Mobile Telecommunications Company KSC
Kuwait

Consolidated Annual Financial Statements and Independent Auditors' Report

31 December 2008

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Mobile Telecommunications Company KSC
Kuwait

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Mobile Telecommunications Company KSC ("the Parent Company") and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as of 31 December 2008, and the consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

The Parent Company's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PRICEWATERHOUSECOOPERS

AL- AHLI BUREAU
Certified Accountants

Mobile Telecommunications Company KSC
Kuwait

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (Continued)

Report on other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of accounts have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by Commercial Companies Law of 1960, as amended, and by the Parent Company's Articles of Association; that an inventory was duly carried out; and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, or of the Articles of Association have occurred during the year ended 31 December 2008 that might have had a material effect on the business of the Group or on its consolidated financial position.

Bader A. Al Wazzan
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Nasser Abdullah Al Muqait
Licence No.9A
Al-Ahli Bureau

Kuwait
01 March 2009

Mobile Telecommunications Company KSC

Consolidated Balance Sheet as of 31 December 2008

	Note	2008	2007
			KD '000
ASSETS			
Current assets			
Cash and bank balances	4	367,871	261,263
Trade and other receivables	5	293,903	246,276
Loan to an associate	6	79,673	-
Inventories	7	30,427	22,047
Investment securities at fair value through profit or loss	8	16,676	23,002
Total current assets		788,550	552,588
Non-current assets			
Deferred tax assets	9	88,805	64,724
Investment securities available for sale	8	96,904	179,468
Investment in associates	10	216,389	259,640
Loan to an associate		-	170,875
Property and equipment	11	2,026,790	1,495,602
Intangible assets	12	2,234,423	1,637,255
Other financial assets	13	2,378	6,850
		4,665,689	3,814,414
Total assets		5,454,239	4,367,002
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	14	908,773	557,889
Due to banks	15	231,138	453,747
Due to non controlling interest holders	16	-	18,509
		1,139,911	1,030,145
Non-current liabilities			
Due to banks	15	1,670,788	1,531,512
Deferred tax liabilities	9	30,283	31,763
Other non-current liabilities	17	212,128	25,276
		1,913,199	1,588,551
Equity			
Attributable to Parent Company's shareholders			
Share capital	18	427,240	189,398
Share premium	18	1,690,772	624,465
Treasury shares	18	(567,834)	(15,576)
Legal reserve	18	127,788	94,699
Voluntary reserve	18	63,091	63,091
Foreign currency translation reserve		(97,692)	(26,014)
Treasury shares reserve		1,967	-
Equity issue transaction cost of associate		(1,746)	-
Investment fair valuation reserve		(9,201)	67,704
Share based compensation reserve		20,395	12,222
Hedge reserve		(60,382)	-
Retained earnings		625,014	571,938
		2,219,412	1,581,927
Non-controlling interests		181,717	166,379
Total equity		2,401,129	1,748,306
Total Liabilities and Equity		5,454,239	4,367,002

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

Asaad Ahmed Al Banwan
Chairman

Dr. Saad Hamad Al Barrak
Managing Director - Deputy Chairman

Consolidated Statement of Income – Year ended 31 December 2008

	Note	2008	2007
			KD '000
Revenue	19	2,003,080	1,677,270
Cost of sales		(461,070)	(381,206)
Gross profit		1,542,010	1,296,064
Distribution, marketing & operating expenses		(577,348)	(461,655)
General and administrative expenses		(210,749)	(142,873)
Depreciation and amortization	11,12	(303,363)	(236,062)
Impairment losses – Goodwill	12	(63,262)	-
Provision for impairment – trade and other receivables		(6,587)	(3,832)
Operating profit		380,701	451,642
Interest income		31,489	26,289
Investment income	20	(599)	21,537
Share of loss of associates (net)	10	(20,659)	(3,135)
Fair value gain on the previously held equity interest in a subsidiary	28	152,413	-
Other income		21,470	6,092
Finance cost		(128,002)	(123,586)
(Loss)/ gain from currency revaluation		(37,091)	13,144
Board of Directors' remuneration		(32)	(28)
Contribution to Kuwait Foundation for Advancement of Sciences		(2,978)	(2,973)
National Labour Support Tax and Zakat	21	(5,877)	(5,447)
Profit for the year before income tax		390,835	383,535
Income tax expense of subsidiaries	22	(53,720)	(40,874)
Profit for the year		337,115	342,661
Attributable to:			
Shareholders of the Parent Company		322,002	320,455
Non-controlling interests		15,113	22,206
		337,115	342,661
		Fils	Fils
Basic earnings per share	23	88	96
Diluted earnings per share	23	87	96

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

Mobile Telecommunications Company KSC

Consolidated Statement of Changes in Shareholders' Equity – Year ended 31 December 2008

	Equity attributable to Parent Company's Shareholders													
	Share capital	Share premium	Treasury shares	Legal reserve	Voluntary reserve	Foreign currency translation reserve	Treasury shares reserve	Equity issue transaction cost of associate	Investment fair valuation reserve	Share based compensation reserve	Hedge reserve	Retained earnings	Non-controlling interests	Total
														KD '000
Balance at 1 January 2008	189,398	624,465	(15,576)	94,699	63,091	(26,014)	-	-	67,704	12,222	-	571,938	166,379	1,748,306
Net exchange differences	-	-	-	-	-	(71,678)	-	-	-	-	-	-	(937)	(72,615)
Equity issue transaction cost of associate	-	-	-	-	-	-	-	(1,746)	-	-	-	-	-	(1,746)
Realised gain on available-for-sale investments (net of impairment losses)	-	-	-	-	-	-	-	-	(1,603)	-	-	-	-	(1,603)
Changes in fair value of available-for-sale investments	-	-	-	-	-	-	-	-	(75,302)	-	-	-	-	(75,302)
Loss from changes in fair value - cash flow hedge (Note 31)	-	-	-	-	-	-	-	-	-	-	(60,382)	-	-	(60,382)
Profit on sale of shares to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	26,682	-	26,682
Share based compensation (Note 25)	-	-	-	-	-	-	-	-	-	8,173	-	-	-	8,173
Profit on sale of treasury shares	-	-	-	-	-	-	1,967	-	-	-	-	-	-	1,967
Net income/ (expense) recognised directly in equity	-	-	-	-	-	(71,678)	1,967	(1,746)	(76,905)	8,173	(60,382)	26,682	(937)	(174,826)
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	322,002	15,113	337,115
Total recognized income/ (loss) for the period	-	-	-	-	-	(71,678)	1,967	(1,746)	(76,905)	8,173	(60,382)	348,684	14,176	162,289
Transfer to reserves	-	-	-	33,089	-	-	-	-	-	-	-	(33,089)	-	-
Issue of share capital	142,174	1,066,307	-	-	-	-	-	-	-	-	-	-	-	1,208,481
Purchase of treasury shares	-	-	(552,258)	-	-	-	-	-	-	-	-	-	-	(552,258)
On business combination (Note 28)	-	-	-	-	-	-	-	-	-	-	-	-	21,467	21,467
Adjustment to non-controlling interest share	-	-	-	-	-	-	-	-	-	-	-	-	(16,140)	(16,140)
Sale/ purchase of shares to/ from non-controlling interests (net)	-	-	-	-	-	-	-	-	-	-	-	-	(1,526)	(1,526)
Exercise of employee share options	885	-	-	-	-	-	-	-	-	-	-	(301)	-	584
Issue of bonus shares (2007)	94,783	-	-	-	-	-	-	-	-	-	-	(94,783)	-	-
Cash dividends (2007)	-	-	-	-	-	-	-	-	-	-	-	(167,435)	(2,639)	(170,074)
Balance at 31 December 2008	427,240	1,690,772	(567,834)	127,788	63,091	(97,692)	1,967	(1,746)	(9,201)	20,395	(60,382)	625,014	181,717	2,401,129
Balance at 1 January 2007	126,182	624,465	(15,576)	63,091	63,091	(24,390)	-	-	41,778	5,736	-	470,055	146,002	1,500,434
Net exchange differences	-	-	-	-	-	(1,624)	-	-	-	-	-	-	368	(1,256)
Realised gain on available-for-sale investments (net)	-	-	-	-	-	-	-	-	(11,789)	-	-	-	-	(11,789)
Changes in fair value of available-for-sale investments	-	-	-	-	-	-	-	-	37,715	-	-	-	-	37,715
Share based compensation (Note 25)	-	-	-	-	-	-	-	-	-	6,486	-	-	-	6,486
Net income/ (expense) recognised directly in equity	-	-	-	-	-	(1,624)	-	-	25,926	6,486	-	-	368	31,156
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	320,455	22,206	342,661
Total recognized income/ (loss) for the period	-	-	-	-	-	(1,624)	-	-	25,926	6,486	-	320,455	22,574	373,817
Transfer to reserves	-	-	-	31,608	-	-	-	-	-	-	-	(31,608)	-	-
Capital contribution	-	-	-	-	-	-	-	-	-	-	-	-	1,582	1,582
Adjustment to non-controlling interest share	-	-	-	-	-	-	-	-	-	-	-	-	(363)	(363)
Sale/ purchase of shares to/ from non-controlling interests (net)	-	-	-	-	-	-	-	-	-	-	-	-	(2,445)	(2,445)
Share of put option liability	-	-	-	-	-	-	-	-	-	-	-	-	1,822	1,822
Exercise of employee share options	125	-	-	-	-	-	-	-	-	-	-	(42)	-	83
Issue of bonus shares (2006)	63,091	-	-	-	-	-	-	-	-	-	-	(63,091)	-	-
Cash dividends (2006)	-	-	-	-	-	-	-	-	-	-	-	(123,831)	(2,793)	(126,624)
Balance at 31 December 2007	189,398	624,465	(15,576)	94,699	63,091	(26,014)	-	-	67,704	12,222	-	571,938	166,379	1,748,306

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

Consolidated Statement of Cash Flows – Year ended 31 December 2008

	2008	2007
		KD '000
Cash flows from operating activities		
Profit for the year before income tax	390,835	383,535
Adjustments for:		
Depreciation, amortization and goodwill written off	366,625	236,062
Interest income	(31,489)	(26,289)
Investment income	599	(21,537)
Share of loss of associates	20,659	3,135
Fair value gain on the previously held equity interest in a subsidiary	(152,413)	-
Finance cost	128,002	123,586
Loss on sale of property and equipment	424	170
Gain from currency revaluation	37,091	(13,144)
Operating profit before working capital changes	760,333	685,518
Increase in trade and other receivables	(29,252)	(67,024)
Increase in inventories	(6,426)	(7,835)
(Decrease)/ increase in trade and other payables	(13,993)	90,547
Increase in other non-current liabilities	2,197	12,319
Cash generated from operations	712,859	713,525
Payments:		
Income tax	(36,161)	(36,895)
Board of Directors' remuneration	(28)	(28)
Kuwait Foundation for Advancement of Sciences	(3,004)	-
National Labour Support Tax and Zakat	(5,414)	(4,320)
Net cash from operating activities	668,252	672,282
Cash flows from investing activities		
Proceeds from sale of investment securities	8,022	1,275
Investments in securities	(1,779)	(4,677)
Investments in subsidiaries	13,005	(60,920)
Sale of shares in a subsidiary	50,154	-
Investments in associates	(15,796)	(269,306)
Acquisition of property and equipment (net)	(651,873)	(586,700)
Acquisition of intangible assets	(141,957)	(166,645)
Interest received	36,933	26,269
Dividend received	6,141	5,033
Net cash used in investing activities	(697,150)	(1,055,671)
Cash flows from financing activities		
(Repayments)/ proceeds from bank borrowings (net)	(149,267)	603,421
Loan to an associate	(76,688)	(170,875)
Proceeds from issue of share capital	1,194,809	83
Non-controlling interest's capital contribution – Bahraini subsidiary	-	1,527
Purchase of treasury shares	(540,577)	-
Sale of treasury shares	4,539	-
Dividends paid	(166,763)	(123,588)
Dividends paid to non-controlling interests	(2,654)	(2,875)
Finance cost paid	(128,488)	(123,436)
Net cash from financing activities	134,911	184,257
Net increase/ (decrease) in cash and cash equivalents	106,013	(199,132)
Effects of exchange rate changes on cash and cash equivalents	595	(13,927)
Cash and cash equivalents at beginning of year	261,263	474,322
Cash and cash equivalents at end of year (Note 4)	367,871	261,263

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 21 other countries (2007 : Kuwait and 20 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.

In March 2008, a joint stock company Saudi Mobile Telecommunications Company (SMTC) with a share capital of SAR 14 billion, was formed in the Kingdom of Saudi Arabia to hold the Group's mobile telecommunication licence in that country. The Parent Company holds 25% of SMTC's voting shares amounting to SAR 3.5 billion, other promoters hold 25% amounting to SAR 3.5 billion and the general public subscribed to the balance 50% amounting to SAR 7 billion during the mandatory initial public offering in February 2008 which was fully subscribed to. SMTC commenced commercial operations in August 2008.

In 2007, the Group began re-branding its trade name to "Zain" starting with the Middle East and Sudan and during the year has completely re branded all other operations.

The principal subsidiaries and associates are listed in Note 3.

These consolidated financial statements were authorized and approved for issue by the Board of Directors of the Parent Company on 1 March 2009 and are subject to approval of the shareholders at their forthcoming Annual General Meeting.

2. Basis of preparation and significant accounting policies

2.1 Basis of preparation

2.1.1 These consolidated financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). These 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" and previously held equity interests in business combinations achieved in stages. These consolidated financial statements have been presented in Kuwaiti Dinars, rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent assets and contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a high degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 34.

2.1.2 The Group's associate in the Kingdom of Saudi Arabia Saudi Mobile Telecommunications Company (SMTC) obtained a waiver related to the breach of some of the covenants attached to certain loan facilities but has so far not been able to re-negotiate or obtain replacement financing arrangements. SMTC's current liabilities (which includes due to banks and shareholder loans amounting to KD 834 million) also exceed its current assets by KD 1 billion. The financial statements of the associate, which is in the start up phase, has been prepared on a going concern basis as Group and SMTC management are continuing to negotiate the borrowing terms and are of the opinion that the existing facilities will be refinanced on commercially viable terms. The carrying amount of the Group's investment in SMTC including loans and receivables is KD 334.596 million. The Group is also contingently liable for a guarantee of KD 110 million relating to a loan availed by SMTC.

2.3 Business Combinations

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

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

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

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

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

2.4 Consolidation

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

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

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

2.2 Changes in accounting policies

The accounting policies are consistent with those used in the previous year except that the Group has early adopted the revised IFRS 3 – Business Combinations and the amended International Accounting Standard IAS 27 - Consolidated and Separate Financial Statements issued in 2008 These revised standards have been applied to business combinations during the year (Note 3).

IFRS 3 - Business Combinations (revised)

Revised IFRS 3 – Business Combinations, is prospectively applicable to business combinations for which the acquisition date falls in the annual reporting periods beginning on or after 1 July 2009 but can be early adopted.

This revised standard continues to apply the acquisition method to business combinations, with some significant changes as follows:

- Consideration transferred (including contingent consideration) in a business combination to be recorded at the acquisition-date fair value;
- An option to measure non-controlling interest (minority interest) in an acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets;
- Account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received;
- In a business combination achieved in stages (step acquisition),re-measure the previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss in the statement of income.

IAS 27 - Consolidated and separate financial statements (amended)

As the Group has early adopted the revised IFRS 3 during the year, it is required to early adopt the amended IAS 27 at the same time. This revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity, if there is no change in control and these transactions will no longer result in goodwill or gains and losses being recognized in the statement of income. Total comprehensive income of the subsidiary is attributed to the parent and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. This standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured at fair value and a gain or loss is recognized in the statement of income.

The amended IAS 27 was applied to acquisitions and disposals of business combinations during the year (Note 3).

Due to the early adoption of IFRS 3 (revised) and IAS 27 (amended), the Group has also early adopted certain consequential amendments to other accounting standards.

New accounting standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group:

IAS 1	-	(amended) - Presentation of Financial Statements (effective from 1 January 2009)
IFRS 8	-	Operating Segments (effective from 1 January 2009)
IAS 16	-	(Amendments) - Property, Plant and Equipment (effective 1 January 2009)
IAS 19	-	(Amendments) - Employee Benefits (effective from 1 January 2009)
IAS 28	-	(Amendments) - Investments in Associates (effective from 1 January 2009)
IAS 36	-	(Amendments) - Impairment of Assets (effective from 1 January 2009)
IAS 38	-	(Amendments) - Intangible assets (effective from 1 January 2009)
IFRC 13	-	Customer Loyalty Programmes (effective from 1 July 2009)

The adoption of IAS 1 and IFRS 8 will result in amendments to the presentation of the consolidated financial statements of the Group.

The Group will adopt these new standards and amendments to other standards from their effective date. Their adoption is not expected to have a material impact on the consolidated financial statements of the Group.

2.5 Financial instruments

Classification

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

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

Recognition/ 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 (in whole or in part) is de-recognised when the contractual rights to receive cash flows from the financial asset has expired or the Group has transferred substantially all risks and rewards of ownership and has not retained control. If the Group has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset.

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

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

Measurement

Financial instruments

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Available for sale

These are non-derivative financial assets not included in any of the above classifications and principally acquired to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. These are subsequently measured and carried at fair value and any resultant gains or losses are recognized in 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/ equity

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

Financial guarantees

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

Fair values

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

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

Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Derivatives with positive fair values (unrealised gains) are included in other assets and derivatives with negative fair values (unrealised losses) are included in other liabilities in the balance sheet. For hedges, which do not qualify for hedge accounting and for "held for trading" derivatives, any gains or losses arising from changes in the fair value of the derivative are taken directly to the statement of income. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates derivatives as either hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

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

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

Fair value hedge

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

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

Cash flow hedge

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

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

The fair value of the derivative liability is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models.

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. For "available for sale" equity investments, reversals of impairment losses are recorded as increases in fair valuation reserve through equity.

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

2.6 Cash and cash equivalents

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

2.7 Inventories

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

2.8 Income taxes

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

Deferred income tax is provided using the liability method on all temporary differences, at the 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 substantively 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

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

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

2.10 Property and equipment

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

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

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

These assets are reviewed periodically for 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. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.11 Intangible assets and goodwill

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

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

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

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

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

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

2.12 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

The Group operates both an equity settled and cash settled share based compensation plan. The cost of these share based transactions is measured at fair value at the date of the grant taking into account the terms and conditions upon which the instruments were granted. The fair value is expensed over the vesting period with recognition of a corresponding adjustment in equity in the case of equity settled plans and in liability in the case of cash settled plans. The cost of equity settled plans is measured with reference to the fair value at the date on which they are granted using an option pricing model, which is then recognised as an expense over the vesting period with a corresponding increase in equity. The fair value of these options excludes non-market vesting conditions, which are included in assumptions about the number of options that are expected to vest. It recognises the impact of the revision to the original estimates, if any in the statement of income, with a corresponding increase or decrease in equity.

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 a reliable 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. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares. Reserves equal to the cost of treasury shares held are not available for distribution.

2.16 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 liability outstanding.

2.17 Revenue

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

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

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

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

2.18 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 an entity is the currency of the primary economic environment in which it operates and in the case of the Parent Company it is the Kuwaiti Dinar and in the case of subsidiaries it is their respective national currencies or the applicable foreign currency. Foreign currency transactions are recorded at the rates of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the 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 until realisation becomes virtually certain. Contingent liabilities, other than those arising on acquisition of subsidiaries, are not recognized as a liability unless as a result of past events it is probable that an outflow of economic resources will be required to settle a present, legal or constructive obligation; and the amount can be reliably estimated. Contingent liabilities arising in a business combination are recognized if their fair value can be measured reliably.

3. Subsidiaries and Associates

The principal subsidiaries and associates are:

Subsidiary	Country of Incorporation	Percentage of ownership 2008	2007
Zain International B.V. (formerly Mobile Telecommunications Company International B.V.) – "ZIBV"	The Netherlands	100%	100%
Pella Investment Company – "Pella"	Jordan	96.516%	96.516%
MTC Vodafone Bahrain B.S.C (Closed) - "MTCB"	Bahrain	56.25%	56.25%
Mobile Telecommunications Company Lebanon (MTC) S.A.R.L. "MTCL"	Lebanon	100%	100%
Sudanese Mobile Telephone (Zain) Company Limited "Zain Sudan"	Sudan	100%	100%
Atheer Telecom Iraq Limited – "Atheer"	Cayman Islands	71.667%	30%
Athir National Co. W.L.L. "ANC"	Bahrain	100%	-
Associate			
Saudi Mobile Telecommunications Company (SMTC)	Saudi Arabia	25%	-
Mada Leletisalat LLC	Saudi Arabia	-	50%

Zain International B.V. holds 100% of Zain Africa B.V., Netherlands (ZABV) which is a Dutch holding and finance company principally engaged in the business of operating cellular telecommunications networks in 15 (2007 - 15) countries in Africa.

Subsidiary	Country of Incorporation	Percentage of ownership 2008	2007
Celtel Burkina Faso S.A	Burkina Faso	100%	100%
Celtel Tchad S.A	Chad	100%	100%
Celtel Congo (DRC) SARL	Dem. Rep of Congo	98.50%	98.50%
Celtel Congo S.A	Republic of Congo	90%	90%
Celtel Gabon S.A	Gabon	90%	90%
Celtel Kenya Limited	Kenya	80%	80%
Celtel Malawi Limited	Malawi	100%	100%
Celtel Niger S.A	Niger	90%	80%
Celtel (S.L) Limited	Sierra Leone	100%	100%
Celtel Limited Uganda	Uganda	100%	100%
Celtel Zambia Limited	Zambia	78.88%	88.88%
Celtel Tanzania Limited	Tanzania	60%	60%
Celtel Madagascar SA	Madagascar	100%	100%
Celtel Nigeria Limited	Nigeria	65.702%	65.702%
Western Telesystems Limited (Ghana)	Ghana	75%	75%
Special Purpose Entity			
Stichting Celtel International	Netherlands		

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 Telecom Iraq Limited – "Atheer"

In October 2008 the Group increased its voting equity interest in Atheer from 30% to 40% and then to 71.667% (by acquiring all of the shares of ANC Bahrain) to obtain control. As a result of this Atheer became a subsidiary from 31 October 2008. The total purchase consideration for these acquisitions was US$ 91 million (approximately KD 25 million). Details of this transaction are disclosed in Note 28.

The financial statements of Atheer, whose working capital is in deficit, have been prepared on a going concern basis as the Group is committed to provide financial support.

Celtel Niger S.A.

During the year, the Group acquired additional 10% equity interest each in Celtel Niger S.A for a consideration of US$ 16.20 million (approximately KD 4.36 million) and in Celtel Zambia Plc for a consideration of US$ 99.24 million (approximately KD 27.42 million)

Celtel Zambia Limited

The Group has offered and sold 20% of the shares in Celtel Zambia Plc ("CZ") via an Initial Public Offering ("IPO") on the Lusaka Stock Exchange (Zambia) as at 11 June 2008. The net cash proceeds received from the IPO was KD 51.58 million. The gain of KD 26.68 million (2007 - Nil) has been directly reported in equity attributable to the Parent Company's shareholders.

The Group acquired 10% interest in Celtel Zambia from one of its local partners (also a shareholder in Celtel Zambia) who one day after the IPO exercised the put option granted by the Group. The exercise of the put option, although a separate transaction from the IPO, was triggered by the IPO as this was the end of the exercise period of the option (Note 16).

Western Telesystems Limited (Ghana)

The initial accounting of the business acquisitions of Zain Ghana was carried out in 2007 using provisional values of identifiable assets, liabilities and contingent liabilities and the purchase price allocation (PPA) was completed during the year.

Saudi Mobile Telecommunications Company (SMTC)

The third mobile telecommunications license for a twenty five year period, in the Kingdom of Saudi Arabia was won by a consortium led by the Parent Company for an upfront fee of Saudi Riyals 22.91 billion (equivalent KD 1.77 billion) in March 2007. All assets and liabilities of the Special Purpose Entity, Mada Leletisalat LLC that was incorporated to manage the procedures were transferred to SMTC (Note 1) on its formation. SMTC commenced commercial operation in August 2008.

4. Cash and bank balances

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

	2008	2007
		KD '000
Cash on hand and at banks	171,140	148,226
Short-term deposits with banks with original maturities of less than three months	196,731	113,037
Cash and bank balances	367,871	261,263

The effective interest rate on short-term deposits as of 31 December 2008 was 3.02% to 6.13% per annum (2007 – 5.25% to 7.38%).

5. Trade and other receivables

	2008	2007
		KD '000
Trade receivables:		
Customers	64,785	39,145
Distributors	37,161	54,943
Other operators (Interconnect)	75,535	68,397
Roaming partners	17,678	8,233
Provision for impairment	(50,014)	(42,870)
	145,145	127,848
Accrued income	8,336	11,664
Staff	5,808	3,915
Due from associates	68,775	33,958
Prepayments, advances and deposits	65,839	68,891
	293,903	246,276

As of 31 December 2008, trade receivables of KD 80,623,000 (2007 - KD 70,028,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2008	2007
		KD '000
Up to 3 months	23,129	31,429
3 – 6 months	14,452	14,609
6 – 12 months	14,087	7,570
More than 12 months	28,955	16,420
	80,623	70,028

As of 31 December 2008, trade receivables of KD 53,756,000 (2007 - KD 70,090,000) were impaired against which the Group carries a provision of KD 50,014,000 as of 31 December 2008 (2007 - KD 42,870,000). The individually impaired receivables mainly relate to post paid customers. It was assessed that a portion of the impaired receivables is expected to be recovered.

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

	2008	2007
		KD '000
Kuwaiti dinar	37,803	36,152
US dollar	81,574	93,454
Euro	29,928	11,111
Bahraini dinar	22,023	12,327
Sudanese pound	28,049	25,884
Jordanian dinar	13,639	43,337
Others	80,887	24,011
	293,903	246,276

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

	2008	2007
		KD '000
Opening balance - 1 January	42,870	39,038
On acquisition of subsidiary	6,542	-
Recoveries/ write back of provisions	(5,985)	-
Charge for the year	6,587	3,832
Closing balance – 31 December	50,014	42,870

The other classes within trade and other receivables do not contain past due or impaired assets. The Group does not hold any collateral as security.

6. Loan to an associate

This represents a shareholder loan of SAR 1.082 billion to SMTC and is carried at amortised cost. This loan is subordinate to the associate's borrowings from banks.

7. Inventories

	2008	2007
		KD '000
Handsets and accessories	32,402	23,628
Provision for obsolescence	(1,975)	(1,581)
	30,427	22,047

8. Investment securities

	2008	2007
Current investments		KD '000
Investment securities at fair value through profit or loss		
Quoted equities	9,872	16,487
Funds	6,804	6,515
	16,676	23,002
Non current investments		
Available for sale		
Quoted equities	58,094	113,839
Funds	28,560	43,211
Unquoted equities	15,913	24,110
Impairment loss	(5,663)	(1,692)
	96,904	179,468

Investment securities are denominated in the following currencies:

	2008	2007
		KD '000
Kuwaiti dinar	76,280	149,208
US dollar	26,195	35,163
Other currencies	11,105	18,099
	113,580	202,470

Available for sale investments include unlisted securities with original cost of KD 5,674,000 (2007 - KD 7,558,000) carried at cost less impairment since it is not possible to reliably measure their fair value.

During the year the Group recognized an unrealized loss of KD 75,302,000 (2007 - unrealized gain of KD 37,715,000) in investment fair valuation reserve arising from fair valuation of 'available for sale' investments and transferred a gain of KD 5,574,000 (2007 – KD 11,789,000) from investment fair valuation reserve to the statement of income, arising from disposals. The Group also recognized an impairment loss of KD 3,971,000 (2007 – Nil) in the statement of income by transferring the loss from the investment fair valuation reserve.

9. Deferred tax assets/ liabilities

	2008	2007
		KD '000
Deferred tax assets:		
Deferred tax assets to be recovered after more than 12 months	79,284	64,542
Deferred tax assets to be recovered within 12 months	9,521	182
	88,805	64,724
Deferred tax liabilities:		
Deferred tax liability payable after more than 12 months	25,892	30,666
Deferred tax liability payable within 12 months	4,391	1,097
	30,283	31,763

10. Investments in associates

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

	2008	2007
		KD '000
Opening balance	259,640	8,026
Capital contribution during the year	608	269,306
Share of loss for the year (See below)	(20,659)	(3,135)
Acquisition of additional shares	15,152	-
Cost of IPO (Saudi)	(1,746)	-
Foreign currency translation adjustment	1,276	(14,557)
Adjustment – Atheer (Note 3)	(37,882)	-
Closing balance	216,389	259,640

Capital contribution during the year 2007 represents Saudi Riyals 3.5 billion deposited in an escrow account as the Parent Company's 25% share of the authorized capital of SMTC.

Under the Murabaha financing agreement, SMTC can make or declare any dividend or other distribution in cash or in kind, any amendment to, variation or waiver of the terms of any shareholder loan agreement or any payment under a shareholder loan agreement, only with the prior written consent of the lenders.

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

	2008	2007
		KD '000
Assets	493,571	152,018
Liabilities	277,182	147,975
Revenue	9,056	47,788
Net (loss)/ profit for the year:		
Atheer, Iraq	12,704	3,264
SMTC, Saudi Arabia	(32,877)	(6,399)
Others	(486)	-
	(20,659)	(3,135)

11. Property and equipment

	Land and buildings	Cellular and other equipment	Projects in progress	Total
				KD '000
Cost				
As at 31 December 2006	74,258	1,311,354	319,601	1,705,213
Additions	5,788	491,471	154,503	651,762
On acquisition of subsidiaries	19	2,048	3	2,070
Transfers and adjustments	1,334	120,494	(121,822)	6
Disposals	(217)	(12,967)	(24)	(13,208)
Exchange adjustment	(1,213)	(67,481)	(3,693)	(72,387)
As at 31 December 2007	79,969	1,844,919	348,568	2,273,456
Additions	7,619	391,705	308,512	707,836
On acquisition of subsidiary	-	306,929	8,644	315,573
Transfers and adjustments	7,858	163,233	(174,328)	(3,237)
Disposals	(155)	(18,916)	(31)	(19,102)
Exchange adjustment	2,052	(107,022)	(34,838)	(139,808)
As at 31 December 2008	97,343	2,580,848	456,527	3,134,718
Accumulated depreciation				
As at 31 December 2006	28,025	545,999	-	574,024
Charge for the year	6,881	203,260	-	210,141
On disposals	(233)	(7,388)	-	(7,621)
On acquisition of subsidiaries	12	1,736	-	1,748
Exchange adjustment	(1,388)	950	-	(438)
As at 31 December 2007	33,297	744,557	-	777,854
Charge for the year	3,977	269,255	-	273,232
On disposals	(174)	(5,510)	-	(5,684)
On acquisition of subsidiary	-	107,705	-	107,705
Exchange adjustment	190	(45,369)	-	(45,179)
As at 31 December 2008	37,290	1,070,638	-	1,107,928
Net Book Value				
As at 31 December 2008	60,053	1,510,210	456,527	2,026,790
As at 31 December 2007	46,672	1,100,362	348,568	1,495,602

Additions during the year include amounts arising from the step up acquisition of Atheer.

Property and equipment include vehicles with a net book value of KD 52,000 (2007 – KD 173,000) and KD 1,431,000 (2007 – KD 572,000) acquired under finance lease by JMTS – Jordan and Mobitel Sudan respectively. It also includes buildings with a net book value equivalent to KD 788,000 (2007 – KD 782,000) acquired under a finance lease by MTCB Bahrain. Projects in progress comprise of cellular and other equipment amounting to KD 444,895,000 (2007 - KD 328,145,000) and buildings amounting to KD 11,632,000 (2007 – KD 20,423,000).

12. Intangible assets

	Goodwill	Licence fees	Others	Total
				KD '000
Cost				
At 31 December 2006	1,315,032	189,836	44,924	1,549,792
Additions	57,291	152,713	1,197	211,201
On subsidiaries acquired	40,951	539	-	41,490
Exchange adjustments	(49,499)	(15,720)	(2,373)	(67,592)
At 31 December 2007	1,363,775	327,368	43,748	1,734,891
Additions	150,497	7,589	339	158,425
Disposals	(28,741)	(22,133)	-	(50,874)
On subsidiaries acquired	259,054	335,404	989	595,447
Adjustment to identifiable asset	(4,336)	-	4,336	-
Exchange adjustments	(4,543)	5,933	575	1,965
As at 31 December 2008	1,735,706	654,161	49,987	2,439,854
Accumulated amortization and impairment losses				
At 31 December 2006	12,274	50,288	9,673	72,235
Of subsidiaries acquired	-	243	-	243
Charge for the year	-	19,030	6,891	25,921
Exchange adjustment	(333)	353	(783)	(763)
At 31 December 2007	11,941	69,914	15,781	97,636
On disposals	-	(22,132)	-	(22,132)
Of subsidiaries acquired	-	26,511	989	27,500
Impairment losses	63,262	-	-	63,262
Charge for the year	-	23,506	6,625	30,131
Exchange adjustment	1,680	7,001	353	9,034
As at 31 December 2008	76,883	104,800	23,748	205,431
Net book value				
As at 31 December 2008	1,658,823	549,361	26,239	2,234,423
As at 31 December 2007	1,351,834	257,454	27,967	1,637,255

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

The addition to goodwill during the year arises from the step up acquisition in Atheer (2007- Westel Ghana and other step up acquisitions in Celtel Gabon S.A, Celtel Kenya Ltd, Celtel Burkina Faso S.A. and Celtel Zambia Limited).

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

	License validity date	**2008**	**2007**
			KD '000
Pella Investment Company, Jordan	February 2021	79,516	79,516
MTC Vodafone Bahrain B.S.C (Closed), Bahrain	April 2018	-	-
Celtel Burkina Faso S.A	May 2010	27,876	27,735
Celtel Tchad S.A	October 2009	27,030	26,741
Celtel Congo (DRC) SARL	December 2019	103,192	102,090
Celtel Congo S.A	December 2013	66,418	65,081
Celtel Gabon S.A	April 2017	91,302	90,887
Celtel Kenya Limited	January 2015	57,836	130,221
Celtel Malawi Limited	February 2014	21,425	21,254
Celtel Niger S.A	December 2015	23,661	23,363
Celtel (S.L) Limited	November 2013	39,853	39,427
Celtel Limited Uganda	October 2013	7,224	7,147
Celtel Zambia Limited	May 2013	52,315	74,616
Celtel Tanzania	November 2032	14,895	17,289
Celtel, Madagascar	September 2015	28,505	28,623
Celtel, Nigeria	February 2016	113,548	126,254
Sudanese Mobile Telephone Company Limited (Zain, Sudan)	February 2029	456,510	452,126
Westel Ghana	October 2021	34,867	39,464
Atheer Telecom Iraq Limited, Cayman Islands	September 2022	412,850	-
		1,658,823	1,351,834

Impairment testing

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

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

Key assumption	**Basis used to determine value to be assigned to key assumption**
Growth rate	Average market share in the period immediately before budget period increased each year for anticipated growth in market share of upto 7% (2007 – 13%). Value assigned reflects past experience and changes in economic environment. Increase in competition expected but no significant change in market share of any CGU as a result of ongoing service quality improvements and expected growth in market penetration but excluding that from improving or enhancing the asset's performance. Cash flows beyond the five year period have been extrapolated using a growth rate ranging from 3% to 5% (2007 – 3% to 5%). This growth rate does not exceed the long term average growth rate of the market in which the CGU operate.
Exchange rate	Average market forward rate over the budget period. Value assigned is consistent with external source of information
Discount rate	Discount rates range from 12% to 19.5% per annum (2007 – 12% to 17.3%). Discount rates used are pre-tax and reflect specific risks relating to the relevant CGU.

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

These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five year period. The recoverable amount so obtained was significantly above the carrying amount of the CGUs, except in Kenya where the fair value less costs to sell is lower.

During the year, the Group has recognized an impairment loss of KD 63,262,000 (2007 - Nil) in goodwill allocated to the Group's mobile operation in Kenya since its recoverable value computed as the fair value less costs to sell is below its carrying value. This amount is disclosed in the statement of income as impairment losses. Fair value less cost to sell was determined using valuation techniques and considering the outcome of recent transactions for similar assets in the same industry in the same geographical region. There was no change in the basis of aggregating the assets of the Kenya operations since the previous estimate of its recoverable value.

The license in Chad expires in October 2009 and was extended for a further period of 10 years from that date in 2006 on payment of an additional license fee US$ 3.2 million at that time and a decree to that effect was issued. In August 2008 a decree was issued canceling the post October 2009 license and refund of US$ 3.2 million. The Group is currently seeking its reinstatement through legal and other measures. The recoverability of the carrying amount of the Chad operation of KD 46,546,000 is contingent on its renewal beyond October 2009. The Group has determined that it is highly probable that the October 2009 to October 2019 license extension will be reinstated and it is appropriate to report the operations in Chad as a going concern; and no impairment loss provision is required.

13. Other financial assets

	2008	2007
		KD '000
Cash held in a restricted foundation account – due to be settled after 12 months	-	3,135
Import duties recoverable	2,378	3,470
Others	-	245
	2,378	6,850

14. Trade and other payables

	2008	2007
		KD '000
Trade payables	149,878	142,587
Deferred revenue	83,659	63,152
Due to roaming partners	9,003	7,998
Due to other operators (interconnect)	18,295	12,809
Due to Government of Jordan	12,862	14,598
Provision for income taxes – foreign subsidiaries	80,567	60,094
Kuwait Foundation for the Advancement of Sciences	5,848	5,843
National Labour Support Tax and Zakat	5,914	5,449
Dividend payable	6,192	8,616
Accrued expenses	253,812	150,618
Directors' remuneration	32	28
Due to non controlling interest holders (Note 16)	-	8,485
Deferred purchase consideration (See note below)	196,064	-
Licence fee payable (Note 17)	57,573	-
Other payables	29,074	77,612
	908,773	557,889

Deferred purchase consideration is the amount payable by Atheer for the acquisition of Iraqna Company for Mobile Services Limited (Iraqna) in 2007. This is an interest free liability and is due for payment on 31 December 2009.

15. Due to banks

	2008	2007
		KD '000
MTC (the Parent Company)		
Short term loans – unsecured	21,855	16,427
Long term loans – unsecured	5,166	21,538
	27,021	37,965
JMTS – Jordan		
Long term loans	31,200	30,928
Notes payable	311	249
Finance lease obligations	142	251
	31,653	31,428
MTCB – Bahrain		
Short term loan	5,972	-
Long term loans	6,397	17,789
Finance lease obligations	427	520
	12,796	18,309
Celtel – The Netherlands		
Short term loan	146,809	102,959
Long term loan	405,718	333,900
	552,527	436,859
Zain – Sudan		
Long term loan	106,055	108,727
Finance lease obligations	979	572
	107,034	109,299
Atheer – Iraq		
Short term loan	55,270	-
ZIBV – The Netherlands		
Islamic finance (Murabaha)	-	328,080
Long term loan	1,115,625	1,023,319
	1,115,625	1,351,399
	1,901,926	1,985,259

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the balance sheet dates are as follows:

	2008	2007
		KD '000
Less than 6 months	138,911	1,382,102
6 – 12 months	80,104	83,918
1 - 5 years	1,607,584	398,038
Over 5 years	48,307	81,891
Fixed rate borrowings	27,020	39,310
	1,901,926	1,985,259

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

	2008	2007
		KD '000
US dollar	1,461,747	1,705,394
Euro	106,055	108,727
Bahraini dinar	12,796	18,309
Jordanian dinar	31,653	32,000
Other currencies	289,675	120,829
	1,901,926	1,985,259

The effective interest rate as at 31 December 2008 was 3.91% to 7.68% (2007 – 4% to 7.38%) per annum.

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

JMTS

JMTS's loan agreements contain covenants relating to compliance with financial ratios and foreclosure of loans in the event of non-compliance.

MTCB

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

ZABV - Netherlands

The majority of the assets of ZABV are pledged to lenders and certain of its subsidiaries have entered into various loan agreements that include financial covenants in relation to debt-to-equity and leverage ratios. Financial covenants also include restrictions on dividend distributions.

Zain, Sudan

This represents Euro 270 million (KD 106 million) islamic murabaha financing obtained from a consortium of foreign banks in 2007. This facility is guaranteed by the Parent Company. This loan is fully repayable after 36 months and carries an interest rate of 2.5% above 3 month EURIBOR. The effective rate of interest as of 31 December 2008 was 5.39% (2007 – 7.38%). Financial covenants stipulate maximum debt of 3 times EBITDA (Earnings before interest, tax, depreciation and amortization) and ratio of EBITDA to net finance charges of not less than 3:1.

ZIBV

In June 2006 ZIBV obtained a revolving financing with a limit of US$ 4 billion (KD 1.1 billion) from a consortium of local and foreign banks repayable in 2011. This facility is secured by a guarantee given by the Parent Company and JMTS. Financial covenants stipulate maximum net borrowings of 4 times consolidated EBITDA and ratio of annualized consolidated EBIDTA of not less than 3 times annualized consolidated net interest payable.

The US$ 1.2 billion (KD 323 million) islamic murabaha financing obtained by ZIBV in December 2006 was fully repaid during the year.

16. Due to non controlling interests

As of 31 December 2007, ZABV had an obligation to acquire a further 10% interest in Celtel Zambia Ltd. Up to this date the Group accounted for this put option as if it had acquired the 10% interest. The equity instruments held by the non-controlling interest share holders (that were acquired during the year – Note 3) were classified as financial liabilities, rather than equity, since there was an irrevocable obligation to deliver cash to settle the non-controlling interest.

17. Other non-current liabilities

	2008	2007
		KD '000
Customer deposits	8,160	4,419
Post employment benefits	13,712	8,661
Licence fee payable (See note below)	115,146	-
Derivative liability (Note 31)	60,382	-
Refundable deposit	14,728	12,196
	212,128	25,276

Licence fee payable represents the deferred payment of Atheer's telecom license fee to the telecom regulatory authority of Iraq. The license fee which was due for payment on 31 March 2008 was deferred and is now payable in three equal installments on 1 March 2009, 1 March 2010 and 1 March 2011. This carries a finance cost of 8% per annum on the outstanding balance.

18. Share capital and reserves

Share capital (par value of KD 0.100 per share)

	2008	2007
	No of shares	No of shares
Authorised		
Opening balance	1,895,655,826	1,261,819,591
Bonus shares	947,827,913	630,909,795
Rights issue	1,421,741,869	-
Shares approved for Employee Share Option Plan (ESOP)	15,081,114	2,926,440
	4,280,306,722	1,895,655,826
Issued and fully paid up		
Opening balance	1,893,979,581	1,261,819,591
Bonus shares	947,827,913	630,909,795
Rights issue	1,421,741,869	-
Shares issued for 2006 ESOP	3,183,805	1,250,195
Shares issued for 2007 ESOP	5,672,135	-
	4,272,405,303	1,893,979,581

Rights issue

At the extraordinary general meeting held on 25 March 2008, the Parent Company's shareholders approved increase in authorized share capital from 1,895,655,826 to 4,280,306,722 shares and the Amiri Decree approving the increase was issued on 9 July 2008

At the Annual General Meeting held in March 2008, the Parent Company's shareholders approved a rights issue of 1,421,741,870 shares of 100 fils per share at a premium of 750 fils per share to the shareholders registered in the shareholders' register as on 10 March 2008. The rights issue offer was opened for subscription on 17 August 2008 and closed on 18 September 2008. 1,404,971,815 shares were fully subscribed for and paid up and the balance 16,770,055 shares were acquired by the Parent Company as treasury shares after obtaining the approval of the Kuwait Stock Exchange.

Treasury shares

	2008	2007
Number of shares	425,711,648	35,269,169
Percentage of issued shares	9.96%	1.86%
Market value (KD '000)	378,883	134,728
Cost (KD '000)	567,834	15,576

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

Legal reserve

In accordance with the Law of Commercial Companies and the Parent Company's Articles of Association, 10% of the profit for the year has been appropriated towards legal reserve. This reserve can be utilised only for distribution of a maximum dividend of 5% in years when retained earnings are inadequate for this purpose.

Voluntary reserve

The Parent Company's Articles of Association provide for the Board of Directors to propose appropriations to voluntary reserve up to a maximum of 50% of its share capital. During the year the Board of Directors did not propose any addition (2007: KD 8,229,000). There is no restriction on distribution of this reserve.

Dividend - 2007

The annual general meeting of shareholders held on 8 March 2008 approved distribution of cash dividends of 90 fils per share and bonus shares of 50 shares for every 100 shares.

Proposed dividend

The Board of Directors, subject to the approval of shareholders, recommends distribution of a cash dividend of 50 fils per share (2007 - 90 fils per share) to the registered shareholders as of the date of the Annual General Meeting. The Board of Directors has not recommended distribution of bonus shares (2007 - 50 shares for every 100 shares).

19. Revenue

	2008	2007
		KD '000
Airtime and subscription	1,965,193	1,659,629
Trading income	37,887	17,641
	2,003,080	1,677,270

20. Investment income

	2008	2007
		KD '000
Loss on investments at fair value through profit or loss	(7,071)	4,611
Realised gains from available for sale investments	331	11,893
Dividend income	6,141	5,033
	(599)	21,537

21. National Labour Support Tax and Zakat

These taxes are payable to Kuwait's Ministry of Finance under National Labour Support Law No. 19 of 2000 and the Zakat Law No. 46 of 2006.

22. Income tax expense of subsidiaries

	2008	2007
		KD '000
JMTS	11,981	11,340
MTCL	661	516
Mobitel	13,082	1,568
Celtel	24,848	27,450
Atheer	3,148	-
	53,720	40,874

23. Earnings per share

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

	2008	2007
		KD '000
Net profit for the year	322,002	320,455
	Shares	Shares
Weighted average number of shares in issue	3,656,617,078	3,328,503,708
Effect of dilution (ESOP - Note 25)	36,307,021	24,413,651
Weighted average number of shares in issue outstanding during the year adjusted for the effect of dilution	3,692,924,099	3,352,917,359
	Fils	Fils
Basic earnings per share	88	96
Diluted earnings per share	87	96

Basic and diluted earnings per share from operations reported for the previous year were 172 fils and 171 fils respectively, before retroactive adjustment for bonus and rights shares issued in 2008.

24. Staff costs

	2008	2007
		KD '000
Wages and salaries	176,896	141,361
Share based compensation granted to employees	8,143	7,422
Post employment benefits	4,757	5,064
	189,796	153,847

This is allocated as follows:

	2008	2007
		KD'000
Distribution, marketing & operating expenses	102,632	89,170
General and administrative expenses	87,164	64,677
	189,796	153,847

25. Share-based compensation plans

Kuwait

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

The total number of shares to be granted under the scheme or Employee Share Option Plan (ESOP) is not to exceed 10% of the issued shares over ten years. The shares to be allotted under the scheme are provided either through a capital increase and issue of new shares or from the treasury shares held by the Parent Company.

The ESOP scheme is available only to employees who hold certain specified posts within the Group. Eligible employees are granted the option to purchase a predetermined number of Parent Company's shares at a specified exercise price as follows:

	2006 Plan		**2007 Plan**		**2008 Plan**	
	Numbers	**Weighted average exercise price**	**Numbers**	**Weighted average exercise price**	**Numbers**	**Weighted average exercise price**
		KD		**KD**		**KD**
Granted	2,956,000	0.100	14,271,038	0.100	14,179,440	1.084
Adjustment for bonus shares	1,478,000		-		-	
Total	4,434,000	0.067	14,271,038	0.065	14,179,440	1.084
Exercised in 2007	1,250,195	0.067	-		-	
Stock options outstanding at 31 Dec 2007	3,183,805	0.067	14,271,038	0.065	-	
Adjustment for bonus shares	1,378,582		7,549,379		-	
Total	4,562,387		21,820,417		-	
Exercised in 2008	1,676,245	0.067	7,179,695	0.065	-	
Stock options forfeited	89,592		43,874		-	
Stock options outstanding at 31 Dec 2008	2,796,550	0.034	14,596,848	0.065	14,179,440	1.084
Stock options exercisable at the end of the year	2,796,550	0.034	7,135,632	0.065	4,692,599	1.084
Weighted average remaining contractual life (in years)	-		2		3	
Weighted average share price of options exercised during the year	4.056		2.024		-	

2006 Plan

The exercise price of the granted options is KD 0.100 per share. The options vest over three years at the rate of 33%, 33% and 34% each year, beginning 1 January 2008 exercisable from the date of vesting and up to three years from the service date.

The Parent Company initially granted 5,485,000 shares at an exercise price of KD 1.760 per share. The fair value of these options was KD 1.873 per share with a total fair value of KD 10,273,000. This Plan, which was subject to approval of shareholders, was amended before that date. The amended Plan granted 2,956,000 shares at an exercise price of KD 0.067 per share after adjusting for eligible bonus shares. The fair value of these options was KD 3.126 per share with a total fair value of KD 9,241,000 which was approved by shareholders. The significant inputs into the fair value model were a share price of KD 3.220 - the market price at the grant date, the exercise price shown above, volatility of 10%, dividend yield of nil (due to the ESOP terms), option life of 3 years and an annual interest rate of 5.5%.

2007 Plan

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

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

The Group recognised total expenses of KD 8,173,000 (2007 - KD 6,486,000) related to equity settled share-based compensation during the year.

The average market price per share of the Parent Company for the year ended 31 December 2008 was KD 2.024 (2007 - KD 4.056)

2008 Plan

The exercise price of the granted options is KD 1.084 per share. The options vest over three years at the rate of 33%, 33% and 34% each year, beginning 1 January 2009 exercisable from the date of vesting and up to three years from the service date.

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

26. Segment information

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

	31-Dec-08							
	Kuwait	Jordan	Bahrain	Lebanon	Sudan	Iraq*	Sub-Saharan Africa	Total
								KD '000
Segment revenues	381,144	130,528	61,141	18,547	234,280	59,911	1,117,529	2,003,080
Net profit	171,716	45,759	15,728	3,914	89,948	37,070	28,634	392,769
Unallocated items:								
Interest income								31,489
Investment income								(599)
Share of loss of associates								(33,363)
Fair value gain on the previously held equity interest in a subsidiary								152,413
Finance cost								(128,002)
Income tax expense								(53,720)
Others								(23,872)
Profit for the year								**337,115**
Segment assets	254,120	267,534	70,875	6,143	857,723	1,009,262	2,482,642	4,948,299
Unallocated items:								
Investment securities at fair value through profit or loss								16,676
Deferred tax assets								88,805
Investment securities available for sale								96,904
Investment in associates								216,389
Loan to an associate								79,673
Others								7,493
Consolidated assets								**5,454,239**
Segment liabilities	78,650	37,057	19,896	3,312	111,194	462,464	393,085	1,105,658
Unallocated items:								
Due to banks								1,901,926
Deferred tax liabilities								30,283
Others								15,243
Consolidated liabilities								**3,053,110**
Net consolidated assets								**2,401,129**
Capital expenditure incurred during the year	23,803	9,095	12,060	19	98,463	9,962	487,193	640,595
Unallocated								11,278
Total capital expenditure								**651,873**
Depreciation and amortization	24,375	16,890	5,047	11	19,692	7,093	229,731	302,839
Unallocated								524
Total depreciation and amortization								**303,363**

* The segment information of Iraq is for a period of two months. Net profit includes 10 months share of profit of associate.

	31-Dec-07							
	Kuwait	Jordan	Bahrain	Lebanon	Sudan	Iraq	Sub-Saharan Africa	Total
								KD '000
Segment revenues	359,386	135,317	42,862	17,248	224,823	-	897,634	1,677,270
Net profit	165,245	43,629	8,646	3,035	73,975	-	153,182	447,712
Unallocated items:								
Interest income								26,289
Investment income								21,537
Share of loss of associates								(3,135)
Finance cost								(123,586)
Income tax expense								(40,874)
Others								14,718
Profit for the year								**342,661**
Segment assets	253,158	268,280	57,952	5,526	793,858	-	2,288,581	3,667,355
Unallocated items:								
Investment securities at fair value through profit or loss								23,002
Deferred tax assets								64,724
Investment securities available for sale								179,468
Investment in associates								259,640
Loan to an associate								170,875
Others								1,938
Consolidated assets								**4,367,002**
Segment liabilities	72,146	57,093	17,434	3,399	127,186	-	322,335	599,593
Unallocated items:								
Due to banks								1,985,259
Deferred tax liabilities								31,763
Others								2,081
Consolidated liabilities								**2,618,696**
Net consolidated assets								**1,748,306**
Capital expenditure incurred during the year	37,017	5,365	9,728	13	97,193	-	431,655	580,971
Unallocated								5,729
Total capital expenditure								**586,700**
Depreciation and amortization	22,755	18,965	4,898	9	18,281	-	170,754	235,662
Unallocated								400
Total depreciation and amortization								**236,062**

27. Related party transactions

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

	2008	2007
		KD '000
Transactions		
Management fees (included in other income)	10,322	4,775
Balances		
Trade and other receivables	4,015	34,103
Trade and other payables	3,000	608
Due to banks	42,577	43,865
Key management compensation		
Salaries and other short term employee benefits	5,396	3,243
Post-employment benefits	685	277
Share based payments	4,071	3,243

28. Business combinations

In October 2008 the Group acquired control over Atheer's through a step up acquisition of an additional 31.667% equity interest in Atheer. This is accounted in accordance with the revised IFRS 3 as follows:

	KD '000
Consideration transferred in cash	9,251
Non-controlling interest share	21,467
Acquisition date fair value of the previously held equity interest	190,295
Total	**221,013**
Less	
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	18,647
Trade and other receivables	35,234
Inventories	1,961
Property, plant and equipment	207,868
Intangible assets	567,947
Trade and other payables	(587,380)
Due to banks	(6,060)
Loan from a related party	(167,701)
Total identifiable net assets	**70,516**
Goodwill arising from business combination	**150,497**

Atheer

The initial accounting for the business combination is provisional due to its complexity, and will be adjusted retrospectively when the final purchase price allocation is completed during the one year measurement period from the acquisition date.

The above goodwill is attributable to Atheer's profitability and the significant synergies expected to arise from the acquisition and from the synergies of Atheer's acquisition of Iraqna earlier in the year. Iraqna was one of the initial mobile services providers in Iraq, along with Atheer, but its telecom license was not renewed after 31 December 2007. Atheer took control of Iraqna's telecom assets including its customer and manpower base, with effect from 1 January 2008. Atheer recognized goodwill of KD 262,353,000 attributable to the synergies expected from combining Iraqna's telecom assets, customers and manpower base with its own.

The acquisition date fair value of the Group's 40% voting equity interest in Atheer, which it held immediately before the acquisition date was estimated at KD 190,295,000 using independent fair valuations reported by international investment banks. Since the business combination was achieved in stages, the Group re-measured the previously held 40% equity holding at fair value and recognized the resultant gain of KD 152,413,000 in the statement of income. This amount is reported in the statement of income as gain on revaluation at fair value of previously held equity interest in a subsidiary.

The gross contractual amount of the acquired trade and other receivables is KD 41,728,000 of which an amount of KD 6,494,000 is the Group management's best estimate of the uncollectible receivables. The fair value of the net trade and other receivables approximates their book value of KD 35,234,000 as they are short term in nature.

From the date of acquisition (31 October 2008), Atheer contributed revenues of KD 59,911,000 and net profit of KD 16,446,000 to the net results of the Group. If the acquisition had taken place on 1 January 2008, the Group revenue and net profits would have been higher by KD 288,808,000 and KD 42,809,000 respectively.

29. Commitments and contingencies

	2008	2007
		KD '000
Capital commitments	355,999	489,249
Capital commitments – share of associates	37,921	82,899
Uncalled share capital of investee companies	396	7,558
Letters of credit	61,142	5,288
Letters of guarantee	233,900	184,485

JMTS is a defendant in lawsuits and arbitration proceedings amounting to approximately KD 114,000 (2007 – KD 425,000). 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.

The Parent Company is defendant in a claim filed by the Ministry of Communications (MoC) seeking a fixed payment of KD 1 per month for each prepaid line. In April 2006 the Commercial Civil court issued a verdict in favour of MoC, but the Parent Company won an appeal against the verdict in September 2007. Pending the outcome of the appeal filed by MoC in the Supreme Court, the Parent Company's management is of the opinion that the above claim will not materially affect the Group's financial statements.

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

Legal proceedings and claims have been initiated by and against Zain Africa in a number of jurisdictions, but on the basis of information currently available, and having taken counsel with legal advisers, 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 Zain Africa.

Zain Africa and its subsidiary Celtel Nigeria are jointly or separately the defendant in several lawsuits in which another shareholder is contesting its pre-emptive right status.

These cases are on going and are yet to proceed to trial. Zain Africa is of the view that the cases initiated are without merit. Given the remote probability of any adverse effect to the Group's consolidated financial position and the difficulties in estimating probable outcomes in a reliable manner, the Group determined that it was appropriate not to provide for this matter in the financial statements.

Operating lease commitments – Group as lessee

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

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

	2008	2007
		KD '000
Not later than 1 year	9,724	5,868
Later than 1 year and no later than 5 years	32,399	25,646
Later than 5 years	3,840	8,685
	45,963	40,199

Financial guarantees

The Parent Company is a guarantor for a credit facility of US$ 404 million (KD 110 million) granted to a fellow member of the Saudi consortium that won the third telecom license in Saudi Arabia. The Parent Company holds a cash collateral of US$ 38,641,000, approximately KD 10,678,000 (2007 - US$ 44,608,000 (approximately KD 12,196,000)) to cover interest payable by the borrower.

30. Financial risk management

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

	Loans and receivables	Assets at fair value through profit and loss	Available for sale
			KD '000
31 December 2008			
Cash and bank balances	367,871	-	-
Trade and other receivables	293,903	-	-
Investment securities	-	16,676	96,904
Loan to an associate	79,673	-	-
Other financial assets	2,378	-	-
Total	743,825	16,676	96,904
31 December 2007			
Cash and bank balances	261,263	-	-
Trade and other receivables	246,276	-	-
Investment securities	-	23,002	179,468
Loan to an associate	170,875	-	-
Other financial assets	6,850	-	-
Total	685,264	23,002	179,468

All financial liabilities as of 31 December 2008 and 31 December 2007 are categorized as 'other than at fair value through profit or loss'.

Financial risk factors

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

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

(a) Market risk

(i) Foreign exchange risk

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

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

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

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

Currency	**2008**	**2007**
		KD '000
U S Dollar	5,012	2,573
Euro	13,548	15,039

(ii) Equity price risk

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

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

	2008		**2007**	
Market indices	**Impact on net profit**	**Effect on equity**	**Impact on net profit**	**Effect on Equity**
				KD '000
Kuwait Stock Exchange	494	4,845	825	7,145

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

(iii) Cash flow and fair value interest rate risk

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

The Group's interest rate risk arises from short-term bank deposits and bank borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During 2008 and 2007, the Group's borrowings at variable rate were denominated in US Dollar and Euro. The fair value impact of fixed rate borrowings as at 31 December 2008 and 2007 is not material.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

At 31 December 2008, if interest rates at that date had been 50 basis points higher/lower with all other variables held constant, profit for the year would have been lower/higher by KD 8,892,000 (2007 - KD 5,880,000).

b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. Financial assets, which potentially subject the Group to credit risk, consist principally of fixed and short notice bank deposits, bonds and receivables. The Group manages this risk by placing fixed and short term bank deposits with high credit rating financial institutions. Credit risk with respect to receivables is limited due to dispersion across large number of customers and by using experienced collection agencies. The maximum exposure of the Group to credit risk is from bank deposits and trade and other receivables. For more information refer to notes 4 and 5.

(c) Liquidity risk

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

The Group has committed to provide working capital and other financial support to Atheer and Celtel Kenya.

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

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
				KD '000
At 31 December 2008				
Bank borrowings	299,704	265,200	1,357,702	89,100
Trade and other payables	922,590	-	-	-
Derivative financial instruments-cash flow hedge	-	-	60,382	-
Customer deposits	-	8,160	-	-
Refundable deposit	-	14,728	-	-
Licence fee payable	-	66,785	62,179	-
Commitments	295,042	-	-	-
At 31 December 2007				
Bank borrowings	624,810	247,245	1,459,350	2,357
Trade and other payables	557,889	-	-	-
Due to non controlling interest holders	18,509	-	-	-
Customer deposits	-	4,419	-	-
Refundable deposit	-	12,196	-	-
Commitments	189,773	-	-	-

31. Derivative financial instruments

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

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

The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of either market or credit risk.

At 31 December 2008:			**Notional amounts by term to maturity**			
	Positive fair value	**Negative fair value**	**Notional amount Total**	**Within 3 months**	**3-12 months**	**Over 1 year**
						KD '000
Derivatives held for trading:						
Foreign currency swaps	206	-	34,518	34,518	-	-
Derivatives held for hedging:						
Cash flow hedges						
Interest rate swaps	-	(60,382)	1,105,400	-	-	1,105,400
	206	(60,382)	1,139,918	34,518	-	1,105,400

As of 31 December 2007 the Group had no derivative financial instrument.

Foreign currency swaps are contractual agreements between two parties to exchange a given amount of one currency for another and, after a specified period of time, to give back the original amounts swapped.

Interest rate swaps are contractual agreements between two parties to exchange interest based on notional value in a single currency for a fixed period of time.

The Group uses interest rate swaps to hedge changes in interest rate risk arising from floating rate borrowings.

The fair valuation gain of the derivatives held for trading is recognised in the statement of income and the fair valuation loss of the derivatives held for hedging (cash flow hedge) is recognized in 'Hedge reserve account' in equity.

32. Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide return on investment to shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

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

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

The gearing ratios at 31 December 2008 and at 31 December 2007 were as follows:

	2008	**2007**
		KD '000
Total borrowings	1,901,926	1,985,259
Less: cash and cash equivalents (Note 4)	367,871	261,263
Net debt	1,534,055	1,723,996
Total equity	2,401,129	1,748,306
Total capital	3,935,184	3,472,302
Gearing ratio	39%	50%

33. Fair value of financial instruments

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

As disclosed in Note 8 'Available for sale investments' includes unlisted securities with original cost of KD 5,674,000 (2007 – KD 7,558,000) carried at cost less impairment since it is not possible to reliably measure their fair value.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

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

34. 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, to determine provisional values on initial accounting of a business combination and to determine the amount of goodwill and the Cash Generating Unit to which it should be allocated.

Classification of investments

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

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, goodwill and intangible assets may be impaired. The determination of impairment requires considerable judgment and involves evaluating factors including, industry and market conditions.

Contingent liabilities

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

Sources of estimation uncertainty

Fair values- unquoted equity investments and business combinations

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

Accounts receivable

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

Tangible and intangible assets

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

Taxes

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

Goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with its accounting policy. The recoverable amounts of cash generating units are determined based on value-in-use calculations or at fair value less costs to sell. These calculations require the use of estimates and the input factors most sensitive to change have been disclosed in Note 12.

Share based compensation

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

35. Comparative figures

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