(5,309)
Gain/ (loss) from currency revaluation		5,191	(1,432)
Board of Directors' remuneration		(28)	(28)
Contribution to Kuwait Foundation for Advancement of Sciences		(1,851)	(1,236)
National Labour Support Tax	20	(2,877)	(2,403)
Profit for the year before income tax		<u>208,799</u>	<u>128,011</u>
Income tax expense of subsidiaries	21	(28,912)	(10,747)
Profit for the year from continuing operations		<u>179,887</u>	<u>117,264</u>
<b>Discontinued operations</b>			
Profit for the year from discontinued operations	30	<u>10,995</u>	<u>-</u>
<b>Profit for the year</b>		<u><u>190,882</u></u>	<u><u>117,264</u></u>
<b>Attributable to:</b>			
Shareholders of the Parent Company		185,921	120,241
Minority interest		4,961	(2,977)
		<u>190,882</u>	<u>117,264</u>
		<u>Fils</u>	<u>Fils</u>
<b>Earnings per share</b>			
Profit from continuing operations		209	148
Profit from discontinued operations		13	-
Profit for the year	22	<u><u>222</u></u>	<u><u>148</u></u>

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

Mobile Telecommunication Company KSC and subsidiaries

Consolidated Statement of Changes in Shareholders' Equity – 31 December 2005

	Equity attributable to Parent Company's Shareholders							Minority interest	Total equity	
	Share capital	Share Premium	Treasury shares	Legal reserve	Voluntary reserve	Foreign currency translation reserve	Investment fair valuation reserve			Retained earnings
									KD '000	
Balance at 1 January 2005	51,796	-	(4,028)	49,330	44,733	(702)	30,080	218,157	2,006	391,372
Net exchange differences	-	-	-	-	-	3,054	-	-	(436)	2,618
Realised gain on available-for-sale investments (net)	-	-	-	-	-	-	(6,129)	(72)	-	(6,201)
Changes in fair value of available-for-sale investments	-	-	-	-	-	-	31,589	-	-	31,589
Net income / (expense) recognised directly in equity	-	-	-	-	-	3,054	25,460	(72)	(436)	28,006
Profit for the year from continuing operations	-	-	-	-	-	-	-	174,926	4,961	179,887
Profit from discontinued operations	-	-	-	-	-	-	-	10,995	-	10,995
Transfer to reserve	-	-	-	5,532	10,129	-	-	(15,661)	-	-
Total recognised income for the year	-	-	-	5,532	10,129	3,054	25,460	170,188	4,525	218,888
Issue of share capital	54,301	624,465	(11,548)	-	-	-	-	-	3,095	670,313
Business combinations	-	-	-	-	-	-	-	-	15,865	15,865
Issue of bonus shares (2004)	3,626	-	-	-	-	-	-	(3,626)	-	-
Cash dividends (2004)	-	-	-	-	-	-	-	(81,198)	(1,708)	(82,906)
Balance at 31 December 2005	<u>109,723</u>	<u>624,465</u>	<u>(15,576)</u>	<u>54,862</u>	<u>54,862</u>	<u>2,352</u>	<u>55,540</u>	<u>303,521</u>	<u>23,783</u>	<u>1,213,532</u>
Balance at 1 January 2004	49,330	-	(4,028)	49,330	44,733	(1,019)	24,108	173,837	2,927	339,218
Net exchange differences	-	-	-	-	-	317	-	-	60	377
Realised gain on available-for-sale investments (net)	-	-	-	-	-	-	(1,249)	(957)	-	(2,206)
Changes in fair value of available-for-sale investments	-	-	-	-	-	-	7,221	-	-	7,221
Net income / (expense) recognised directly in equity	-	-	-	-	-	317	5,972	(957)	60	5,392
Profit for the year	-	-	-	-	-	-	-	120,241	(2,977)	117,264
Total recognised income for the year	-	-	-	-	-	317	5,972	119,284	(2,917)	122,656
Issue of bonus shares (2003)	2,466	-	-	-	-	-	-	(2,466)	-	-
Issue of share capital	-	-	-	-	-	-	-	-	3,131	3,131
Cash dividends (2003)	-	-	-	-	-	-	-	(72,498)	(1,135)	(73,633)
Balance at 31 December 2004	<u>51,796</u>	<u>-</u>	<u>(4,028)</u>	<u>49,330</u>	<u>44,733</u>	<u>(702)</u>	<u>30,080</u>	<u>218,157</u>	<u>2,006</u>	<u>391,372</u>

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

Mobile Telecommunications Company KSC and subsidiaries

Consolidated Statement of Cash Flows – year ended 31 December 2005

	2005	2004
		KD '000
<b>Cash flows from operating activities</b>		
Profit for the year before income tax	219,794	128,011
Adjustments for:		
Depreciation and amortization	63,673	41,251
Provision for contingencies	(4,541)	-
Profit on sale of subsidiary	(10,995)	-
Property and equipment disposed	(4)	(301)
Interest income	(4,613)	(2,519)
Investment income	(20,930)	(9,682)
Share of profit of an associate	(25,300)	(277)
Finance cost	50,224	5,309
(Gain)/loss from currency revaluation	(5,190)	1,432
Operating profit before working capital changes	262,118	163,224
Decrease/ (increase) in trade and other receivables	10,613	(6,284)
(Increase)/ decrease in inventories	(197)	1,586
Increase in trade and other payables	25,563	7,908
(Decrease)/ increase in other non-current liabilities	(113)	5,284
<i>Cash generated from operations</i>	297,984	171,718
<i>Payments:</i>		
Income tax	(10,833)	(2,656)
Board of Directors' remuneration	(28)	(28)
Kuwait Foundation for Advancement of Sciences	(1,239)	(1,054)
National Labour Support Tax	(2,403)	(2,109)
<i>Net cash from operating activities</i>	283,481	165,871
<b>Cash flows from investing activities</b>		
Acquisition of investment securities	(20,138)	(42,947)
Investment in associate	-	(5,312)
Proceeds from sale of investment securities	60,875	57,231
Proceeds from sale of subsidiaries	15,813	-
Acquisition of subsidiaries (Note 31)	(839,972)	-
Acquisition of property and equipment (net)	(130,186)	(36,682)
Acquisition of intangible assets	(13,616)	(57)
Interest received	4,062	2,519
<i>Net cash used in investing activities</i>	(923,162)	(25,248)
<b>Cash flows from financing activities</b>		
Proceeds from/(repayment) of bank borrowings	228,602	(12,701)
Dividends paid	(83,447)	(72,423)
Minority shareholder's capital contribution - Bahraini subsidiary	3,095	3,131
Proceeds from issue of share capital	667,218	-
Finance cost paid	(37,552)	(5,309)
<i>Net cash from financing activities</i>	777,916	(87,302)
<b>Net increase in cash and cash equivalents</b>	138,235	53,321
Effects of exchange rate changes on cash and cash equivalents	(375)	128
Cash and cash equivalents at beginning of year	151,472	98,023
Cash with Celtel Stichting International (Note 24)	3,547	-
Cash and cash equivalents at end of year (Note 4)	292,879	151,472

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

**1. Incorporation and activities**

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

The Parent Company and its subsidiaries (the Group) along with associates provide mobile telecommunication services in Kuwait and 18 other countries (2004 : Kuwait and 4 other countries) under licenses from the Governments of the countries in which they operate; purchase, deliver, install, manage and maintain mobile telephone and paging systems; and invest surplus funds in investment securities. The principal subsidiaries and associates are listed in Note 3.

**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. These financial statements are prepared under the historical cost basis of measurement as modified by the revaluation at fair value of financial assets held as “at fair value through profit or loss” or “available for sale”. The financial statements have been presented in Kuwaiti Dinars, rounded to the nearest thousand.

**2.2 Changes in accounting policies**

The accounting policies are consistent with those of the previous financial year, with the exception of the following changes in accounting policies as required by initial application of a new or revised Standard or on Interpretation that became effective during the current reporting period.

*IFRS 2 – Share-based Payment/ Standing Interpretation Committee 12 (SIC 12) – Consolidation of Special Purpose Entities*

IFRS 2 requires the Group to recognize in its financial statements share based payment transactions that are settled in cash, other assets or equity instruments of the entity, and applies to all equity instruments granted after 7 November 2002 and not vested at 1 January 2005. An amendment to Interpretation SIC-12 removed the scope exclusion in SIC 12 for equity compensation plans when IFRS 2 became effective. This Standard and Interpretation have been applied to the Group’s share based payment transactions with a subsidiary’s employees and to a special purpose entity that holds compensation plan assets on behalf of employees of the subsidiary.

*IFRS 3 – Business Combinations/ IAS 36 – Impairment of Assets/ IAS 38 - Intangible Assets*

IFRS 3 requires identifiable assets, liabilities and contingent liabilities in a business combination (net assets acquired) to be stated at fair values and any excess of the cost of acquisition over the fair values of net assets acquired to be classified as goodwill. Goodwill on acquisition of subsidiaries is to be included in goodwill on consolidation and goodwill on acquisition of associates is to be included in the investment in the associates.

Revised IAS 36 requires goodwill acquired in a business combination to be allocated to each of the acquirer’s cash generating units for impairment testing at any time during an annual reporting period.

Revised IAS 38 no longer requires intangible assets (including goodwill arising on a business combination) with an indefinite useful life to be amortised. Such assets must be tested annually for impairment and carried at cost less accumulated impairment losses.

These Standards have been applied to the business combinations that occurred during the year and to intangible assets.

*IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations*

IFRS 5 requires entities to be classified as discontinued operations when the criteria to be classified as held for sale has been met, or it has been disposed of. This Standard has been applied to assets disposed of by the Group during the current year.

*IAS 1- Presentation of Financial Statements/IAS 27 – Consolidated and Separate Financial Statements*

Revised IAS 1 and IAS 27 affect the presentation of minority interests and revised IAS 1 affects other presentations and disclosures. IAS 1 and IAS 27 require minority interests to be classified as equity in the balance sheet and the statement of changes in shareholders' equity and the minority's share of profit as an allocation between them and the equity holders of the Parent Company. These Standards have been applied to the Group's presentation of minority interests in subsidiaries.

*IAS 21 – The Effects of Changes in Foreign Exchange Rates*

Revised IAS 21 requires an entity to use its functional currency to record all transactions including foreign currency transactions and to translate its results and financial position to the presentation currency if that is different from the functional currency. The revised Standard is to be applied prospectively from the date of change with all items being translated into the new functional currency using the exchange rate at the date of the change. This Standard has been applied by subsidiaries who have adopted the local currency in place of the US dollar as their functional currency.

*IAS 32 – Financial Instruments: Disclosure and Presentation*

Revised IAS 32 requires minority interest to be classified as a financial liability to the extent there is an obligation to deliver cash or another financial asset to settle the minority interest. This Standard has been applied to minority interest where the Group has such an obligation.

Other new or revised Standards or Interpretations that became effective during the current reporting period do not have a material effect on the financial position or results of the Group.

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 liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a high degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 32.

### **2.3 Business Combinations**

The purchase method of accounting is used to account for acquisition of subsidiaries. The cost of acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of the exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination (net assets acquired in a business combination) are measured initially at the fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired in a business combination is recorded as goodwill.

If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of income.

The Group separately recognizes the contingent liabilities of an acquiree at the acquisition date, if its fair value can be measured reliably.

On initial accounting of a business combination, if provisional values are used, the Group recognizes any adjustment to these provisional values within twelve months from the acquisition date.

## **2.4 Consolidation**

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

Minority interest in an acquiree is stated at the minority's proportion of the net fair value of the identifiable assets, liabilities and contingent liabilities at the date of the original business combination and the minority's share of changes in the equity since the date of the combination. Equity and net income attributable to minority shareholders' interests are shown separately in the balance sheet and statement of income respectively. Minority interest is classified as financial liability to the extent there is an obligation to deliver cash or another financial asset to settle the minority 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 or audited financial information of the subsidiaries. Intra group balances, transactions, income and expenses are eliminated in full. Unrealised losses resulting from inter-company transactions are also eliminated unless cost cannot be recovered.

## **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 revised 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". Management determines the appropriate classification of each instrument at the time of acquisition. All financial liabilities are classified as "other than at fair value through profit or loss".

### **Recognition/ de-recognition**

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 is de-recognized when the rights to the cash flows from the financial asset expires or where the Group transfers substantially all the risks and rewards of ownership and a financial liability is de-recognized when the obligation specified in the contract is discharged, cancelled or expired.

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 statement of 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*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through 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 so designated by management. Derivative financial instruments are also classified and carried as “at fair value through profit or loss” unless they are designated as effective hedging instruments. These are subsequently measured at fair value. Unrealised gains and losses arising from changes in fair value are included in the statement of income.

### *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 equity. When the “available for sale” asset is disposed of or impaired, the related accumulated fair value adjustments are transferred to the statement of income as gains or losses.

### *Financial liabilities*

Financial liabilities “other than at fair value through profit or loss” are subsequently measured and carried at amortized cost using the effective yield method.

## Fair values

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

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

## Impairment

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An assessment is made at each balance sheet 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 statement of income. 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 statement of cash flows.

**2.7 Inventories**

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

**2.8 Deferred taxes**

Deferred income tax on the net operating results is provided using the liability method on all temporary differences at the balance sheet 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 subsequently enacted at the balance sheet date.

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

**2.9 Investments in associates**

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.

**2.10 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	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 statement of income.

### **2.11 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 business combinations, telecom license fees, brands, key money and software rights.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of net assets acquired in a business combination or an associate at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is allocated to each cash generating unit for the purpose of impairment testing. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Intangible assets with indefinite useful lives such as brands are not subject to amortisation and are tested annually for impairment.

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.

Assets are grouped at the lowest levels for which there are separately identifiable cash flows for the purpose of assessing impairment. If there is an indication that the carrying value of an intangible asset is greater than its recoverable amount, it is written down to its recoverable amount and the resultant impairment loss taken to the statement of income and that relating to goodwill cannot be reversed in a subsequent period.

### **2.12 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.

### **2.13 Share-based payment transactions**

A subsidiary operates a cash settled share based compensation plan. The cost of the cash-settled 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. This fair value is expensed over the period until vesting with recognition of a corresponding liability.

### **2.14 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.

**2.15 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 and rights issues. 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.

**2.16 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 statement of income on a straight-line basis over the period of the lease.

Finance leases

Leases of property and equipment where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are 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.

**2.17 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 sim card 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.

**2.18 Borrowing costs**

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

**2.19 Foreign currencies**

The functional currency of the Parent Company is the Kuwaiti Dinar and the functional currency of a subsidiary is its national 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 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 statement of income.

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

The income and cash flow statements of foreign operations are translated into the Parent Company's reporting currency at average exchange rates for the year and their balance sheets 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 and fair value adjustments arising on business combinations) 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 statement of income as part of the gain or loss on sale.

**2.20 Discontinued operations**

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

**2.21 Contingencies**

Contingent assets are not recognised as an asset till 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 is recognized only if its fair value can be measured reliably.

**3. Subsidiaries and Associates**

The principal subsidiaries and associates are:

<b>Subsidiary</b>	<b>Country of Incorporation</b>	<b>Percentage of ownership</b>
Mobile Telecommunications Company International B.V. – “MTCI”	The Netherlands	100%
Pella Investment Company – “Pella”	Jordan	96.516%
MTC Vodafone Bahrain B.S.C (Closed) - “MTCB”	Bahrain	60%
Mobile Telecommunications Company Lebanon (MTC) S.A.R.L. “MTCL”	Lebanon	100%
<b>Associate</b>		
Atheer Telecom Iraq Limited – “Atheer”	Cayman Islands	30%

During 2005 the Parent Company acquired ownership of 84.986% of the equity of Celtel International B.V Netherlands (Celtel). The Parent Company incorporated MTCI on 28 April 2005 to hold the investment in Celtel. In August 2005, Celtel increased its investment in the equity of Celtel Tanzania from 35% to 60% and in December 2005 acquired 100% of the equity of Madacom SA, Madagascar.

Celtel is a Dutch holding and finance company principally engaged in the business of operating cellular telecommunications networks in 14 countries in Africa.

<b>Subsidiary</b>	<b>Country of Incorporation</b>	<b>Percentage of ownership</b>
Celtel Burkina Faso S.A	Burkina Faso	95.71%
Celtel Tchad S.A	Chad	100%
Celtel Congo (DRC) SARL	Dem. Rep of Congo	100%
Celtel Congo S.A	Republic of Congo	98.12%
Celtel Gabon S.A	Gabon	84%
Celtel Kenya Limited	Kenya	60%
Celtel Malawi Limited	Malawi	100%
Celtel Niger S.A	Niger	70%
Celtel (S.L) Limited	Sierra Leone	100%
Celtel Limited	Uganda	100%
Celtel Zambia Limited	Zambia	88.88%
Celtel Tanzania Limited	Tanzania	60%
Madacom SA	Madagascar	100%
<b>Associate</b>		
Tanzania Telecommunications Company Limited (TTCL)	Tanzania	35%
Sudanese Mobile Telecommunications Company Limited (‘Mobitel’)	Sudan	39%

**Special Purpose Entity**

Stichting Celtel International (Note 24)	The Netherlands
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Pella owns 100% of Jordan Mobile Telecommunications Services Co. JSC – “JMTS”.

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

Atheer’s telecom license is valid until 30 June 2006 and may be renewed for a further period of three months. Atheer plans to bid for the new licence but at present there is no certainty regarding the outcome of the bid. Furthermore Atheer’s working capital is in deficit. The financial statements of Atheer has been included in these financial statements on a going concern basis as it expects to retain the licence due to its service capabilities and the commitment of its shareholders to providing financial support.

**4. Cash and bank balances**

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

	<u>2005</u>	<u>2004</u>
	<u>KD’000</u>	
Cash on hand and at banks	91,788	43,018
Short-term deposits with banks with original maturities of less than three months	201,091	108,454
Cash and cash equivalents	<u>292,879</u>	<u>151,472</u>

The effective interest rate on short-term deposits as of 31 December 2005 was 3.625% to 5.25% per annum (2004 – 1.85% to 5.13%).

**5. Trade and other receivables**

	<u>2005</u>	<u>2004</u>
	<u>KD’000</u>	
Subscribers	63,921	42,751
Distributors	12,373	13,673
Provision for impairment	(37,510)	(21,039)
	<u>38,784</u>	<u>35,385</u>
Accrued income	3,892	3,847
Staff	936	947
Ministry of Communication	-	639
Due from an associate	2,152	790
Prepayments, advances and deposits	34,257	7,247
	<u>80,021</u>	<u>48,855</u>

Reconciliation of provision for impairment of trade and other receivables:

	<u>2005</u>	<u>2004</u>
	<u>KD’000</u>	
Opening balance - 1 January	21,039	19,238
On acquisition of subsidiaries	12,998	-
Recoveries/Write back of provisions	(3,602)	(592)
Charge for the year	7,075	2,393
Closing balance – 31 December	<u>37,510</u>	<u>21,039</u>

**6. Inventories**

	<u>2005</u>	<u>2004</u>
	<u>KD'000</u>	
Handsets and accessories	9,253	3,322
Provision for obsolescence	(2,228)	(1,754)
	<u>7,025</u>	<u>1,568</u>

**7. Investment securities**

	<u>2005</u>	<u>2004</u>
	<u>KD'000</u>	
<b>Current investments</b>		
<i>Investment securities at fair value through profit or loss</i>		
Quoted equities	14,566	8,751
Funds	-	3,067
	<u>14,566</u>	<u>11,818</u>
<b>Non current investments</b>		
<i>Available for sale</i>		
Quoted equities	90,201	80,795
Funds	40,598	42,695
Unquoted equities	18,004	8,566
Impairment loss	(1,692)	(1,764)
	<u>147,111</u>	<u>130,292</u>

Available for sale investments include unlisted securities with original cost of KD 7,763,201 (2004 – KD 7,503,000) carried at cost less impairment since it is not possible to reliably measure its fair value.

During the year the Group recognized KD 31,588,773 (2004 – KD 7,221,000) in investment fair valuation reserve as net unrealized gain arising from fair valuation of 'available for sale' investments and transferred a profit of KD 6,128,560 (2004 – KD 1,249,000) from investment fair valuation reserve to the statement of income, arising from disposals.

**8. Deferred tax assets/ liabilities**

	<u>2005</u>	<u>2004</u>
	<u>KD'000</u>	
Deferred tax assets:		
Deferred tax assets to be recovered after more than 12 months	4,449	-
Deferred tax assets to be recovered within 12 months	2,274	-
	<u>6,723</u>	<u>-</u>
Deferred tax liabilities:		
Deferred tax liability payable after more than 12 months	5,879	-
Deferred tax liability payable within 12 months	-	-
	<u>5,879</u>	<u>-</u>

**9. Investments in associates**

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

	2005	2004
	KD'000	
Opening balance	5,362	-
On acquisition of subsidiaries	39,586	-
Capital contribution during the year	-	5,312
Share of profit for the year	25,300	277
On transfer of ownership of Celtel Tanzania (see note below)	(4,524)	-
Transferred to goodwill	(14,255)	-
Foreign currency translation adjustment	3,715	-
Transferred to available-for-sale investment securities	(9,726)	-
Inter-company gains eliminated	-	(227)
Closing balance	<u>45,458</u>	<u>5,362</u>

**Tanzania Telecommunications Company Limited (TTCL)**

In August 2005, the Government of Tanzania, the majority shareholder in TTCL, reached an agreement with the Group whereby Celtel's indirect interest in Celtel Tanzania Limited, previously held through TTCL, was transferred directly to Celtel. At the same time Celtel's Board representation and involvement with TTCL was reduced to the extent that it no longer had significant influence over the financial and operating policy decisions of TTCL. Accordingly, from August 2005, the accounting treatment of TTCL has been changed from that of an associate company to an investment available-for-sale.

**10. Property and equipment**

	Land and buildings	Cellular & other equipment	Projects in progress	Total
	KD '000s			
<b>Cost</b>				
As at 31 December 2004	39,299	343,639	17,478	400,416
Additions	3,996	66,167	67,663	137,826
Transfers and adjustments	1,464	33,626	(35,090)	-
Disposals	-	(4,508)	-	(4,508)
On acquisition of subsidiaries	14,650	265,526	27,733	307,909
On disposal of subsidiaries	(370)	(2,894)	(11)	(3,275)
Exchange adjustment	(962)	7,820	(4,804)	2,054
As at 31 December 2005	<u>58,077</u>	<u>709,376</u>	<u>72,969</u>	<u>840,422</u>
<b>Depreciation</b>				
As at 31 December 2004	14,398	166,438	-	180,836
Charge for the year	4,494	56,511	-	61,005
Disposals	-	(3,220)	-	(3,220)
On acquisition of subsidiaries	4,076	98,727	-	102,803
On disposal of subsidiaries	(89)	(1,132)	-	(1,221)
Exchange adjustment	(1,407)	1,773	-	366
As at 31 December 2005	<u>21,472</u>	<u>319,097</u>	<u>-</u>	<u>340,569</u>
<b>Net Book Value</b>				
As at 31 December 2005	<u>36,605</u>	<u>390,279</u>	<u>72,969</u>	<u>499,853</u>
As at 31 December 2004	<u>24,901</u>	<u>177,201</u>	<u>17,478</u>	<u>219,580</u>

Amounts shown against acquisition of subsidiaries arise on acquisition of Celtel, Celtel Tanzania and Madacom and that shown against disposal of subsidiaries principally relates to the disposal of the LinkAfrica business.

Property and equipment include cellular equipment with a net book value of KD Nil (2004 – KD 4,535,000) held under a sale and lease back arrangement and vehicles with a net book value of KD 95,000 (2004 - KD280,000) acquired under a finance lease by JMTC - Jordan. It also includes buildings with a net book value equivalent to KD 870,000 (2004–KD 872,000) acquired under a finance lease by MTCB Bahrain.

Projects in progress comprise of:

	<u>2005</u>	<u>2004</u>
	<u>KD'000</u>	
Buildings	-	108
Cellular & other equipment	<u>72,969</u>	<u>17,370</u>
	<u>72,969</u>	<u>17,478</u>

#### 11. Intangible assets

	<u>Goodwill</u>	<u>Licence fees</u>	<u>Brands</u>	<u>Others</u>	<u>Total</u>
	<u>KD'000</u>				
<b>Cost</b>					
As at 31 December 2004	91,457	2,934	-	1,479	95,870
Additions	798,589	1,782	17,544	943	818,858
Of subsidiaries acquired	38,570	25,525	-	-	64,095
On disposal of subsidiaries	(3,826)	(299)	-	-	(4,125)
Exchange adjustments	-	480	-	(11)	469
As at 31 December 2005	<u>924,790</u>	<u>30,422</u>	<u>17,544</u>	<u>2,411</u>	<u>975,167</u>
<b>Accumulated amortization</b>					
As at 31 December 2004	11,940	2,022	-	1,174	15,136
Charge for the year	-	2,392	-	276	2,668
Impairment	777	-	-	-	777
Of subsidiaries acquired	7,822	9,653	-	-	17,475
On disposal of subsidiaries	(2,586)	(77)	-	-	(2,663)
Exchange adjustment	-	(969)	-	(9)	(978)
As at 31 December 2005	<u>17,953</u>	<u>13,021</u>	<u>-</u>	<u>1,441</u>	<u>32,415</u>
<b>Net book value</b>					
As at 31 December 2005	<u>906,837</u>	<u>17,401</u>	<u>17,544</u>	<u>970</u>	<u>942,752</u>
As at 31 December 2004	<u>79,517</u>	<u>912</u>	<u>-</u>	<u>305</u>	<u>80,734</u>

Goodwill represents the excess of cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of acquired subsidiaries.

In 2005, the main additions to goodwill arose from the acquisition of and by Celtel (refer Note 31).

The addition to brands in 2005 relates to the fair value attributed to the Celtel Tanzania brand measured at the date of acquisition.

#### 12. Other financial assets

Other financial assets comprise the following:

	<u>2005</u>	<u>2004</u>
	<u>KD'000</u>	
Cash held in a restricted foundation account – amount due to be settled after 12 months (note 24)	11,493	-
Import duties recoverable	2,699	-
Deferred consideration on sale of LinkAfrica business	668	-
Others	<u>48</u>	<u>-</u>
	<u>14,908</u>	<u>-</u>

13. Trade and other payables

	2005	2004
	<u>KD'000</u>	
Trade payables	58,877	32,838
Deferred revenue	24,312	12,245
Due to roaming partners	4,346	1,999
Due to Government of Jordan	14,455	13,677
Provision for income taxes – foreign subsidiaries	33,263	10,822
Kuwait Foundation for the Advancement of Sciences	1,848	1,236
National Labour Support Tax	3,199	2,725
Dividend payable	4,288	4,829
Accrued expenses	64,978	42,689
Directors' remuneration	28	28
Unrealised losses on cash flow hedges	-	68
Other payables	31,362	8,872
	<u>240,956</u>	<u>132,028</u>

14. Due to banks

	2005	2004
	<u>KD '000</u>	
<i>MTC (the Parent Company)</i>		
Short term loans – unsecured	17,569	-
Long term loans – unsecured	58,177	88,654
	<u>75,746</u>	<u>88,654</u>
<i>JMTS – Jordan</i>		
Long term loans	-	3,829
Notes payable	6,920	5,030
Finance lease obligations	100	3,469
	<u>7,020</u>	<u>12,328</u>
<i>MTCB – Bahrain</i>		
Bank overdraft	-	130
Long term loan	17,416	10,376
Finance lease obligations	748	841
	<u>18,164</u>	<u>11,347</u>
<i>Celtel – The Netherlands</i>		
Short term loan	20,386	-
Long term loan	98,143	-
	<u>118,529</u>	<u>-</u>
<i>MTCI – The Netherlands</i>		
Islamic finance (Murabaha)	219,300	-
	<u>219,300</u>	<u>-</u>
	<u>438,759</u>	<u>112,329</u>

These dues mature as follows:

	2005	2004
	<u>KD '000</u>	
Less than one year	248,417	26,525
Between one and two years	54,170	18,327
Between two and five years	111,891	61,549
Over five years	24,281	5,928
	<u>438,759</u>	<u>112,329</u>

The effective interest rates as at 31 December 2005 was 4% to 8.25% (2004 – 3.75% to 9.25%) per annum.

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.

*MTCB*

MTCB's long term loan is secured by a mortgage of its freehold land and buildings.

*Celtel*

These facilities are secured by Celtel's interest in the shares held by Celtel in certain group companies and by a charge over all the bank accounts of Celtel, the bank accounts of the various intermediate holding companies, an assignment of the shareholder loans from Celtel to the various intermediate holding companies and an assignment of certain shareholder loans from the various intermediate holding companies to the Celtel operations.

These facilities include syndicated loans and medium term notes of KD 38,876,000 owed by Celtel Kenya Limited of which KD 21,672,000 is secured by the assets and shares of Celtel Kenya Limited and KD 12,904,000 is guaranteed by a Dutch financial institution.

The majority of the assets of Celtel are pledged and certain of its subsidiaries have entered into various financial covenants covering amongst others, minimal levels of cash repatriation and levels of profitability. Financial covenants include restrictions over dividend payments and asset disposals. Furthermore certain political risks require prepayment of the loans.

*MTCI*

In December 2005 MTCI obtained a US \$ 750,000,000 (KD 219,300,000) Islamic murabaha financing from a consortium of local and foreign banks. This facility is secured by a guarantee given by the Parent Company. Financial covenants stipulate maximum debt of 4.5 times EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation) and minimum EBITDA of 3 times debt service on the group consolidated level.

**15. Other non-current liabilities**

	<u>2005</u>	<u>2004</u>
		<u>KD '000</u>
Subscribers' deposits	5,127	5,703
Post employment benefits	4,396	3,671
Provisions for claims against JMTS	-	4,578
	<u>9,523</u>	<u>13,952</u>

**16. Due to minority interest holders**

Under the terms of the purchase offer made to the shareholders of Celtel, the Parent Company has an irrevocable obligation to acquire at a fixed price of US\$57.04 (KD 16.68) per share, the minority interest of 15.014% in the equity of Celtel for cash by 29 April 2007 - the second anniversary of the closing date of the purchase offer. The obligation amounts to KD 138,840,934 and is stated at amortised cost using an effective interest rate of 4.31%.

The equity instruments held by the minority interest holders are classified as financial liabilities other than at fair value through profit or loss rather than equity since there is an irrevocable obligation to deliver cash to settle the minority's interest.

**17. Share capital and reserves**

*Share capital*

The authorised, issued and fully paid up share capital as of 31 December 2005 consists of 1,097,234,427 shares of 100 fils each after the bonus and the rights issues during the year. (2004 – 517,963,522 shares of 100 fils each).

*Rights issue*

In the extraordinary general assembly meeting held on 22 August 2005, the shareholders of the Parent Company approved to offer 543,013,460 shares of 100 fils each, by way of rights issue, at a premium of KD 1.150 per share to shareholders registered in the shareholders' register as on 15 November 2005. The rights issue opened on 16 November 2005 and closed on 30 November 2005. 533,775,072 shares were fully subscribed and paid up and the balance 9,238,388 unsubscribed shares were acquired by the Parent Company as treasury shares after obtaining approval from the Kuwait Stock Exchange.

*Treasury shares*

	<u>2005</u>	<u>2004</u>
Number of shares	20,445,895	10,474,306
Percentage of issued shares	1.86%	2.02%
Market value (KD '000)	71,969	35,613
Cost (KD '000)	15,576	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.

*Legal reserve*

The Parent Company is permitted by its Articles of Association to maintain legal reserve up to a maximum of 50% of its share capital. Accordingly during the year legal reserve has been appropriated to the extent necessary to bring it to 50% of the share capital. 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 parent Company is permitted to maintain voluntary reserve up to a maximum of 50% of its share capital. Accordingly, during the year voluntary reserve has been appropriated to the extent necessary to bring it to 50% of the share capital. 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 85 fils per share (2004 - 160 fils per share) and bonus shares in the ratio of 15 shares for every 100 shares (2004 – 7 shares for every 100 shares) to the registered shareholders as of the date of the Annual General Meeting.

**18. Revenue**

	<u>2005</u>	<u>2004</u>
	<u>KD'000</u>	
Airtime and subscription	572,359	316,177
Trading income	<u>7,137</u>	<u>6,150</u>
	<u>579,496</u>	<u>322,327</u>

**19. Investment income**

	<u>2005</u>	<u>2004</u>
	<u>KD'000</u>	
Gain from investments at fair value through profit or loss	7,003	2,993
Realised gains from available for sale investments	10,949	2,744
Dividend income	<u>2,978</u>	<u>3,945</u>
	<u>20,930</u>	<u>9,682</u>

**20. National Labour Support Tax**

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

**21. Income tax expense of subsidiaries**

	<u>2005</u>	<u>2004</u>
	<u>KD'000</u>	
JMTC	13,264	10,583
MTCL	531	164
Celtel	<u>15,117</u>	<u>-</u>
	<u>28,912</u>	<u>10,747</u>

**22. Earnings per share**

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

	<u>2005</u>	<u>2004</u>
	<u>KD'000</u>	
Net profit for the year from continuing operations	<u>174,926</u>	<u>120,241</u>
Net profit for the year from discontinued operations	<u>10,995</u>	<u>-</u>
	<u>Shares</u>	<u>Shares</u>
Number of shares issued and paid-up		
Weighted average number of shares outstanding	<u>835,948,450</u>	<u>814,053,897</u>
	<u>Fils</u>	<u>Fils</u>
<i>Earnings per Share</i>		
Profit from continuing operations	209	148
Profit from discontinued operations	<u>13</u>	<u>-</u>
Profit for the year	<u>222</u>	<u>148</u>

Earnings per share from operations reported for the year ended 31 December 2004 was 237 Fils, before retroactive adjustment relating to bonus shares and the rights issue.

**23. Staff costs**

	<u>2005</u>	<u>2004</u>
	<u>KD'000</u>	
Wages and salaries	51,740	24,483
Share based compensation granted to employees	5,066	-
Post employment benefits	<u>1,253</u>	<u>704</u>
	<u>58,059</u>	<u>25,187</u>

This is allocated as follows:

	<u>2005</u>	<u>2004</u>
	<u>KD'000</u>	
Distribution, marketing & operating expenses	33,012	16,917
General and administrative expenses	<u>25,047</u>	<u>8,270</u>
	<u>58,059</u>	<u>25,187</u>

**24. Share-based compensation plan**

Until March 2005 Celtel had an employee share incentive plan for the granting of non-transferable options to employees. This plan was modified to a cash settled share based compensation plan when Celtel was acquired in April 2005. The agreement provided for the holders of Celtel options to be given the opportunity to cash-out those options that had vested at the closing date for US\$ 56.04 (KD 16.39) per share subject to option, less the exercise price of the option. It was also agreed that holders of options that had not vested at the closing date of the agreement would be able to cash-out their options at the same price as and when the vesting conditions provided for in the original plan are met.

To structure the adjustment to the option plan, Celtel issued letters to its option holders to cancel their options and to accept the terms of the revised plan. Celtel Stichting International (foundation) was created to take care of the option settlements. This included a direct cash payment of US\$ 108,000,000 (KD 31,579,000) for all vested options in May 2005 and the recognition of a liability for all non-vested options. Funding of the foundation came from the Parent Company, which separated US\$ 171,000,000 (KD 50,000,000) from the Celtel acquisition price and contributed that to the foundation upon incorporation.

A total amount of KD 5,066,400 (US\$ 17,327,000) (2004 – Nil) was charged to the statement of income for this modified scheme in respect of the cash settlement liability arising from the options that vested in 2005.

In accordance with Interpretation (SIC-12 'Consolidation - Special Purpose Entities'), the foundation has been treated as a Special Purpose Entity ("SPE") as Celtel obtains the benefits of this foundation. This arises because the amounts paid by the foundation are remuneration to employees of Celtel who have to provide employee services to Celtel in order to obtain the benefits. Accordingly the cash balance held in the foundation together with the corresponding liability to pay the option holders has been included in these consolidated financial statements as follows:

	<u>2005</u> <u>KD'000</u>
<b>Current assets</b>	
Cash held in restricted foundation account – due to be settled within the next 12 months	3,547
Foundation receivables	3,340
<b>Non-current assets</b>	
Cash held in restricted foundation account – due to be settled after 12 months	11,493
	<u>18,380</u>
<b>Current liabilities</b>	
Accrued expenses and other liabilities	6,887
<b>Non-current liabilities</b>	
Liability to pay option holders	11,493
	<u>18,380</u>

**25. 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 liquidity risk and political 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 market risk by setting limits on exposures to investments, currency and counterparty and transacting business in Kuwaiti Dinars and other major currencies with counterparties of repute.

**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.

**Political risk**

Political risk arises due to the instability of regimes ruling in certain African countries in which the Group operates. The Group operates in countries where the regulatory regimes are less developed than in matured markets and where there are political risks. The Group minimizes these risks by maintaining a portfolio, which reduces exposure to specific country risk, as well as working with strong local partners and proactively engaging with the regulators of each country to develop a mutually satisfactory environment for its continuous investment.

**Fair value of financial instruments**

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

**26. 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>2005</u>	<u>2004</u>
	<u>KD'000</u>	
<b>Assets</b>		
Current assets	904,980	173,367
Non current assets	495,540	406,027
Total	<u>1,400,520</u>	<u>579,394</u>
<b>Liabilities</b>		
Current liabilities	120,798	105,460
Non current liabilities	66,190	82,562
Total	<u>186,988</u>	<u>188,022</u>
<b>Net assets</b>	<u>1,213,532</u>	<u>391,372</u>
<b>Operating results – Income and expenses</b>		
Revenue	208,933	180,207
Net profit of the parent	113,164	91,172
Profit of Kuwaiti subsidiaries	452	437
Profit of foreign subsidiaries	72,305	28,632
<b>Net profit of the Group</b>	<u>185,921</u>	<u>120,241</u>

**27. 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, Lebanon and Africa. This forms the basis of the geographical segments.

	<b>2005</b>					
	<b>Kuwait</b>	<b>Jordan</b>	<b>Bahrain</b>	<b>Lebanon</b>	<b>Africa</b>	<b>Total</b>
	<b>KD'000</b>					
Revenues	208,933	133,312	20,355	15,906	200,990	579,496
Net profit	113,616	45,691	817	2,381	23,416	185,921
Total assets	596,196	144,694	35,228	4,680	1,270,498	2,051,296
Total liabilities	172,425	62,357	25,313	2,631	575,038	837,764
Net assets	423,771	82,337	9,915	2,049	695,460	1,213,532
Capital expenditure incurred during the year	28,848	22,281	3,818	11	104,964	159,922
Depreciation and amortisation	19,706	15,823	3,562	1	24,581	63,673
	<b>2004</b>					
	<b>Kuwait</b>	<b>Jordan</b>	<b>Bahrain</b>	<b>Lebanon</b>	<b>Africa</b>	<b>Total</b>
	<b>KD '000</b>					
Revenues	180,207	123,129	10,243	8,748	-	322,327
Net profit	91,609	33,546	(5,742)	828	-	120,241
Total assets	490,884	126,615	26,966	5,216	-	649,681
Total liabilities	164,026	65,346	25,408	3,529	-	258,309
Net assets	326,858	61,269	1,558	1,687	-	391,372
Capital expenditure incurred during the year	38,829	3,946	11,213	-	-	53,988
Depreciation and amortisation	23,319	14,864	3,068	-	-	41,251

**28. 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:

	<b>2005</b>	<b>2004</b>
	<b>KD '000</b>	
<b>Transactions</b>		
Sale of equipment	-	1,801
Management fees (included in other income)	3,239	451
Balances outstanding with related parties are:		
<b>Balances</b>		
Trade and other receivables	2,232	790
Trade and other payables	469	-
<b>Key management compensation</b>		
Salaries and other long term employee benefits	2,676	1,993
Post-employment benefits	109	87
Share based payments	162	-

**29. Commitments and contingencies**

	<b>2005</b>	<b>2004</b>
	<b>KD '000</b>	
Capital commitments	72,008	22,444
Uncalled share capital of investee companies	2,057	2,606
Letters of credit	8,779	5,955
Letters of guarantee	274,429	5,936

JMTS is a defendant in lawsuits and arbitration proceedings amounting to approximately KD 9,907,000 (31 December 2004 – KD 14,567,000). Legal proceedings have been initiated by and against some of the other subsidiaries in a number of jurisdictions. On the basis of information currently available, and having taken counsel with legal advisers, 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 and the consolidated operations of the Group.

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

Under the terms of the license acquired in Zambia, Celtel is required to sell up to 41% of its shareholding in Celtel Zambia Limited to Zambian interests and accordingly it is in the process of arranging a private placement of 10% of the shares of Celtel Zambia Limited. In addition, Celtel has the obligation to acquire a further 10% interest in Celtel Zambia Limited from one of its local partners (also a shareholder in Celtel). The exercise period of this option ends should Celtel Zambia Limited be listed on a stock exchange.

In April 2005 Celtel sold its business of providing wholesale voice and data traffic to and from telephone networks in Africa, operated by LinkAfrica, for a total consideration of US\$ 56,000,000 (KD 16,375,000) to Gateway. This consideration includes US\$ 3,000,000 (KD 877,000) of deferred consideration, which is dependent upon future levels of business between Celtel and Gateway Communications Limited. As part of the sale Celtel gave certain undertakings to procure from Gateway voice and data traffic to the value of US\$ 68,000,000 (KD 19,883,000) in the four years subsequent to the date of sale. If Celtel fails to meet its commitments it will be liable to compensate Gateway at the rate of between 65% and 75% of any shortfall. To date Celtel has significantly exceeded its minimum commitment levels to Gateway and expects this situation to continue.

**30. Discontinued operations**

This represents profit on disposal of a subsidiary of Celtel.

**31. Business combinations**

The Parent company's acquisition of Celtel and Celtel's acquisition of Madacom SA and its additional interest in Celtel Tanzania are business combinations and details of the acquisitions are shown below.

**Acquisition of Celtel**

Details of net assets acquired and goodwill are as follows:

	<u>KD'000</u>
Purchase consideration:	
- cash paid to shareholders	822,044
- direct costs relating to the acquisition	19,372
Post acquisition adjustments (Mobitel)	4,021
Post acquisition adjustments (Penhurst)	1,164
Call option liability	<u>127,490</u>
Total purchase consideration	974,091
Less: Provisional value of net assets acquired	<u>(179,555)</u>
	794,536
Adjustments:	
Write back of negative goodwill in Celtel	(805)
Foreign Currency Translation Reserve	(6,099)
Change in functional currency	1,124
Cost of share options	(350)
Celtel Tanzania – Assets revaluation reserve	(6,140)
Modified option scheme	(9,589)
Unrealised loss on TTCL investments (net)	1,785
Realised gain on sale of investments	249
Others	<u>21</u>
Goodwill arising on Celtel acquisition	<u>774,732</u>

The above goodwill is attributable to the profitability of the acquired business and the significant synergies expected to arise from the acquisition.

The provisional values assigned for initial accounting of the identifiable assets, liabilities and contingent liabilities are shown below. Provisional values on the date of acquisition have been assigned due to the time and effort required to gather information on fair values in operations spread over 14 countries in Africa which will be determined within the first anniversary of the acquisition.

The assets and liabilities arising from the acquisition are as follows:

	<u>KD'000</u>
Intangible assets	46,937
Property and equipment	175,000
Investments	40,021
Deferred tax asset	8,302
Inventories	4,580
Receivables	10,349
Other debtors and prepayments	31,279
Cash	14,590
Minority interest	(3,677)
Non current liabilities	(77,120)
Trade payables	(20,266)
Loans due within a year	(11,052)
Other liabilities and accruals	<u>(39,388)</u>
Provisional value of net assets	<u>179,555</u>
Purchase consideration settled in cash	822,044
Cash and cash equivalents in subsidiary acquired	<u>(14,590)</u>
Cash outflow on acquisition	<u>807,454</u>

From the date of acquisition Celtel contributed revenues of KD 200,990,000 and net profit of KD 58,924,000 to the net results of the Group for the period 29 April 2005 to 31 December 2005. If the acquisition had taken place on 1 January 2005, the Group revenue and net profits would have been higher by KD 80,458,000 and KD 21,208,000 respectively.

#### Acquisition of Celtel Tanzania Limited

Prior to August 2005 Celtel held an indirect interest of 35% in Celtel Tanzania Limited by means of its shareholding in TTCL. In August 2005, the Government of Tanzania, the majority shareholder in TTCL, reached an agreement with Celtel whereby Celtel's indirect interest in Celtel Tanzania Limited was transferred directly to Celtel. In addition, at this time, Celtel acquired a further 25% of Celtel Tanzania Limited for a total consideration of US\$ 29,000,000 (KD 8,480,000) taking its total shareholding to 60%. As a consequence Celtel Tanzania, which was accounted for as an associate company up until August 2005, has been fully consolidated from the date the company obtained control.

From the date of acquisition Celtel Tanzania Limited has contributed US\$ 8,976,000 (KD 2,625,000) profit to the net result of the Group. If the acquisition had taken place on 1 January 2005 the revenue and profit for the Group would have been higher by US\$ 68,559,000 (KD 20,047,000) and US\$ 7,034,000 (KD 2,057,000), respectively.

The fair value of the identifiable assets and liabilities of Celtel Tanzania Limited as at the date of acquisition are:

	<u>KD'000</u>
Intangible assets	17,739
Property and equipment	23,331
Deferred tax asset	773
Cash	3,406
Receivables	1,639
Inventories	616
	<u>47,504</u>
Shareholder loan with TTCL	(13,198)
Trade and network construction payables	(1,359)
Accrued expenses and other liabilities	(2,478)
Fair value of net assets	<u>30,469</u>
Less : Assets previously acquired	(10,664)
Less : Minority interests	(12,188)
Net assets acquired	<u>7,617</u>
Consideration	<u>8,483</u>
Goodwill arising on acquisition	<u>866</u>
	<u>8,483</u>
Purchase consideration settled in cash	8,483
Cash and cash equivalents in subsidiary acquired	(3,406)
Cash outflow on acquisition	<u>5,077</u>

#### Acquisition of Madacom SA

In December 2005 Celtel acquired 100% of the shares of Madacom SA, an unlisted company in Madagascar operating a cellular telecommunication network within Madagascar, for a total consideration of US\$ 99,000,000 (KD 28,948,000). As the acquisition of Madacom SA took place at the end of 2005 no results have been incorporated into the consolidated financial statements for 2005. If the acquisition had taken place on 1 January 2005 the revenue and net profit for the Group would have been higher by US\$ 33,409,000 (KD 9,769,000) and US\$ 10,300,000 (KD 3,012,000), respectively.

The provisional values assigned to the identifiable assets and liabilities of Madacom SA as at the date of acquisition, which will be reviewed during the course of 2006, are shown below:

	<b><u>KD'000</u></b>
Intangible assets	204
Property and equipment	6,773
Cash	1,456
Receivables	1,128
Inventories	<u>77</u>
	9,638
Trade and network construction payables	(1,583)
Accrued expenses and other liabilities	<u>(2,149)</u>
Fair value of net assets	5,906
Consideration	<u>28,897</u>
Goodwill arising on acquisition	22,991
Purchase consideration settled in cash	28,897
Cash and cash equivalents in subsidiary acquired	<u>(1,456)</u>
Cash outflow on acquisition	<u><u>27,441</u></u>

**Business combination after the Balance Sheet date**

On 6 February 2006 Celtel acquired an additional 61% in Mobitel, Sudan taking its effective ownership to 100% for a cash purchase consideration of US\$ 1,332,000,000 (approximately KD 389,477,000). The provisional values assigned to the identifiable assets and liabilities of Mobitel, Sudan as at the date of acquisition, which will be reviewed during the course of 2006, are shown below:

	<b><u>KD'000</u></b>
Property and equipment	58,637
Cash	70,559
Receivables	46,175
Inventories	1,442
Other debtors and prepayments	<u>1,439</u>
	178,252
Trade and network construction payables	(9,870)
Accrued expenses and other liabilities	<u>(11,823)</u>
Fair value of net assets	156,559
Consideration	<u>389,477</u>
Goodwill arising on acquisition	<u><u>232,918</u></u>
Purchase consideration settled in cash	389,477
Cash and cash equivalents in subsidiary acquired	<u>70,559</u>
Cash outflow on acquisition	<u><u>318,918</u></u>

The above goodwill is attributable to Mobitel's profitability and the significant synergies expected to arise from the acquisition.

**32. Significant accounting judgments and estimates**

In accordance with the accounting policies contained in IFRS and adopted by the Group, management is required to make the following judgments and estimations that may affect the carrying values of assets and liabilities.

**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 and to determine the amount of goodwill.

*Classification of investments*

On acquisition of an investment management decides whether it should be classified as held for trading or available for sale. The Group classifies investments as held for trading if they are acquired for the purpose of making short term gains. All other investments are classified as available for sale.

*Substance of relationship with special purpose entities*

Where the Group obtains benefits from a special purpose entity, management considers the substance of the relationship to judge if such an entity is controlled by the Group.

*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 balance sheet date, management assesses, whether there is any indication that inventories, property and equipment and intangible assets may be impaired. The determination of impairment requires considerable judgment and involves evaluating factors including, industry and market conditions.

**Sources of estimation uncertainty**

*Fair values- unquoted equity investments and business combinations*

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

*Accounts receivable*

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

*Tangible and intangible assets*

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

*Taxes*

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities 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 above assets.

**33. Comparative figures**

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