Mobile Telecommunications Company KSC
Kuwait

Consolidated Annual Financial Statements and Independent Auditors' Report

31 December 2007

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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 2007, 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.

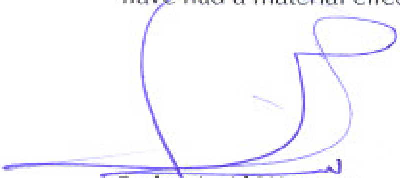
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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 2007 that might have had a material effect on the business of the Group or on its consolidated financial position.



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Kuwait
28 January 2008

Mobile Telecommunications Company KSC and subsidiaries

Consolidated Balance Sheet as of 31 December 2007

	Note	2007	2006 (Restated)
			KD'000
ASSETS			
Current assets			
Cash and bank balances	4	261,263	474,322
Trade and other receivables	5	246,276	184,485
Inventories	6	22,047	14,791
Investment securities at fair value through profit or loss	7	23,002	18,455
Total current assets		552,588	692,053
Non-current assets			
Deferred tax assets	8	64,724	40,618
Investment securities available for sale	7	179,468	134,842
Investment in associates	9	259,640	8,026
Loan to an associate	10	170,875	-
Property and equipment	11	1,495,602	1,131,189
Intangible assets	12	1,637,255	1,477,557
Other financial assets	13	6,850	6,648
		3,814,414	2,798,880
Total assets		4,367,002	3,490,933
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	14	554,754	427,396
Due to banks	15	453,747	460,721
Due to minority interest holders	16	18,509	155,262
		1,027,010	1,043,379
Non-current liabilities			
Due to banks	15	1,531,512	921,117
Deferred tax liabilities	8	31,763	9,980
Other non-current liabilities	17	28,411	16,023
		1,591,686	947,120
Equity			
Attributable to Parent Company's shareholders			
Share capital	18	189,398	126,182
Treasury shares	18	(15,576)	(15,576)
Share premium	18	624,465	624,465
Legal reserve	18	94,699	63,091
Voluntary reserve	18	63,091	63,091
Foreign currency translation reserve		(26,014)	(24,390)
Investment fair valuation reserve		67,704	41,778
Share based compensation reserve		12,222	5,736
Retained earnings		571,938	470,055
		1,581,927	1,354,432
Minority interest		166,379	146,002
Total equity		1,748,306	1,500,434
Total Liabilities and Equity		4,367,002	3,490,933

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

Asa'ad Ahmed Al Banwan
Chairman

Dr. Saad Hamad Al Barrak
Managing Director - Deputy Chairman

Mobile Telecommunications Company KSC

Consolidated Statement of Income – Year ended 31 December 2007

	Note	2007	2006 (Restated)
			KD '000
Revenue	19	1,677,270	1,297,415
Cost of sales		(361,751)	(274,729)
Gross profit		1,315,519	1,022,686
Distribution, marketing & operating expenses		(470,446)	(336,708)
General and administrative expenses		(153,537)	(115,829)
Depreciation and amortization	11,12	(236,062)	(162,057)
Goodwill written off on disposal of shares in subsidiaries		-	(5,785)
Provision for impairment – trade and other receivables		(3,832)	(2,921)
Operating profit		451,642	399,386
Interest income		26,289	18,254
Investment income	20	21,537	7,810
Share of (loss)/ profit of associates (net)		(3,135)	5,825
Other income		6,092	9,505
Finance cost		(123,586)	(88,084)
Gain from currency revaluation		13,144	3,396
Board of Directors' remuneration		(28)	(28)
Contribution to Kuwait Foundation for Advancement of Sciences		(2,973)	(2,940)
National Labour Support Tax and Zakat	21	(5,447)	(4,323)
Profit for the year before income tax		383,535	348,801
Income tax expense of subsidiaries	22	(40,874)	(34,972)
Profit for the year		342,661	313,829
Attributable to:			
Shareholders of the Parent Company		320,455	294,981
Minority interest		22,206	18,848
		342,661	313,829
		Fils	Fils
Basic earnings per share	23	172	159
Diluted earnings per share	23	171	158

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 2007

	Equity attributable to Parent Company's Shareholders									Minority interest	Total equity
	Share capital	Share premium	Treasury shares	Legal reserve	Voluntary reserve	Foreign currency translation reserve	Investment fair valuation reserve	Share based compensation reserve	Retained earnings		
											KD '000
Balance at 1 January 2007 (restated)	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 recognised income/(loss) for the year	-	-	-	-	-	(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 minority interest share	-	-	-	-	-	-	-	-	-	(363)	(363)
Sale/purchase of shares to/from minority interest (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
Balance at 1 January 2006	109,723	624,465	(15,576)	54,862	54,862	2,352	55,540	-	299,512	32,844	1,218,584
Net exchange differences	-	-	-	-	-	(26,742)	-	-	5	1,965	(24,772)
Realised loss on available-for-sale investments (net)	-	-	-	-	-	-	39	-	-	-	39
Changes in fair value of available-for-sale investments	-	-	-	-	-	-	(13,801)	-	-	-	(13,801)
Share based compensation (Note 25)	-	-	-	-	-	-	-	5,736	-	-	5,736
Net income/ (expense) recognised directly in equity	-	-	-	-	-	(26,742)	(13,762)	5,736	5	1,965	(32,798)
Profit for the year from continuing operations	-	-	-	-	-	-	-	-	294,981	18,848	313,829
Total recognised income for the year	-	-	-	-	-	(26,742)	(13,762)	5,736	294,986	20,813	281,031
Transfer to reserves	-	-	-	8,229	8,229	-	-	-	(16,458)	-	-
Business combinations	-	-	-	-	-	-	-	-	-	96,256	96,256
Sale/purchase of shares to/from minority interest (net)	-	-	-	-	-	-	-	-	-	854	854
Share of put option liability										(1,827)	(1,827)
Issue of bonus shares (2005)	16,459	-	-	-	-	-	-	-	(16,459)	-	-
Cash dividends (2005)	-	-	-	-	-	-	-	-	(91,526)	(2,938)	(94,464)
Balance at 31 December 2006 (restated)	126,182	624,465	(15,576)	63,091	63,091	(24,390)	41,778	5,736	470,055	146,002	1,500,434

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

Consolidated Statement of Cash Flows – Year ended 31 December 2007

	2007	2006 (Restated)
		KD '000
Cash flows from operating activities		
Profit for the year before income tax	383,535	348,801
Adjustments for:		
Depreciation, amortization and goodwill written off	236,062	167,842
Interest income	(26,289)	(18,254)
Investment income	(21,537)	(7,810)
Share of loss/ (profit) of associates	3,135	(5,825)
Finance cost	123,586	88,084
Loss on sale of property and equipment	170	1,062
Profit on sale of subsidiary	-	(268)
Gain from currency revaluation	(13,144)	(3,396)
Operating profit before working capital changes	685,518	570,236
(Increase)/decrease in trade and other receivables	(67,024)	184,466
Increase in inventories	(7,835)	(5,145)
Increase in trade and other payables	90,547	85,896
Increase in other non-current liabilities	12,319	2,287
Cash generated from operations	713,525	837,740
Payments:		
Income tax	(36,895)	(31,146)
Board of Directors' remuneration	(28)	(28)
Kuwait Foundation for Advancement of Sciences	-	(1,851)
National Labour Support Tax	(4,320)	(2,877)
Net cash from operating activities	672,282	801,838
Cash flows from investing activities		
Proceeds from sale of investment securities	1,275	4,144
Acquisition of investments	(4,677)	(7,686)
Acquisition of subsidiaries	(60,920)	(529,441)
Proceeds from sale of subsidiaries	-	268
Investment in associate	(269,306)	(450)
Acquisition of property and equipment (net)	(586,700)	(441,764)
Acquisition of intangible assets	(166,645)	(37,292)
Interest received	26,269	15,879
Dividend received	5,033	4,644
Net cash used in investing activities	(1,055,671)	(991,698)
Cash flows from financing activities		
Proceeds from bank borrowings (net)	603,421	545,451
Loan to an associate	(170,875)	-
Minority shareholder's capital contribution - Bahraini subsidiary	1,527	-
Proceeds from issue of share capital	83	-
Dividends paid	(123,588)	(90,383)
Dividends paid to minority shareholders	(2,875)	(2,938)
Finance cost paid	(123,436)	(92,136)
Net cash from financing activities	184,257	359,994
Net (decrease)/ increase in cash and cash equivalents	(199,132)	170,134
Effects of exchange rate changes on cash and cash equivalents	(13,927)	11,309
Cash and cash equivalents at beginning of year	474,322	292,879
Cash and cash equivalents at end of year (Note 4)	261,263	474,322

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 20 other countries (2006 : Kuwait and 19 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 2007 the Group began rebranding its trade name to "Zain" starting with the Middle East and Sudan. The principal subsidiaries and associates are listed in Note 3.

These consolidated financial statements have been approved for issue by the Board of Directors of the Parent Company on 28 January 2008 and are subject to approval of the shareholders at the forthcoming Annual General Meeting.

2. Basis of preparation and significant accounting policies

2.1 Basis of preparation

These consolidated financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). These 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 revaluation of previously held interests arising from a business combination 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 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 33.

2.2 Adoption of new accounting standards

The accounting policies are consistent with those used in the previous year except that the Group has adopted IFRS 7 Financial Instruments: Disclosures and the amendment to International Accounting Standard (IAS) 1 – Capital disclosures. As a result additional disclosures are made that will enable users to evaluate:

(a) the significance of financial instruments for the Group's financial position and performance; and
(b) the nature and extent of risks arising from financial instruments to which the Group is exposed during the year and at the reporting date, and how the Group manages those risks.

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

IFRS 8 "Operating Segments"

The application of IFRS 8, which will be effective for the annual periods beginning on or after 1 January 2009, will result in disclosure of information to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

IAS 1 "Presentation of Financial Statements" (Revised)

The application of IAS 1 (Revised), which will be effective for the annual periods beginning on or after 1 January 2009, will impact the presentation of financial statements to enhance the usefulness of the information presented.

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

When a business combination is achieved in stages, each exchange transaction is treated separately and the cost of the transaction and fair value information at the date of transaction is used to determine the amount of goodwill associated with the transaction. An adjustment is made to recognise previously held interests at their fair values on the date of the latest exchange transaction which is accounted for as a revaluation.

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

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

2.4 Consolidation

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

Minority interest in an acquiree is stated at the minority's proportion of the net fair value of the identifiable assets, liabilities and contingent liabilities at the date of the original business combination and the minority's share of changes in the equity since the date of the combination. Equity and net income attributable to minority shareholders' interests are shown separately in the balance sheet and statement of income respectively. Minority interest is classified as financial liability to the extent there is an obligation to deliver cash or another financial asset to settle the minority interest.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances based on latest audited financial statements or audited financial information of the subsidiaries. Intra group balances, transactions, income and expenses are eliminated in full. Unrealised losses resulting from inter-company transactions are also eliminated unless cost cannot be recovered.

2.5 Financial instruments

Classification

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

In accordance with 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

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

Measurement

Financial instruments

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

Financial assets at fair value through profit or loss

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 income statement 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, in which case they are classified as "at fair value through profit or loss".

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.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or 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. 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 connection with the business 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 with indefinite useful lives are not subject to amortisation and are tested at least annually for impairment.

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

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

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

2.12 Provisions for liabilities

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

2.13 Share-based payment transactions

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 and rights issues. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

2.16 Accounting for leases

Where the Group is the lessee

Operating leases

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

Finance leases

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

2.17 Revenue

Airtime revenue is recognized based on actual usage. Subscription income is recognized on a time proportion basis. Other revenues primarily comprising of handset equipment and sim card starter pack sales are recognized upon delivery to customers. Interest income is recognized on a time proportion basis 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. Foreign currency transactions are recorded at the rates of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Kuwaiti Dinars at the rates of exchange prevailing on that date. Resultant gains and losses are taken to the statement of income.

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

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

2.20 Discontinued operations

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

2.21 Contingencies

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

3. Subsidiaries and Associates

The principal subsidiaries and associates are:

Subsidiary	Country of Incorporation	Percentage of ownership 2007	2006
Mobile Telecommunications Company International B.V. – "MTCI"	The Netherlands	100%	100%
Pella Investment Company – "Pella"	Jordan	96.516%	96.516%
MTC Vodafone Bahrain B.S.C (Closed) - "MTCB"	Bahrain	56.25%	60%
Mobile Telecommunications Company Lebanon (MTC) S.A.R.L. "MTCL"	Lebanon	100%	100%
Sudanese Mobile Telephone Company Limited (Zain)	Sudan	100%	100%
Associate			
Atheer Telecom Iraq Limited – "Atheer"	Cayman Islands	30%	30%
Mada Leletisalat LLC	Saudi Arabia	50%	-

MTCI holds 100% of Celtel International B.V Netherlands (Celtel) which is a Dutch holding and finance company principally engaged in the business of operating cellular telecommunications networks in 16 (2006 – 15) countries in Africa.

Subsidiary	Country of Incorporation	Percentage of ownership 2007	2006
Celtel Burkina Faso S.A	Burkina Faso	100%	95.71%
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%	84%
Celtel Kenya Limited	Kenya	80%	60%
Celtel Malawi Limited	Malawi	100%	100%
Celtel Niger S.A	Niger	80%	80%
Celtel (S.L) Limited	Sierra Leone	100%	100%
Celtel Limited Uganda	Uganda	100%	100%
Celtel Zambia Limited	Zambia	88.88%	88.88%
Celtel Tanzania Limited	Tanzania	60%	60%
Celtel Madagascar SA	Madagascar	100%	100%
Celtel Nigeria Limited	Nigeria	65%	65%
Western Telesystems Limited	Ghana	75%	-
Special Purpose Entity			
Stichting Celtel International	The Netherlands		

The initial accounting of the business acquisitions of Zain, Sudan and Celtel, Nigeria (formerly Vee Networks Limited) in 2006 were carried out using provisional values of identifiable assets, liabilities and contingent liabilities and the purchase price allocation (PPA) was completed during the year. The Group restated comparative figures as disclosed in Note 34 to give effect to adjustments arising from the PPA.

The vendors of Vee Networks Limited were obliged under the pre-emption right provision of a shareholders agreement to first offer the shares to each other and then to a third party. The vendor offered to the third party its right of use of its pre-emptive rights under the above provisions, but it lapsed since they were unable to provide the finance within the 30 days deadline as specified in the shareholders agreement. The third party has filed a suit in Nigerian Courts to uphold its pre- emption status but Group management believes that it has meritorious defenses. During the year a number of court decisions have been in the Group's favour but a final decision has not been issued.

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.

In August 2007, Atheer Telecom's license to operate in Iraq was renewed for a period of 15 years for a license fee of US$ 1.250 billion. The financial statements of Atheer, whose working capital is in deficit, have been prepared on a going concern basis as its shareholders have committed to provide financial support. In December 2007 Atheer signed an agreement to acquire all of the assets of another mobile operator in Iraq with effect from the close of business on 31 December 2007 for US$ 1.2 billion.

In March 2007, a consortium led by the Parent Company won the bid for the twenty five year, third mobile telecommunications license in the Kingdom of Saudi Arabia for an upfront fee of Saudi Riyals 22.91 billion (equivalent KD 1.77 billion) payable in 2008. A Saudi joint stock company, under the name Saudi Mobile Telecommunications Company (SMTC), with an authorized share capital of Saudi Riyals 14 billion (equivalent to KD 1 billion) is under incorporation, in which, the Parent Company will hold 25% of the voting shares, other members of the bidding consortium 25%, a Saudi state owned organization 10% and the balance 40% will be offered to Saudi nationals in a mandatory initial public offering ("IPO") in early 2008. This license is expected to become operational in early 2008.

The Parent company owns 50% of the voting shares of a Special Purpose Entity, Mada Leletisalat LLC that was incorporated to manage the procedures leading to the formation of SMTC.

In October 2007, the Group signed an agreement with the Government of Ghana to acquire 75% equity interest in Western Telesystems Limited (Westel) for US$ 120 million (equivalent KD 32.8 million). Westel is one of the two national operators based in the Republic of Ghana that is licensed to provide fixed and mobile (GSM) telecommunication services. This transaction received formal approval of the regulatory authorities of the Republic of Ghana on 18 December 2007. Details of this transaction are disclosed in Note 28.

4. Cash and bank balances

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

	2007	2006
		KD '000
Cash on hand and at banks	148,226	371,731
Short-term deposits with banks with original maturities of less than three months	113,037	102,591
Cash and bank balances	261,263	474,322

The effective interest rate on short-term deposits as of 31 December 2007 was 5.25% to 7.38% per annum (2006 – 5.15% to 7.25%).

5. Trade and other receivables

	2007	2006
		KD '000
Trade receivables:		
Customers	39,145	32,927
Distributors	54,943	43,692
Other operators (Interconnect)	68,397	54,171
Roaming partners	8,233	6,306
Provision for impairment	(42,870)	(39,038)
	127,848	98,058
Accrued income	11,664	4,760
Staff	3,915	2,806
Due from an associate	33,958	11,512
Prepayments, advances and deposits	68,891	67,349
	246,276	184,485

As of 31 December 2007, trade receivables of KD 70,028,000 (2006 - KD 63,074,000) 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:

	2007	2006
		KD '000
Up to 3 months	64,327	59,990
3 – 6 months	5,701	3,084
	70,028	63,074

As of 31 December 2007, trade receivables of KD 70,090,000 (2006: KD 45,384,000) were impaired against which the Group carries a provision of KD 42,870,000 as of 31 December 2007 (2006 - KD 39,038,000). The individually impaired receivables mainly relate to 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:

	2007	2006
		KD '000
Kuwaiti Dinar	36,152	22,530
US dollar	93,454	57,053
Euro	11,111	13,057
Others	105,559	91,845
	246,276	184,485

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

	2007	2006
		KD '000
Opening balance - 1 January	39,038	37,510
On acquisition of subsidiaries	-	8,787
Recoveries/Write back of provisions	-	(10,180)
Charge for the year	3,832	2,921
Closing balance – 31 December	42,870	39,038

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. Inventories

	2007	2006
		KD '000
Handsets and accessories	23,628	17,094
Provision for obsolescence	(1,581)	(2,303)
	22,047	14,791

7. Investment securities

	2007	2006
		KD '000
Current investments		
Investment securities at fair value through profit or loss		
Quoted equities	16,487	12,165
Funds	6,515	6,290
	23,002	18,455
Non current investments		
Available for sale		
Quoted equities	113,839	78,546
Funds	43,211	38,408
Unquoted equities	24,110	19,580
Impairment loss	(1,692)	(1,692)
	179,468	134,842

Investment securities are denominated in the following currencies:

	2007	2006
		KD '000
Kuwaiti Dinar	149,208	104,703
US dollar	35,163	33,571
Other currencies	18,099	15,023
	202,470	153,297

Available for sale investments include unlisted securities with original cost of KD 7,558,000 (2006 – KD 7,678,000) carried at cost less impairment since it is not possible to reliably measure their fair value.

During the year the Group recognized an unrealized gain of KD 37,715,000 (2006 – unrealized loss of KD 13,801,000) in investment fair valuation reserve arising from fair valuation of 'available for sale' investments and transferred a gain of KD 11,789,000 (2006 – loss of KD 39,000) from investment fair valuation reserve to the statement of income, arising from disposals.

8. Deferred tax assets/ liabilities

	2007	2006
		KD '000
Deferred tax assets:		
Deferred tax assets to be recovered after more than 12 months	64,542	1,939
Deferred tax assets to be recovered within 12 months	182	38,679
	64,724	40,618
Deferred tax liabilities:		
Deferred tax liability payable after more than 12 months	30,666	9,980
Deferred tax liability payable within 12 months	1,097	-
	31,763	9,980

9. Investments in associates

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

	2007	2006
		KD '000
Opening balance	8,026	236,383
Capital contribution during the year	269,306	450
Share of (loss)/ profit for the year	(3,135)	5,825
Transferred to goodwill	-	(515)
Foreign currency translation adjustment	(14,557)	761
Dividend received	-	(34,126)
Adjustments to identifiable assets and liabilities	-	(189,096)
Adjustment – Zain, Sudan	-	(11,656)
Closing balance	259,640	8,026

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

The aggregate share of associates assets, liabilities, revenue and profit is as follows:

	2007	2006
		KD '000
Assets	152,018	26,336
Liabilities	147,975	19,594
Revenue	47,788	30,572
Net (loss)/profit for the year	(3,135)	5,825

10. Loan to an associate

The Parent Company has granted a loan of USD 625 million to its associate, Atheer under a credit facility agreement at an interest rate of LIBOR + 2.5% .The repayment of principal is allowed at any time free of penalties.

11. Property and equipment

	Land and buildings	Cellular and other equipment	Projects in progress	Total
				KD '000
Cost				
As at 31 December 2006 (as previously reported)	74,258	1,265,829	319,601	1,659,688
Adjustment to provisional values (Note 34)	-	45,525	-	45,525
As at 31 December 2006 – as restated	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
Depreciation				
As at 31 December 2006 (as previously reported)	28,025	541,634	-	569,659
Depreciation pertaining to 2006 (Note 34)	-	4,365	-	4,365
As at 31 December 2006 – as restated	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
Net Book Value				
As at 31 December 2007	46,672	1,100,362	348,568	1,495,602
As at 31 December 2006 (restated)	46,233	765,355	319,601	1,131,189

Additions during the year include amounts arising from acquisition of Westel Ghana. During the year, the useful lives of network equipment of Mobitel Sudan were revised from 5 years to 8 -15 years and accordingly the depreciation for the year was lower by KD 11,534,000 (2006 – Nil).

Property and equipment include vehicles with a net book value of KD 173,000 (2006 – KD 367,000) and KD 572,000 (2006 – Nil) acquired under finance lease by JMTS – Jordan and Mobitel Sudan respectively. It also includes buildings with a net book value equivalent to KD 782,000 (2006 – KD 843,000) acquired under a finance lease by MTCB Bahrain. Projects in progress comprise of cellular and other equipment amounting to KD 328,145,000 (2006 - KD 319,601,000) and buildings amounting to KD 20,423,000 (2006 – Nil).

12. Intangible assets

	Goodwill	Licence fees	Others	Total
				KD '000
Cost				
At 31 December 2006 (as previously reported)	1,363,178	167,695	41,238	1,572,111
Adjustment to provisional values (Note 34)	(48,146)	22,141	3,686	(22,319)
At 31 December 2006 (as restated)	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)
As at 31 December 2007	1,363,775	327,368	43,748	1,734,891
Accumulated amortization				
At 31 December 2006 (as previously reported)	17,322	46,071	3,945	67,338
Adjustment to provisional values (Note 34)	(5,048)	4,217	5,728	4,897
At 31 December 2006 (as restated)	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)
As at 31 December 2007	11,941	69,914	15,781	97,636
Net book value				
As at 31 December 2007	1,351,834	257,454	27,967	1,637,255
As at 31 December 2006 (restated)	1,302,758	139,548	35,251	1,477,557

The residual amortisation periods of licenses range from 2.5 to 14 years.

The adjustments recognised during the current period arise from completion of the purchase price allocation of the business combinations that were effected in 2006 as the initial accounting for those business combinations was determined only provisionally in that year.

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

	2007	2006 (Restated)
		KD '000
Pella Investment Company, Jordan	79,516	79,516
Celtel Burkina Faso S.A	27,735	28,030
Celtel Tchad S.A	26,741	28,326
Celtel Congo (DRC) SARL	102,090	108,140
Celtel Congo S.A	65,081	67,922
Celtel Gabon S.A	90,887	92,661
Celtel Kenya Limited	130,221	106,599
Celtel Malawi Limited	21,254	22,517
Celtel Niger S.A	23,363	24,577
Celtel (S.L) Limited	39,427	41,764
Celtel Limited Uganda	7,147	7,571
Celtel Zambia Limited	74,616	65,409
Celtel Tanzania	17,289	18,231
Celtel, Madagascar	28,623	24,809
Celtel, Nigeria	126,254	134,560
Sudanese Mobile Telephone Company Limited (Zain, Sudan)	452,126	452,126
Westel Ghana	39,464	-
	1,351,834	1,302,758

Impairment testing

The Group determines whether goodwill or intangible assets 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.

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 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.
	Cash flows beyond the five year period have been extrapolated using a growth rate ranging from 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% per annum to 17.3% per annum. Discount rates used are pre-tax and reflect specific risks relating to the relevant CGU.

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.

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. Based on the above analysis, there are no indications that goodwill included in any of the cash generating units is impaired.

13. Other financial assets

	2007	**2006**
		KD '000
Cash held in a restricted foundation account – due to be settled after 12 months	3,135	3,321
Import duties recoverable	3,470	2,826
Deferred consideration on sale of LinkAfrica business	-	471
Others	245	30
	6,850	6,648

14. Trade and other payables

	2007	2006 (Restated)
		KD '000
Trade payables	142,587	102,310
Deferred revenue	63,152	55,955
Due to roaming partners	7,998	2,516
Due to other operators (interconnect)	12,809	22,013
Due to Government of Jordan	14,598	17,858
Provision for income taxes – foreign subsidiaries	60,094	50,422
Kuwait Foundation for the Advancement of Sciences	5,843	3,004
National Labour Support Tax and Zakat	5,449	4,321
Dividend payable	8,616	5,364
Accrued expenses	150,618	115,513
Directors' remuneration	28	28
Due to minority interest holders (Note 16)	8,485	-
Other payables	74,477	48,092
	554,754	427,396

15. Due to banks

	2007	2006
		KD '000
MTC (the Parent Company)		
Short term loans – unsecured	16,427	17,569
Long term loans – unsecured	21,538	40,038
	37,965	57,607
JMTS – Jordan		
Long term loans	30,928	32,672
Notes payable	249	3,078
Finance lease obligations	251	319
	31,428	36,069
MTCB – Bahrain		
Long term loans	17,789	15,634
Finance lease obligations	520	650
	18,309	16,284
Celtel – The Netherlands		
Short term loan	102,959	90,392
Long term loan	333,900	244,360
	436,859	334,752
Mobitel – Sudan		
Long term loan	108,727	-
Finance lease obligations	572	-
	109,299	-
MTCI – The Netherlands		
Islamic finance (Murabaha)	328,080	347,520
Long term loan	1,023,319	589,606
	1,351,399	937,126
	1,985,259	1,381,838

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

	2007	2006
		KD '000
Less than 6 months	1,382,102	937,184
6 – 12 months	83,918	101,624
1 - 5 years	398,038	284,276
Over 5 years	81,891	178
Fixed rate borrowings	39,310	58,576
	1,985,259	1,381,838

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

	2007	2006
		KD '000
US dollar	1,705,394	1,212,972
Euro	108,727	-
Other currencies	171,138	168,866
	1,985,259	1,381,838

The effective interest rate as at 31 December 2007 was 4% to 7.38% (2006 – 4% to 6.85%) 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.

Celtel - Netherlands

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

These facilities include syndicated loans and medium term notes of KD 36,501,000 (2006 - KD 38,504,000) owed by Celtel Kenya Limited of which KD 20,263,000 (2006 : KD 21,464,000) is secured by the assets and shares of Celtel Kenya Limited and KD 12,065,000 (2006 : KD 12,780,000) is guaranteed by a Dutch financial institution.

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

Mobitel

During the year Mobitel obtained a Euro 270 million (KD 108.7 million) Islamic murabaha financing from a consortium of foreign banks. 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 2007 was 7.38% (2006 – Nil). Financial covenants stipulate maximum debt of 3 times EBITDA (Earnings before interest, tax, depreciation and amortization) and ratio of EBITDA to net finance charges is not less than 3:1.

MTCI

In June 2006 MTCI obtained a revolving financing with a limit of US$ 4 billion (KD 1.094 billion) from a consortium of local and foreign banks. 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 (Earnings before Interest, Tax, Depreciation and Amortisation) and ratio of annualized consolidated EBIDTA of not less than 3 times annualized consolidated net interest payable.

In December 2006 MTCI obtained a US$ 1.2 billion (KD 328 million) Islamic Murabaha financing from a foreign bank, which was later refinanced in December 2007 by a consortium of foreign banks. This facility is secured by a guarantee given by the Parent Company. Financial covenants stipulate maximum debt of 4 times consolidated EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation) and ratio of annualized consolidated EBIDTA to annualized net financial charges of not less than 1.

16. Due to minority interest holders

The Group has an obligation to acquire a further 10% interest in Celtel Zambia Limited from one of its local partners (also a shareholder in Celtel). The exercise period of this option ends should Celtel Zambia Limited be listed on a stock exchange. The Group has accounted for this put option as if it had acquired the 10% interest. The assumed purchase price is US$ 98.7 million (KD 26.98 million) (2006 – KD 19.6 million). This assumed price is based on a multiple of EBIDTA that is in the put option contract. This created goodwill US$ 97.6 million (KD 26.68 million) (2006 – KD 17.8 million) after deducting minority interest from the assumed purchase price.

Under the terms of the purchase offer made to the shareholders of Celtel, the Parent Company acquired the minority interest of 15.014% in the equity of Celtel for cash in April 2007.

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

17. Other non-current liabilities

	2007	2006
		KD '000
Customer deposits	4,419	4,947
Post employment benefits	8,661	7,756
Employee share option liability	3,135	3,320
Refundable deposit	12,196	-
	28,411	16,023

18. Share capital and reserves

Share capital (par value of KD 0.100 per share)

	2007	2006
Authorised		
Opening balance	1,261,819,591	1,097,234,427
Bonus shares	630,909,795	164,585,164
Shares approved for 2006 Employee Share Option Plan (ESOP)	2,926,440	-
	1,895,655,826	1,261,819,591
Issued and fully paid up		
Opening balance	1,261,819,591	1,097,234,427
Bonus shares	630,909,795	164,585,164
Shares issued for 2006 ESOP	1,250,195	-
	1,893,979,581	1,261,819,591

In the extraordinary general meeting held on 25 March 2007, the Parent Company's shareholders, approved the increase in authorized share capital and the Amiri Decree approving the increase of authorized share capital was issued on 9 July 2007.

Treasury shares

	2007	2006
Number of shares	35,269,169	23,512,779
Percentage of issued shares	1.86%	1.86%
Market value (KD '000)	134,728	78,062
Cost (KD '000)	15,576	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

The Parent Company's Articles of Association provide for a maximum legal reserve of 50% of its share capital. Accordingly, during the year legal reserve has been appropriated to that extent. 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 does not propose any addition (2006: KD 8,229,000). There is no restriction on distribution of this reserve.

Dividend - 2006

The annual general meeting of shareholders held on 25 March 2007 approved distribution of cash dividends of 100 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 90 fils per share (2006 - 100 fils per share) and bonus shares in the ratio of 50 shares for every 100 shares (2006 – 50 shares for every 100 shares) to the registered shareholders as of the date of the Annual General Meeting.

Rights issue

The Parent Company's Board of Directors has resolved to recommend an increase of the Company's equity by KD 1.2 billion, through a rights issue, at the next Annual General Meeting of shareholders for their approval.

19. Revenue

	2007	2006 (Restated)
		KD '000
Airtime and subscription	1,659,629	1,288,621
Trading income	17,641	8,794
	1,677,270	1,297,415

20. Investment income

	2007	2006
		KD '000
Gain/(loss) on investments at fair value through profit or loss	4,611	(2,888)
Realised gains from available for sale investments	11,893	6,054
Dividend income	5,033	4,644
	21,537	7,810

21. National Labour Support Tax and Zakat

These taxes payable to Kuwait's Ministry of Finance under National Labour Support Law No. 19 of 2000 and Law No. 46 of 2006. Zakat is computed @ 1% of net profit earned from 9 December 2007.

22. Income tax expense of subsidiaries

	2007	2006
		KD '000
JMTS	11,340	12,841
MTCL	516	1,223
Mobitel	1,568	1,668
Celtel	27,450	19,240
	40,874	34,972

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:

	2007	2006 (Restated)
		KD '000
Net profit for the year	320,455	294,981
	Shares	Shares
Number of shares issued and paid-up	1,893,979,581	1,892,729,386
Weighted average number of treasury shares	(35,269,169)	(35,269,169)
	1,858,710,412	1,857,460,217
Effect of dilution (Note 25)	17,367,531	4,342,591
Weighted average number of shares, less treasury shares outstanding during the year adjusted for the effect of dilution	1,876,077,943	1,861,802,808
	Fils	Fils
Basic earnings per share	172	159
Diluted earnings per share	171	158

Basic and diluted earnings per share from operations reported for the previous year were 247 fils and 246 fils, before retroactive adjustment for bonus shares issued in 2007 and the effect of the restatement carried out during the year for business combination accounting (Note 34).

24. Staff costs

	2007	2006
		KD '000
Wages and salaries	141,361	92,796
Share based compensation granted to employees	7,422	11,206
Post employment benefits	5,064	5,542
	153,847	109,544

This is allocated as follows:

	2007	2006
		KD'000
Distribution, marketing & operating expenses	89,170	52,051
General and administrative expenses	64,677	57,493
	153,847	109,544

25. Share-based compensation plans

Kuwait

At an Extraordinary General Meeting held on 29 March 2006 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 shall be provided through a capital increase and issue of new shares or through 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	
	Numbers	Weighted average exercise price	Numbers	Weighted average exercise price
		KD		KD
Granted	2,956,000	0.100	8,700,000	2.656
Adjustment for bonus shares	1,478,000	-	-	
Total	4,434,000	0.067	8,700,000	
Exercised	1,250,195	0.067	-	
Stock options outstanding at 31 Dec 2007	3,183,805	0.067	8,700,000	
Weighted average remaining contractual life (in years)	2		3	
Weighted average share price of options exercised during the year	KD 4.056		-	

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 2007 exercisable from the date of vesting, up to three years from the service date.

Under the 2006 ESOP 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 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 01 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 has granted 8,700,000 options at an exercise price of KD 2.656 per share. The fair value of options granted during the period determined using an option pricing model was KD 0.995 per share. 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 number of outstanding options under the 2007 ESOP as of 31 December 2007 was 8,700,000 shares (2006 – Nil).

The Parent Company recognised total expenses of KD 6,486,000 (2006 - KD 5,736,000) related to equity settled share-based compensation during the year.

26. Segment information

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

	31 December 2007						
	Kuwait	Jordan	Bahrain	Lebanon	Sudan	Sub-Saharan Africa	Total
							KD '000
Segment revenues	359,386	135,316	42,862	17,248	224,823	897,635	1,677,270
Net profit	216,121	32,638	4,679	2,704	74,666	(10,353)	320,455
Segment assets	1,840,763	188,764	57,952	5,526	320,076	2,861,310	5,274,391
Consolidation adjustment							(907,389)
Consolidated assets							**4,367,002**
Segment liabilities	258,834	88,520	35,743	3,399	236,485	2,228,861	2,851,842
Consolidation adjustment							(233,146)
Consolidated liabilities							**2,618,696**
Net assets							**1,748,306**
Capital expenditure Incurred during the year	42,762	5,365	9,728	13	97,193	431,655	586,716
Depreciation and amortisation	22,887	18,965	4,898	9	12,160	177,143	236,062

	31 December 2006 (Restated)						
	Kuwait	Jordan	Bahrain	Lebanon	Sudan	Sub-Saharan Africa	Total
							KD '000
Segment revenues	317,724	141,017	32,380	16,910	193,782	595,602	1,297,415
Net profit/(loss)	141,198	37,944	3,361	2,540	95,876	14,062	294,981
Segment assets	1,527,494	199,960	41,037	5,813	150,553	2,646,265	4,571,122
Consolidation adjustment							(1,080,189)
Consolidated assets							**3,490,933**
Segment liabilities	173,062	94,121	27,673	3,662	84,980	2,093,073	2,476,571
Consolidation adjustment							(486,072)
Consolidated liabilities							**1,990,499**
Net assets							**1,500,434**
Capital expenditure Incurred during the year	27,065	52,691	3,254	41	49,936	345,801	478,788
Depreciation and amortization	21,680	21,100	4,207	6	15,876	104,973	167,842

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:

	2007	2006
		KD '000
Transactions		
Management fees (included in other income)	4,775	5,095
Balances		
Trade and other receivables	72,660	490
Trade and other payables	43,251	27,203
Key management compensation		
Salaries and other short term employee benefits	3,243	1,317
Post-employment benefits	277	132
Share based payments	3,243	2,868

28. Business combination

The Group's acquisition of 75% interest in Westel, Ghana and details of the acquisitions are shown below.

Westel, Ghana

The provisional values assigned to the identifiable assets and liabilities of Westel, Ghana as at the date of acquisition, which will be reviewed within one year of acquisition on finalisation of the Purchase Price Allocation (PPA), are shown below.

	KD'000
Cash and bank	1,241
Trade and other receivables	1,758
Property, plant and equipment	310
Trade and other payables	(10,251)
Intangible assets – Licence	286
Value of net assets	(6,656)
Purchase consideration settled in cash	31,441
Cash and cash equivalents in subsidiary acquired	(1,241)
Cash outflow on acquisition	30,200

Details of net assets acquired and goodwill are as follows:

	KD'000
Purchase Consideration	
- Cash paid	31,441
- Adjustment for retention amount	1,367
Total purchase consideration	32,808
Add: Provisional value of net assets acquired	6,656
Goodwill arising on acquisition	39,464

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

29. Commitments and contingencies

	2007	2006
		KD '000
Capital commitments	489,249	236,688
Capital commitments – share of associates	82,899	7,781
Uncalled share capital of investee companies	7,558	1,003
Letters of credit	5,288	4,318
Letters of guarantee	184,485	15,056

JMTS is a defendant in lawsuits and arbitration proceedings amounting to approximately KD 425,000 (31 December 2006 – KD 3,267,000). 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 liable for 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.

Operating lease commitments – Group as lessee

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

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

	2007	2006
		KD '000
Not later than 1 year	5,868	14,088
Later than 1 year and no later than 5 years	25,646	25,831
Later than 5 years	8,685	10,389
	40,199	50,308

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$ 44,608,000 (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 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
31 December 2006			
Cash and bank balances	474,322	-	-
Trade and other receivables	184,485	-	-
Investment securities	-	18,455	134,842
Other financial assets	6,648	-	-
Total	665,455	18,455	134,842

All financial liabilities as of 31 December 2007 and 31 December 2006 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 Treasury department under policies approved by the Board of Directors. Group Treasury identifies and evaluates financial risks in close co-operation with the Group's operating units. The Board provides written principles 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	2007	2006
		KD '000
U S Dollar	2,573	8,255
Euro	15,039	2,813

(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 on 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 marked index, with all other variables held constant is as follows:

	2007		2006	
Market indices	**Impact on net profit**	**Effect on equity**	**Impact on net profit**	**Effect on Equity**
				KD '000
Kuwait Stock Exchange	825	7,145	608	5,143

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 2007 and 2006, 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 2007 and 2006 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 2007, 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 5,880,000 (2006 : KD 5,108,000)

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.

As at 31 December 2007 the Group's current liabilities exceed current assets and as disclosed in Note 18 the Parent Company plans to increase equity in 2008 by KD 1.2 billion.

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 2007				
Bank borrowings	624,810	247,245	1,459,350	2,357
Trade and other payables	554,754	-	-	-
Due to minority interest holders	18,509	-	-	-
Customer deposits	-	4,419	-	-
Refundable deposit	-	12,196	-	-
Commitments	189,773	-	-	-
At 31 December 2006				
Bank borrowings	568,487	171,341	908,627	194
Trade and other payables	427,396	-	-	-
Due to minority interest holders	155,262	-	-	-
Customer deposits	-	4,947	-	-
Commitments	19,374	-	-	-

31. Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for 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 2007 and at 31 December 2006 were as follows:

	2007	2006
		KD '000
Total borrowings	1,985,259	1,381,838
Less: cash and cash equivalents (Note 4)	261,263	474,322
Net debt	1,723,996	907,516
Total equity	1,748,306	1,500,434
Total capital	3,472,302	2,407,950
Gearing ratio	50%	38%

32. 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.

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.

33. 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 carried 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. 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 above 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 have been determined based on value-in-use calculations. These calculations require the use of estimates and the input factors most sensitive to change have been disclosed in Note 12. Based on analysis performed there are no indications that the carrying value of any CGU exceeds its recoverable amount.

Share based compensation

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

34. Comparative figures

Certain prior year amounts have been reclassified to conform to current year presentation and to give effect to matters stated in Note 3 as follows:

	KD '000
Statement of Income	
Profit for the year 2006 as previously reported	325,326
Adjustments for accounting of business combinations of 2006 based on PPA - amortisation of intangible assets	(11,598)
KFAS adjustments	104
NLST adjustments	(3)
Profit for the year 2006 – restated	313,829

	KD '000
Balance Sheet	
Property and equipment - as previously stated	1,090,029
Adjustments to provisional values	45,525
Depreciation pertaining to the year	(4,365)
Property and equipment – restated	1,131,189
Intangible assets as of 31 December 2006 as previously stated	1,504,773
Amortisation pertaining to 2006	(4,897)
Adjustments to provisional values	(22,319)
Intangible assets – 2006 restated	1,477,557