

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

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

**31 December 2013**

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Mobile Telecommunications Company K.S.C.P. ("the Parent Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

#### *Auditors' Responsibility*

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

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

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

#### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (Continued)

**Report on Other Legal and Regulatory Requirements**

Furthermore, in our opinion proper books of accounts have been kept by the 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 the information that is required by the Companies Law No. 25 of 2012, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 25 of 2012, as amended or of the Parent Company's Memorandum of Incorporation and Articles of Association have occurred during the year ended 31 December 2013 that might have had a material effect on the business of the Group or on its consolidated financial position.



**Bader A. Al-Wazzan**  
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Kuwait  
27 January 2014

Consolidated Statement of Financial Position as at 31 December 2013

	Note	2013	2012
		KD '000	
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and bank balances	4	399,242	302,609
Trade and other receivables	5	350,300	319,109
Inventories	6	14,922	11,906
Investment securities at fair value through profit or loss	7	1,930	2,693
		<u>766,394</u>	<u>636,317</u>
<b>Non-current assets</b>			
Investment securities available for sale	7	46,363	48,659
Investments in associates and joint ventures	8,9	265,197	300,842
Dues from associates	10	271,952	231,875
Other assets	11	18,726	16,186
Property and equipment	12	734,641	699,030
Intangible assets	13	993,667	998,082
		<u>2,330,546</u>	<u>2,294,674</u>
<b>Total Assets</b>		<u><b>3,096,940</b></u>	<u><b>2,930,991</b></u>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Trade and other payables	14	542,566	535,114
Due to banks	15	198,402	270,656
		<u>740,968</u>	<u>805,770</u>
<b>Non-current liabilities</b>			
Due to banks	15	557,319	381,136
Other non-current liabilities	16	35,451	33,331
		<u>592,770</u>	<u>414,467</u>
<b>Equity</b>			
<b>Attributable to Parent Company's shareholders</b>			
Share capital	17	432,268	431,527
Share premium	17	1,706,779	1,705,387
Treasury shares	17	(567,834)	(567,834)
Legal reserve	17	216,134	215,764
Foreign currency translation reserve		(684,716)	(694,184)
Treasury shares reserve		1,967	1,967
Investment fair valuation reserve		2,445	(987)
Share based compensation reserve		5,482	8,808
Hedge reserve		(1,164)	-
Retained earnings		509,296	490,189
		<u>1,620,657</u>	<u>1,590,637</u>
<b>Non-controlling interests</b>		<u>142,545</u>	<u>120,117</u>
<b>Total equity</b>		<u><b>1,763,202</b></u>	<u><b>1,710,754</b></u>
<b>Total Liabilities and Equity</b>		<u><b>3,096,940</b></u>	<u><b>2,930,991</b></u>

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



Asaad Ahmed Al Banwan  
Chairman



M. Scott Gegenheimer  
Chief Executive Officer

Mobile Telecommunications Company K.S.C.P

Consolidated Statement of Profit or Loss – Year ended 31 December 2013

	Note	2013	2012
		KD '000	
Revenue	18	1,240,035	1,281,903
Cost of sales		(351,569)	(365,783)
<b>Gross profit</b>		<b>888,466</b>	<b>916,120</b>
Operating and administrative expenses		(342,923)	(337,191)
Depreciation and amortization	12,13	(194,566)	(193,047)
Provision for impairment – trade and other receivables	5	(7,722)	(8,187)
<b>Operating profit</b>		<b>343,255</b>	<b>377,695</b>
Interest income		18,095	16,994
Investment income	19	1,972	(8,811)
Share of results of associates and joint ventures	8,9	(36,159)	(31,574)
Other (expense)/income		(7,860)	14,588
Finance costs		(23,548)	(26,384)
Loss from currency revaluation		(24,911)	(8,517)
Board of Directors' remuneration		(430)	(430)
Contribution to Kuwait Foundation for Advancement of Sciences		(1,467)	(2,611)
National Labour Support Tax and Zakat	20	(7,250)	(10,151)
Profit for the year before income tax		261,697	320,799
Income tax expenses	21	(17,756)	(40,607)
<b>Profit for the year</b>		<b>243,941</b>	<b>280,192</b>
<b>Attributable to:</b>			
Shareholders of the Parent Company		216,445	252,145
Non-controlling interests		27,496	28,047
		<b>243,941</b>	<b>280,192</b>
<b>Earnings per share (EPS)</b>	22		
Basic – Fils		56	65
Diluted – Fils		56	65

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

**Consolidated Statement of Profit or Loss and Other Comprehensive Income – Year ended 31 December 2013**

	<b>2013</b>	<b>2012</b>
	<b>KD '000</b>	
<b>Profit for the year</b>	243,941	280,192
<b>Other comprehensive income:</b>		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translating foreign operations	10,028	(479,057)
Net unrealised gain/(loss) on available-for-sale investments	3,655	(2,076)
Net (gain)/loss transferred to consolidated statement of profit or loss on sale of available-for-sale investments (net of impairment losses)	(223)	11,135
Cash flow hedges	(1,164)	849
Total comprehensive income for the year	<u>256,237</u>	<u>(188,957)</u>
Total comprehensive income attributable to:		
Shareholders of the Parent Company	228,181	(218,067)
Non-controlling interests	28,056	29,110
	<u><b>256,237</b></u>	<u><b>(188,957)</b></u>

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

Mobile Telecommunications Company K.S.C.P

Consolidated Statement of Changes in Shareholders' Equity – Year ended 31 December 2013

	Equity attributable to Parent Company's shareholders											Non-controlling interests	Total
	Share capital	Share premium	Treasury shares	Legal reserve	Foreign currency translation reserve	Treasury shares reserve	Equity issue transaction costs	Investment fair valuation reserve	Share based compensation reserve	Hedge reserve	Retained earnings		
	<b>KD '000</b>												
Balance at 1 January 2013	431,527	1,705,387	(567,834)	215,764	(694,184)	1,967	-	(987)	8,808	-	490,189	120,117	1,710,754
Transfer to reserves	-	-	-	370	-	-	-	-	-	-	(370)	-	-
Purchase of non-controlling interest (note 3)	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise of share options	741	1,392	-	-	-	-	-	-	(108)	-	-	-	2,025
Cash dividends (2012)	-	-	-	-	-	-	-	-	-	-	(194,789)	(3,297)	(198,086)
Equity issue transaction costs	-	-	-	-	-	-	(7,375)	-	-	-	-	(2,331)	(9,706)
Share based compensation	-	-	-	-	-	-	-	-	1,978	-	-	-	1,978
Transfer to retained earnings	-	-	-	-	-	-	7,375	-	(5,196)	-	(2,179)	-	-
Total comprehensive income for the year	-	-	-	-	9,468	-	-	3,432	-	(1,164)	216,445	28,056	256,237
Balance at 31 December 2013	<u>432,268</u>	<u>1,706,779</u>	<u>(567,834)</u>	<u>216,134</u>	<u>(684,716)</u>	<u>1,967</u>	<u>-</u>	<u>2,445</u>	<u>5,482</u>	<u>(1,164)</u>	<u>509,296</u>	<u>142,545</u>	<u>1,763,202</u>
Balance at 1 January 2012	430,754	1,703,351	(567,834)	215,377	(214,064)	1,967	(1,760)	(10,046)	7,141	(849)	516,453	125,048	2,205,538
Transfer to reserves	-	-	-	387	-	-	-	-	-	-	(387)	-	-
Purchase of non-controlling interest (note 3)	-	-	-	-	-	-	-	-	-	-	(22,903)	(13,275)	(36,178)
Exercise of share options	773	2,036	-	-	-	-	-	-	-	-	-	-	2,809
Cash dividends (2011)	-	-	-	-	-	-	-	-	-	-	(252,710)	(20,766)	(273,476)
Equity issue transaction costs	-	-	-	-	-	-	(3,834)	-	-	-	-	-	(3,834)
Share based compensation	-	-	-	-	-	-	-	-	4,852	-	-	-	4,852
Transfer to retained earnings	-	-	-	-	-	-	5,594	-	(3,185)	-	(2,409)	-	-
Total comprehensive income for the year	-	-	-	-	(480,120)	-	-	9,059	-	849	252,145	29,110	(188,957)
Balance at 31 December 2012	<u>431,527</u>	<u>1,705,387</u>	<u>(567,834)</u>	<u>215,764</u>	<u>(694,184)</u>	<u>1,967</u>	<u>-</u>	<u>(987)</u>	<u>8,808</u>	<u>-</u>	<u>490,189</u>	<u>120,117</u>	<u>1,710,754</u>

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

## Consolidated Statement of Cash Flows – Year ended 31 December 2013

	2013	2012
	<u>KD '000</u>	
<b>Cash flows from operating activities</b>		
Profit for the year before income tax	261,697	320,799
Adjustments for:		
Depreciation and amortization	194,566	193,047
Interest income	(18,095)	(16,994)
Investment income	(1,972)	8,811
Share of results of associates and joint ventures	36,159	31,574
Finance costs	23,548	26,384
Loss from currency revaluation	24,911	8,517
Gain on sale of property and equipment	(432)	(457)
<i>Operating profit before working capital changes</i>	<u>520,382</u>	<u>571,681</u>
Increase in trade and other receivables	(28,945)	(69,785)
(Increase)/decrease in inventories	(3,235)	5,181
Provisions used	(12,832)	(7,524)
Increase in trade and other payables	15,252	34,895
<i>Cash generated from operations</i>	<u>490,622</u>	<u>534,448</u>
<i>Payments:</i>		
Income tax	(14,098)	(36,419)
Board of Directors' remuneration	(430)	(430)
Kuwait Foundation for Advancement of Sciences (KFAS)	(5,058)	(5,058)
National Labour Support Tax and Zakat	(4,646)	(4,983)
<i>Net cash from operating activities</i>	<u>466,390</u>	<u>487,558</u>
<b>Cash flows from investing activities</b>		
Deposits maturing after three months and bank balances blocked (note 4)	(2,867)	(95,071)
Investments in subsidiaries	-	(28,531)
Proceeds from sale of investment securities	6,443	21,063
Investments in securities	(545)	(4,753)
Investments in associates/joint ventures	-	(97,696)
Acquisition of property and equipment (net)	(171,078)	(161,532)
Acquisition of intangible assets	(55,450)	(28,422)
Interest received	5,358	16,994
Dividends received	539	1,288
<i>Net cash used in investing activities</i>	<u>(217,600)</u>	<u>(376,660)</u>
<b>Cash flows from financing activities</b>		
Proceeds from bank borrowings	596,069	484,060
Repayment of bank borrowings	(494,578)	(380,949)
Loan to associates	(24,230)	(70,883)
Capital contribution including share premium – employees stock option	2,025	2,809
Dividends paid	(194,005)	(252,884)
Dividends paid to non-controlling interests	(3,274)	(18,838)
Finance costs paid	(36,597)	(20,774)
<i>Net cash used in financing activities</i>	<u>(154,590)</u>	<u>(257,459)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	94,200	(146,561)
Effects of exchange rate changes on cash and cash equivalents	(434)	(50,665)
Cash and cash equivalents at beginning of year	<u>188,921</u>	<u>386,147</u>
Cash and cash equivalents at end of year (note 4)	<u><u>282,687</u></u>	<u><u>188,921</u></u>

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

**1. Incorporation and activities**

Mobile Telecommunications Company K.S.C.P (the Parent Company) is a Kuwaiti shareholding company incorporated in 1983. 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 8 other countries (31 December 2012 - Kuwait and 8 other countries) under licenses from the governments of the countries in which they operate; purchase, deliver, install, manage and maintain mobile telephone and paging systems; and invest surplus funds in investment securities.

These consolidated financial statements were authorized and approved for issue by the Board of Directors of the Parent Company on 27 January 2014 and are subject to approval of the shareholders at their forthcoming Annual General Meeting.

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

**2.1 Basis of preparation**

These consolidated financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). These consolidated financial statements are prepared under the historical cost basis of measurement as modified by the revaluation at fair value of financial assets held as “at fair value through profit or loss”, “available for sale” and “derivative financial instruments”. These consolidated financial statements have been presented in Kuwaiti Dinars, rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent assets and contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a high degree of judgment or complexity or areas where assumptions and estimates are significant to these consolidated financial statements are disclosed in note 31.

**2.2 New and revised accounting standards**

**Effective for the current year**

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

**IFRS 7: Disclosures — Offsetting Financial Assets and Financial Liabilities (Amendments)**

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The adoption of these amendments has not resulted in any material impact on the consolidated financial statements of the Group.

**IFRS 10: Consolidated Financial Statements**

IFRS 10 replaces the consolidation guidance in IAS 27 ‘Consolidated and Separate Financial Statements’ and SIC-12 Consolidation - Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, control is based on whether an investor has 1) power over the investee; 2) exposure or rights, to variable returns from its involvement with the investee and 3) the ability to use its power over the investee to affect the amount of the returns. The adoption of this Standard has not resulted in any material impact on the financial position or performance of the Group.

IFRS 11: Joint Arrangements

IFRS 11 replaces IAS 31: Interest in Joint Ventures, and the guidance contained in a related interpretation SIC - 13 Jointly Controlled Entities –Non monetary Contribution by Ventures, has been incorporated in IAS 28 (as revised in 2011). IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under IFRS 11, there are only two types of arrangement-joint operations and joint ventures. The classification of joint arrangements under IFRS 11 is determined based on the rights and obligations of the parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant other factors and circumstances. The adoption of this standard has not resulted in any material impact on the financial position or performance of the Group.

IFRS 12: Disclosure of Involvement with Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries, for example, where a subsidiary is controlled with less than a majority of voting rights. The adoption of this Standard has not resulted in any material additional disclosures.

IFRS 13: Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Group re-assessed its policies for measuring fair values. IFRS 13 also requires additional disclosures.

Application of IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined.

IAS 1: Financial Statement Presentation - Presentation of Items of Other Comprehensive Income (Amendment)

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income. Items that will be reclassified ('recycled') to profit or loss at a future point in time have to be presented separately from items that will not be reclassified. The adoption of this Standard has no effect on the financial position or performance of the Group.

IAS 1: Clarification of the requirement for comparative information (Amendment)

The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. As a result, the Group has not included any additional voluntarily comparative information in its consolidated financial statements. The amendments have no impact on the Group's financial position or performance.

IAS 19: Employee Benefits (Amendment)

IAS 19 includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures. The adoption of this Standard has no material effect on the financial position or performance of the Group.

IAS 27: Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements.

IAS 32: Tax effects of distributions to holders of equity instruments (Amendment)

The amendment to IAS 32 Financial Instruments: Presentation clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment did not have an impact on the consolidated financial information for the Group, as there are no tax consequences attached to cash or non-cash distribution.

**Issued but not yet effective**

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

IFRS 9: Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but is not expected to have on financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final Standard including all phases is issued. The mandatory effective date of the standard has been deferred until the issue date of the completed version of IFRS 9 is known.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after 1 January 2014 and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under IFRS 10.

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

The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments which becomes effective from annual periods beginning on or after 1 January 2014 is not expected to impact the Group's financial position or performance.

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

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied.

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

**2.3 Business combinations**

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

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

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

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

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

## 2.4 Consolidation

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

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

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

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

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

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

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

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

## 2.5 Financial instruments

### Classification

In the normal course of business the Group uses financial instruments, principally cash, deposits, receivables, investments, payables, due to banks and derivatives. In accordance with International Accounting Standard (IAS) 39, the Group classifies financial assets as “at fair value through profit or loss”, “loans and receivables” or “available for sale”. All financial liabilities are classified as “other than at fair value through profit or loss”.

### Recognition/derecognition

A financial asset or a financial liability is recognized when the Group becomes a party to the contractual provisions of the instrument. A financial asset (in whole or in part) is derecognized when the contractual rights to receive cash flows from the financial asset has expired or the Group has transferred substantially all risks and rewards of ownership and has not retained control. If the Group has retained control, it continues to recognize the financial asset to the extent of its continuing involvement in the financial asset.

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

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

### Measurement

#### *Financial instruments*

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

#### *Financial assets at fair value through profit or loss*

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

#### *Loans and receivables*

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

#### *Available for sale*

These are non-derivative financial assets not included in any of the above classifications and principally acquired to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. These are subsequently measured and carried at fair value and any resultant gains or losses are recognized in the consolidated statement of comprehensive income. When the “available for sale” asset is disposed of or impaired, the related accumulated fair value adjustments are transferred to the consolidated statement of profit or loss as gains or losses.

#### *Financial liabilities/equity*

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

*Financial guarantees*

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

**Derivative financial instruments and hedging activities**

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Derivatives with positive fair values (unrealised gains) are included in other receivables and derivatives with negative fair values (unrealised losses) are included in other payables in the consolidated statement of financial position. For hedges, which do not qualify for hedge accounting and for “held for trading” derivatives, any gains or losses arising from changes in the fair value of the derivative are taken directly to the consolidated statement of profit or loss. For hedge accounting, the Group designates derivatives as either hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge) or hedges of a net investment in a foreign operation (net investment hedge).

*Fair value hedge*

In relation to fair value hedges, which meet the conditions for hedge accounting, any gain or loss from re-measuring the hedging instrument to fair value is recognized in ‘Other receivables’ or ‘Other payables’ and in the consolidated statement of profit or loss. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognized in the consolidated statement of profit or loss.

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

*Cash flow hedge*

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

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

*Net investment hedge*

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

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

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

### **Impairment**

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset or a group of similar assets may be impaired. If such evidence exists, the asset is written down to its recoverable amount. The recoverable amount of an interest bearing instrument is determined based on the net present value of future cash flows discounted at original effective interest rates; and of an equity instrument is determined with reference to market rates or appropriate valuation models. Any impairment loss is recognised in the consolidated statement of profit or loss. For “available for sale” equity investments, reversals of impairment losses are recorded as increases in fair valuation reserve through equity.

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

### **2.6 Cash and cash equivalents**

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

### **2.7 Inventories**

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

### **2.8 Income taxes**

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

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

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

Deferred tax assets are recognized for all 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 statement of financial position date and reduced to the extent that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised.

### **2.9 Investments in associates**

Associates are those entities over which the Group has significant influence but not control, generally accompanying a direct or indirect shareholding of more than 20% of the voting rights. The excess of the cost of investment over the Group’s share of the net fair value of the associate’s identifiable assets and liabilities is recognised as goodwill. Goodwill on acquisition of associates is included in the carrying values of investments in associates. Investments in associates are initially recognised at cost and are subsequently accounted for by the equity method of accounting from the date of significant influence to the date it ceases.

Under the equity method, the Group recognises in the consolidated statement of profit or loss, its share of the associate’s post acquisition results of operations and in equity, its share of post acquisition movements in reserves that the associate directly recognises in equity. The cumulative post acquisition adjustments, and any impairment, are directly adjusted against the carrying value of the associate. Appropriate adjustments such as depreciation, amortisation and impairment losses are made to the Group’s share of profit or loss after acquisition to account for the effect of fair value adjustments made at the time of acquisition.

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

**2.10 Interests in joint ventures**

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

**2.11 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:

	<b>Years</b>
Buildings and leasehold improvements	2 - 20
Cellular and other equipment	3 - 15
Aircraft	8 - 10
Furniture and fixtures	1 - 25

These assets are reviewed periodically for impairment. If there is an indication that the carrying value of an asset is greater than its recoverable amount, the asset is written down to its recoverable amount and the resultant impairment loss is taken to the consolidated statement of profit or loss. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

**2.12 Intangible assets and goodwill**

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

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

**Indefeasible Rights of Use (IRU)**

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

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

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

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

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

#### **2.13 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.

#### **2.14 Share-based payment transactions**

The Group operates an equity settled share based compensation plan. The cost of these share based transactions is measured at fair value at the date of the grant taking into account the terms and conditions upon which the instruments were granted. The fair value of these options excludes non-market vesting conditions, which are included in assumptions about the number of options that are expected to vest. The fair value is expensed over the vesting period with recognition of a corresponding adjustment in the consolidated statement of comprehensive income. It recognizes the impact of the revision to the original estimates, if any in the consolidated statement of profit or loss, with a corresponding increase or decrease in the consolidated statement of comprehensive income.

#### **2.15 Post employment benefits**

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

#### **2.16 Treasury shares**

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

#### **2.17 Accounting for leases**

*Where the Group is the lessee*

Operating leases

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

#### Finance leases

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

### 2.18 Revenue

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

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

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

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

### 2.19 Borrowing costs

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

### 2.20 Foreign currencies

The functional currency of an entity is the currency of the primary economic environment in which it operates and in the case of the Parent Company it is the Kuwaiti Dinar and in the case of subsidiaries it is their respective national currencies or the applicable foreign currency. Foreign currency transactions are recorded at the rates of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated to Kuwaiti Dinars at the rates of exchange prevailing on that date. Resultant gains and losses are taken to the consolidated statement of profit or loss.

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

The income and cash flow statements of foreign operations are translated into the Parent Company's reporting currency at average exchange rates for the year and their statement of financial position are translated at exchange rates ruling at the year-end. Exchange differences arising from the translation of the net investment in foreign operations (including goodwill, long term receivables or loans and fair value adjustments arising on business combinations) are taken to the consolidated statement of comprehensive income. When a foreign operation is sold, any resultant exchange differences are recognized in the consolidated statement of profit or loss as part of the gain or loss on sale.

### 2.21 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 off. 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 operation.

**2.22 Contingencies**

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

**3. Subsidiaries and Associates**

The principal subsidiaries and associates are:

<b>Subsidiary</b>	<b>Country of incorporation</b>	<b>Percentage of ownership</b>	
		<b>2013</b>	<b>2012</b>
Zain International B.V. – “ZIBV”	The Netherlands	100%	100%
Pella Investment Company – “Pella”	Jordan	96.516%	96.516%
Zain Bahrain B.S.C (Closed) - “MTCB”	Bahrain	56.25%	56.25%
Mobile Telecommunications Company Lebanon (MTC) S.A.R.L. “MTCL”	Lebanon	100%	100%
Sudanese Mobile Telephone (Zain) Company Limited “Zain Sudan”	Sudan	100%	100%
South Sudanese Mobile Telephone (Zain) Company Limited “Zain South Sudan”	South Sudan	100%	100%
Al Khatem Telecom Company –(Al Khatem)	Iraq	76%	-
Atheer Telecom Iraq Limited – “Atheer”	Cayman Islands	76%	76%
Al Mouakhaa Lil Kadamat Al-Logistya Wal Al-Itisalat	Jordan	99.1%	99.1%
<b>Associate</b>			
Mobile Telecommunications Company (“SMTC”)	Saudi Arabia	37.045%	37.045%
Wana Corporate S.A (associate of a joint venture, Zain Al Ajjal S.A)	Morocco	15.5%	15.5%

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

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

**Al Khatem/Atheer**

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

In 2012, the Group acquired an additional 4.333% equity interest in Atheer from a non- controlling interest holder for a consideration of US\$ 130 million (KD 36 million). The difference between the consideration paid and the carrying value of the shares acquired is recorded in equity.

**Zain Bahrain**

In accordance with the terms of the telecom license agreement with the Telecommunications Regulatory Authority of the Kingdom of Bahrain, Zain Bahrain is required to make an IPO of its shares in Bahrain and the process is now ongoing.

**Zain South Sudan**

The Group provides telecom services in South Sudan through Zain South Sudan and is awaiting the issue of a formal telecom license. In the opinion of Group management the political developments that took place in the year are not likely to have an adverse impact, as there has been no significant disruptions to its operations, and has relied on its management information for consolidation of Zain South Sudan in these consolidated financial statements.

**Financial support to Group companies**

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

**4. Cash and bank balances**

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

	<b>2013</b>	<b>2012</b>
	<b>KD '000</b>	
Cash on hand and at banks	242,983	182,485
Short-term deposits with banks	155,753	116,102
Government certificates of deposits held by subsidiaries	506	4,022
	<u>399,242</u>	<u>302,609</u>
Less:		
Bank balances blocked (refer note 26)	(112,068)	(107,319)
Cash at bank under lien	(3,981)	-
Government certificates of deposits held by subsidiaries	(506)	(4,022)
Deposits with maturities exceeding three months	-	(2,347)
	<u>282,687</u>	<u>188,921</u>

The effective interest rate on deposits as of 31 December 2013 was 0.28% to 16.5% (2012 – 0.3% to 10%) per annum.

**5. Trade and other receivables**

	<b>2013</b>	<b>2012</b>
	<b>KD '000</b>	
Trade receivables:		
Customers	77,964	71,090
Distributors	8,230	10,406
Other operators (interconnect)	24,885	23,106
Roaming partners	12,091	11,464
Provision for impairment	(40,845)	(34,810)
	<u>82,325</u>	<u>81,256</u>
Other receivables:		
Accrued income	5,310	2,680
Staff	2,703	1,853
Prepayments, advances and other deposits	126,921	100,942
Others (refer note below)	133,632	132,969
Provision for impairment	(591)	(591)
	<u>267,975</u>	<u>237,853</u>
	<u>350,300</u>	<u>319,109</u>

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

As of 31 December 2013, trade receivables of KD 32,619,000 (2012 - KD 36,770,000) were neither past due nor impaired. Trade receivables of KD 49,706,000 (2012 - KD 43,301,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. These trade receivables are uncollateralized and are due as follows:

	<b>2013</b>	<b>2012</b>
	<b>KD '000</b>	
Up to 3 months	17,953	11,051
3 – 6 months	10,110	14,856
6 – 12 months	9,379	3,273
More than 12 months	12,264	14,121
	<u>49,706</u>	<u>43,301</u>

Notes to the Consolidated Financial Statements – 31 December 2013

As of 31 December 2013, trade and other receivables of KD 40,845,000 (2012 - KD 35,995,000) were impaired against which the Group carries a provision of KD 40,845,000 (2012- KD 34,810,000). The individually impaired receivables mainly relate to post paid customers. It has been assessed that a portion of the impaired receivables is expected to be recovered.

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

	<b>2013</b>	<b>2012</b>
	<b>KD '000</b>	
Kuwaiti dinar	47,326	50,791
US dollar	163,000	169,636
Euro	2,916	3,157
Bahraini dinar	12,741	22,574
Sudanese pound	19,645	24,648
Jordanian dinar	27,658	13,873
Others	77,014	34,430
	<u>350,300</u>	<u>319,109</u>

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

	<b>2013</b>	<b>2012</b>
	<b>KD '000</b>	
Opening balance - 1 January	35,401	32,450
On acquisition of a subsidiary	-	177
Write off (net)	(1,687)	(5,413)
Charge for the year	7,722	8,187
Closing balance – 31 December	<u>41,436</u>	<u>35,401</u>

**6. Inventories**

	<b>2013</b>	<b>2012</b>
	<b>KD '000</b>	
Handsets and accessories	16,800	13,130
Provision for obsolescence	(1,878)	(1,224)
	<u>14,922</u>	<u>11,906</u>

**7. Investment securities**

	<b>2013</b>	<b>2012</b>
	<b>KD '000</b>	
<i>Current investments</i>		
<i>At fair value through profit or loss</i>		
Quoted equities	1,930	2,693
<i>Non-current investments</i>		
<i>Available for sale</i>		
Quoted equities	27,104	27,285
Funds	11,511	13,640
Unquoted equities	7,748	7,734
	<u>46,363</u>	<u>48,659</u>

Investment securities are denominated in the following currencies:

	<b>2013</b>	<b>2012</b>
	<b>KD '000</b>	
Kuwaiti dinar	35,616	39,222
US dollar	4,080	4,365
Other currencies	8,597	7,765
	<u>48,293</u>	<u>51,352</u>

**8. Investments in associates**

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

Summarized financial information of SMTC

	<b>2013</b>	<b>2012</b>
	<b>KD '000</b>	
Current assets	249,599	328,052
Non-current assets	1,726,419	1,770,364
Current liabilities	288,105	1,153,499
Non-current liabilities	1,178,986	311,872
Net asset of SMTC	508,927	633,045
Revenue	491,151	462,183
Loss	(124,723)	(130,485)
Total comprehensive income	(3,142)	-
Proportion Group's ownership interest in SMTC	37.045%	37.045%
Group's share of SMTC's net assets	188,533	234,513
Goodwill	11,569	11,510
Carrying amount of Group' interest in SMTC	<u>200,102</u>	<u>246,023</u>

As at 31 December 2013 the fair value of the Group's investment in SMTC, being its quoted market share price on the Saudi Stock Exchange, was KD 280,204,000 (2012 – KD 236,758,000).

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

The Parent Company's shareholding in SMTC is pledged to the associate's murabaha lenders as continuing security for the payment and discharge in full by SMTC of the US\$ 2.3 billion syndicated murabaha debt that fully matures in 2018. Under the murabaha financing agreement, SMTC must also obtain prior written consent of the lenders to declare any dividend or other distribution in cash or in kind to shareholders, modify any shareholder loan agreement or to make any payment under a shareholder loan agreement.

SMTC's independent auditor's modified review report dated 19 January 2014 draws attention to its net loss for the year and the accumulated deficit and states that its financial statements for the year ended 31 December 2013 have been prepared on a going concern basis as its management believes it will be successful in meeting its target business plans and its obligations in the normal course of operations.

**9. Interest in a joint venture**

The Group incorporated a joint venture, Zain Al Ajial S.A. in the Kingdom of Morocco in 2009 which then acquired 31% of the equity shares and voting rights of Wana Corporate, (a Moroccan joint stock company which is specialized in the telecom sector in that country). The Group's share of profit for the year in the joint venture amounting to KD 10,045,000 (2012 - KD 9,479,000) has been recognized in the consolidated statement of profit or loss.

The carrying value of this joint venture and its results for the year are determined by Group management using the equity method based on management information provided by Wana Corporate.

**10. Dues from associates**

	<b>2013</b>	<b>2012</b>
	<b>KD '000</b>	
Loans	170,478	145,832
Others	101,474	86,043
	<u>271,952</u>	<u>231,875</u>

These amounts are due from SMTC. Loans are denominated in United States Dollar - KD 133.638 million (2012 - KD 108.99 million) and KD 36.84 million (KD 2012 – 36.84 million) at an effective interest rate of 6.75% and 4.25% per annum over six and three months Saudi Inter-Bank Offered Rate (SIBOR) respectively. These amounts, which include management fees and the interest on the loans, are subordinate to SMTC's borrowings from banks (refer note 8).

**11. Other assets**

This includes US\$ 40 million; equivalent to KD 11 million (2012 – KD 11 million) receivable from a founding shareholder in SMTC secured by an agreement to transfer to the Group, the founding shareholder's shares in SMTC. In 2013 the Group won a legal action for its recovery and is pursuing further legal action for its implementation.

**12. Property and equipment**

	<b>Land and buildings and leasehold improvements</b>	<b>Cellular and other equipment</b>	<b>Projects in progress</b>	<b>Total</b>
	<b>KD '000</b>			
<b>Cost</b>				
As at 31 December 2011	69,201	1,391,251	146,153	1,606,605
Additions	1,761	53,048	131,815	186,624
Transfers	2,252	101,657	(103,909)	-
On acquisition of a subsidiary	-	9,378	-	9,378
Adjustments	(27)	(17,563)	-	(17,590)
Disposals	(59)	(9,136)	(1,480)	(10,675)
Exchange adjustment	(3,031)	(174,680)	(51,556)	(229,267)
<b>As at 31 December 2012</b>	<b>70,097</b>	<b>1,353,955</b>	<b>121,023</b>	<b>1,545,075</b>
Additions	10,854	126,455	61,713	199,022
Transfers	2,723	85,389	(88,112)	-
On acquisition of a subsidiary	-	-	-	-
Adjustments	-	-	-	-
Disposals	(11)	(167,243)	(4)	(167,258)
Write off	-	(43,463)	-	(43,463)
Exchange adjustment	433	3,743	1,768	5,944
<b>As at 31 December 2013</b>	<b>84,096</b>	<b>1,358,836</b>	<b>96,388</b>	<b>1,539,320</b>
<b>Accumulated depreciation</b>				
As at 31 December 2011	33,190	777,771	-	810,961
Charge for the year	2,833	128,113	-	130,946
On acquisition of a subsidiary	-	2,601	-	2,601
On disposals	(53)	(8,416)	-	(8,469)
Adjustments	(27)	(17,563)	-	(17,590)
Exchange adjustment	(346)	(72,058)	-	(72,404)
<b>As at 31 December 2012</b>	<b>35,597</b>	<b>810,448</b>	<b>-</b>	<b>846,045</b>
Charge for the year	2,966	125,608	-	128,574
On acquisition of a subsidiary	-	-	-	-
On disposals	(8)	(126,964)	-	(126,972)
Write off	-	(43,414)	-	(43,414)
Adjustments	(221)	-	-	(221)
Exchange adjustment	192	475	-	667
<b>As at 31 December 2013</b>	<b>38,526</b>	<b>766,153</b>	<b>-</b>	<b>804,679</b>
<b>Net Book Value</b>				
<b>As at 31 December 2013</b>	<b>45,570</b>	<b>592,683</b>	<b>96,388</b>	<b>734,641</b>
<b>As at 31 December 2012</b>	<b>34,500</b>	<b>543,507</b>	<b>121,023</b>	<b>699,030</b>

## 13. Intangible assets

	Goodwill	Licence fees	Others	Total KD '000
<b>Cost</b>				
As at 31 December 2011	905,339	474,668	61,917	1,441,924
On acquisition of a subsidiary	6,396	4,020	-	10,416
Other additions	-	-	28,410	28,410
Adjustments	-	-	14,668	14,668
Exchange adjustments	(211,763)	(31,525)	542	(242,746)
<b>At 31 December 2012</b>	<b>699,972</b>	<b>447,163</b>	<b>105,537</b>	<b>1,252,672</b>
Other additions	-	-	55,001	55,001
Exchange adjustments	3,709	3,482	416	7,607
<b>As at 31 December 2013</b>	<b>703,681</b>	<b>450,645</b>	<b>160,954</b>	<b>1,315,280</b>
<b>Accumulated amortization and impairment losses</b>				
As at 31 December 2011	11,942	131,397	42,491	185,830
On acquisition of a subsidiary	-	1,251	-	1,251
Charge for the year	-	29,788	32,313	62,101
Adjustments	-	-	9,946	9,946
Exchange adjustments	-	(4,974)	436	(4,538)
<b>At 31 December 2012</b>	<b>11,942</b>	<b>157,462</b>	<b>85,186</b>	<b>254,590</b>
Charge for the year	-	29,330	36,662	65,992
Exchange adjustments	-	707	324	1,031
<b>As at 31 December 2013</b>	<b>11,942</b>	<b>187,499</b>	<b>122,172</b>	<b>321,613</b>
<b>Net book value</b>				
<b>As at 31 December 2013</b>	<b>691,739</b>	<b>263,146</b>	<b>38,782</b>	<b>993,667</b>
<b>As at 31 December 2012</b>	<b>688,030</b>	<b>289,701</b>	<b>20,351</b>	<b>998,082</b>

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

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

	License expiry date	2013	2012
		KD '000	
Pella Investment Company, Jordan	February 2026	79,516	79,516
Zain Bahrain B.S.C (Closed), Bahrain	September 2028	-	-
Sudanese Mobile Telephone Company Limited (Zain, Sudan)	February 2029	179,645	178,075
Atheer Telecom Iraq Limited, Cayman Islands	September 2022	426,177	424,063
Al Mouakhah Lil Khadamat Al-Logisteih Wa Al-Itisalat	December 2021	6,401	6,376
		<b>691,739</b>	<b>688,030</b>

## Impairment testing

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

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

**Key assumption Basis used to determine value to be assigned to key assumption**

Growth rate	<p>Increase in competition expected but no significant change in market share of any CGU as a result of ongoing service quality improvements and expected growth in market penetration but excluding that from improving or enhancing the asset's performance.</p> <p>Average revenue in the period immediately before budget period increased each year for anticipated growth in revenue of up to 7.9% (2012 – 7.9%). Value assigned reflects past experience and changes in economic environment.</p> <p>Cash flows beyond the four year period have been extrapolated using a growth rate of 2% (2012 – 2%). This growth rate does not exceed the long term average growth rate of the market in which the CGU operates.</p>
Exchange rate	Average market forward rate over the budget period. Value assigned is consistent with external sources of information.
Discount rate	Discount rates range from 15.8% to 20.6% (2012 – 15.8% to 20.6%) per annum. Discount rates used are pre-tax and reflect specific risks relating to the relevant CGU.

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

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

**14. Trade and other payables**

	<b>2013</b>	<b>2012</b>
	<b>KD '000</b>	
Trade payables	73,981	84,487
Accruals	213,065	184,635
Deferred revenue	63,360	60,006
Due to roaming partners	11,468	11,999
Due to other operators (interconnect)	14,372	8,539
Due to Government of Jordan	14,060	14,072
Taxes – foreign subsidiaries	44,213	38,703
Kuwait Foundation for the Advancement of Sciences	7,041	10,414
National Labour Support Tax and Zakat	6,307	6,489
Dividend payable	14,404	13,595
Provisions	62,785	75,617
Directors' remuneration	430	430
Other payables	17,080	26,128
	<u>542,566</u>	<u>535,114</u>

15. Due to banks

	<b>2013</b>	<b>2012</b>
	<b>KD '000</b>	
<i>MTC (the Parent Company)</i>		
Short term loan	33,876	146,068
Long term loans	<u>526,023</u>	<u>291,200</u>
	<u>559,899</u>	<u>437,268</u>
<i>JMTS – Jordan</i>		
Long term loan	-	12,381
<i>Zain – Bahrain</i>		
Bank overdraft	-	6,907
Long term loans	<u>14,978</u>	<u>-</u>
	<u>14,978</u>	<u>6,907</u>
<i>Zain – South Sudan</i>		
Long term loan	<u>669</u>	<u>-</u>
<i>Al Mouakhah Lil Khadamat Al-Logisteih Wa Al-Itisalat- Jordan</i>		
Long term loan	<u>-</u>	<u>1,426</u>
<i>Atheer – Iraq</i>		
Bank overdraft	-	11,236
Short term loan	84,690	84,270
Long term loans	<u>95,485</u>	<u>98,304</u>
	<u>180,175</u>	<u>193,810</u>
	<u>755,721</u>	<u>651,792</u>

The current and non-current amounts are as follows:

	<b>2013</b>	<b>2012</b>
	<b>KD '000</b>	
Current liabilities	198,402	270,656
Non-current liabilities	<u>557,319</u>	<u>381,136</u>
	<u>755,721</u>	<u>651,792</u>

The Group's borrowings reprice within six months.

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

	<b>2013</b>	<b>2012</b>
	<b>KD '000</b>	
US dollar	720,744	593,624
Saudi Arabian Riyal	-	37,454
Jordanian dinar	-	13,807
Others	<u>34,977</u>	<u>6,907</u>
	<u>755,721</u>	<u>651,792</u>

The effective interest rate as at 31 December 2013 was 1.49% to 6.15% (2012 – 1.61% to 8.71%) per annum.

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

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

*MTC*

During the year, the Parent Company:

- obtained long term loans amounting to US\$ 1.563 billion (equivalent to KD 445.092 million) which includes:
  - revolving credit facility of US\$ 800 million (KD 227.800 million) from a consortium of foreign banks repayable in March 2016.
  - US\$ 400 million from a foreign bank (as of 31 Dec 2013, US\$ 64.496 million – KD 18.188 million was drawn down).
  - US\$ 698.852 million (KD 199.104 million) from local commercial banks.
- extended the maturity of a short term loan of US\$ 120 million (KD 33.708 million) to 2014;
- repaid the short term loan of US\$ 400 million (KD 113.984 million) availed in 2012.

As of 31 December 2013, US\$ 140 million (KD 39.522 million) (31 December 2012 - KD 243.447 millio ) was outstanding from the revolving credit facility availed in March 2011. This facility matures in March 2014.

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

*Zain – Bahrain*

During the year, Zain Bahrain availed long term Bahraini Dinar denominated facilities at a fixed margin over Bahrain Inter Bank Overnight rate (BIBOR). These are amortising facilities with maturities of four to five years. The Bank overdraft was repaid during the year.

*Zain South Sudan*

During the year, Zain South Sudan availed a US\$ denominated loan at a fixed margin over LIBOR. This facility amortises over twenty months.

*Atheer*

During the year, Atheer availed a US\$ denominated long term loan mounting to US\$ 55 million (KD 15.527 million), guaranteed by the Parent Company.

In April 2011, Atheer availed a long term loan amounting to US\$ 400 million from a syndicate of international development finance institutions and foreign banks, which was guaranteed by the Parent Company. This facility is repayable in twenty four equal installments by January 2018. As of 31 December 2013, US\$ 283.24 million (KD 79.959 million) (2012 – KD 98.303 million) was outstanding from this facility

Short term loan represents US Dollar credit facility guaranteed by the Parent Company. During the year, the maturity of the loan was renewed for another year.

The overdraft facility was repaid during the year.

The above facilities carry a floating interest rate of a fixed margin over LIBOR.

**16. Other non-current liabilities**

	<b>2013</b>	<b>2012</b>
	<b>KD '000</b>	
Customer deposits	5,506	5,244
Post employment benefits	29,532	26,284
Refundable deposits and others	413	1,803
	<u>35,451</u>	<u>33,331</u>

17. Share capital and reserves

Share capital (par value of KD 0.100 per share)

	<u>2013</u>	<u>2012</u>
	No of shares	No of shares
<i>Authorised</i>		
Opening balance	4,322,574,895	4,331,982,637
Net increase/(decrease) during the year	4,484,014	(9,407,742)
	<u>4,327,058,909</u>	<u>4,322,574,895</u>
<i>Issued and fully paid up</i>		
Opening balance	4,315,274,866	4,307,534,661
Shares issued for 2009 ESOP	-	2,202,064
Shares issued for 2010 ESOP	3,418,612	3,823,187
Shares issued for 2011 ESOP	1,195,362	1,714,954
Shares issued for 2012 ESOP	2,795,439	-
	<u>4,322,684,279</u>	<u>4,315,274,866</u>

Shareholders approved the share capital changes in 2013 and 2012 for which regulatory approvals have also been obtained.

*Share premium*

Increase in share premium during the year represents issue of ESOP shares at a premium.

*Treasury shares*

	<u>2013</u>	<u>2012</u>
Number of shares	425,711,648	425,711,648
Percentage of issued shares	9.85%	9.87%
Market value (KD '000)	293,741	332,055
Cost (KD '000)	567,834	567,834

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

*Legal reserve*

In accordance with the Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year, subject to a maximum of 50% of the share capital, has been appropriated towards legal reserve. This reserve can be utilized only for distribution of a maximum dividend of 5% in years when retained earnings are inadequate for this purpose.

*Voluntary reserve*

The Parent Company's Articles of Association provide for the Board of Directors to propose appropriations to voluntary reserve up to a maximum of 50% of its share capital. During the year, the Board of Directors did not propose any transfer (2012 - Nil).

*Dividend – 2012*

The annual general meeting of shareholders for the year ended 31 December 2012 held on 7 April 2013 approved distribution of cash dividends of 50 fils per share for the year 2012.

*Proposed dividend*

The Board of Directors, subject to the approval of shareholders, recommends distribution of a cash dividend of 50 fils per share (2012 - 50 fils per share) to the registered shareholders as of the date of the Annual General Meeting.

**18. Revenue**

	<b>2013</b>	<b>2012</b>
	<b>KD '000</b>	
Airtime, data and subscription	1,215,684	1,258,113
Trading income	24,351	23,790
	<u>1,240,035</u>	<u>1,281,903</u>

**19. Investment income**

	<b>2013</b>	<b>2012</b>
	<b>KD '000</b>	
(Loss)/gain on investments at fair value through profit or loss	(272)	139
Realised gain/(loss) from available for sale investments	1,341	(1,683)
Impairment loss on available for sale investments	-	(8,555)
Dividend income	903	1,288
	<u>1,972</u>	<u>(8,811)</u>

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

	<b>2013</b>	<b>2012</b>
	<b>KD '000</b>	
NLST- Kuwait	3,126	4,459
Zakat - Kuwait	1,250	1,784
Zakat- Sudan	2,874	3,908
	<u>7,250</u>	<u>10,151</u>

NLST and Zakat in Kuwait represents taxes payable to Kuwait's Ministry of Finance under National Labour Support Law No. 19 of 2000 and Zakat Law No.46 of 2006 respectively.

**21. Income tax expenses**

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

**22. Earnings per share**

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

	<b>2013</b>	<b>2012</b>
	<b>KD '000</b>	
Profit for the year	216,445	252,145
	<u>Shares</u>	<u>Shares</u>
Weighted average number of shares in issue	3,896,972,631	3,889,563,218
Effect of dilution (ESOP - note 23)	2,766,901	6,700,513
Weighted average number of shares in issue outstanding during the year adjusted for the effect of dilution	<u>3,899,739,532</u>	<u>3,896,263,731</u>
	<u>Fils</u>	<u>Fils</u>
<b>Basic earnings per share</b>	56	65
<b>Diluted earnings per share</b>	56	65

23. Share-based compensation plans

*Kuwait*

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

The total number of shares to be granted under the scheme or Employee Share Option Plan (ESOP) is not to exceed 10% of the issued shares over ten years. The shares to be allotted under the scheme are provided either through a capital increase and issue of new shares or from the treasury shares held by the Parent Company. The ESOP scheme is available only to employees who hold certain specified posts within the Group. Eligible employees are granted the option to purchase a predetermined number of Parent Company's shares at a specified exercise price as follows:

	2010 Plan		2011 Plan		2012 Plan	
	Numbers	Weighted average exercise price KD	Numbers	Weighted average exercise price KD	Numbers	Weighted average exercise price KD
Granted	14,076,900	0.816	4,502,949	0.295	5,609,092	0.295
Exercised in 2010	-		-		-	
Additional shares granted	-		-		-	
Stock options forfeited	(1,500)		-		-	
Stock options outstanding at 31 Dec 2010	14,075,400	0.816	-		-	
Additional shares granted/option regranted	275,900		-		-	
Exercised in 2011	(4,636,972)	0.658	-		-	
Stock options forfeited	(1,888,775)		-		-	
Stock options outstanding at 31 Dec 2011	7,825,553	0.470	-		-	
Exercised in 2012	(3,823,187)		(1,714,954)		-	
Stock options forfeited	(468,630)		(11,212)		-	
Stock options outstanding at 31 Dec 2012	3,533,736	0.470	2,776,783	0.234	5,609,092	0.295
Exercised in 2013	(3,418,612)		(1,195,362)		(2,795,439)	
Stock options forfeited (net)	(115,124)		(344,707)		(314,254)	
Stock options outstanding at 31 Dec 2013	-	-	1,236,714	0.188	2,499,399	0.188
Stock options exercisable as at 31 Dec 2013			1,236,714		2,499,399	
Weighted average remaining contractual life (in years)	-		1		1	
Weighted average share price of options exercised during the year	0.725		0.725		0.725	

The Group has determined the fair value of the share options granted using the Black-Scholes valuation model. The expected volatility used in the model is the standard deviation of expected share prices based on statistical analysis of daily share prices over the last three years.

*2010 Plan*

The Parent Company granted 14,076,900 shares at an exercise price of KD 0.816 per share. The options vest over three years at the rate of 33%, 33% and 34% each year, beginning 1 January 2011 exercisable from the date of vesting and up to three years from the service date. The fair value of these options was KD 0.317 per share with a total fair value of KD 4,461,902. The significant inputs into the fair value model were a share price of KD 1.020 - the market price at the grant date 1 January 2010, the exercise price shown above, volatility of 5%, dividend yield of nil (due to the ESOP terms), option life of 3 years and an annual interest rate of 5%.

During the year, the Group recognised total expenses of KD Nil (2012 – KD 506,000) related to this plan.

*2011 Plan*

The Parent Company granted 4,502,949 shares at an exercise price of KD 0.295 per share. The options vest over three years at the rate of 33%, 33% and 34% each year, beginning 31 December 2012 exercisable from the date of vesting and up to three years from the service date. During the year, the terms of the plan were amended to accelerate the remaining vesting to 1 January 2014. The fair value of these options was KD 0.592 per share with a total fair value of KD 2,666,000. The significant inputs into the fair value model were a share price of KD 0.870 - the market price at the grant date 26 December 2011, the exercise price shown above, volatility of 5%, dividend yield of nil (due to the ESOP terms), option life of 3 years and an annual interest rate of 1.93%.

During the year, the Group recognised total expenses of KD 962,000 (2012 – KD 1,704,000) related to this plan.

*2012 Plan*

The Parent Company granted 4,529,092 shares at an exercise price of KD 0.295 per share. The options vest over three years at the rate of 33%, 33% and 34% each year, beginning 1 January 2013 exercisable from the date of vesting and up to three years from the service date. The fair value of these options was KD 0.622 per share with a total fair value of KD 2,816,000. The significant inputs into the fair value model were a share price of KD 0.900 - the market price at the grant date 1 January 2012, the exercise price shown above, volatility of 5%, dividend yield of nil (due to the ESOP terms), option life of 3 years and an annual interest rate of 1.93%. During the year, the terms of the plan were amended to accelerate the remaining two vesting to 1 January 2014. The Parent Company also issued in 2012 an additional 1,080,000 shares at exercise price of KD Nil which vested on the date of approval.

During the year, the Group recognised total expenses of KD 1,016,000 (2012 - KD 2,642,000) related to this plan.

The average market price per share of the Parent Company for the year ended 31 December 2013 was KD 0.725 (2012 - KD 0.760).

**24. Segment information**

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

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

Mobile Telecommunications Company K.S.C.P

Notes to the Consolidated Financial Statements – 31 December 2013

	31-Dec-13					Total KD '000
	Kuwait	Jordan	Sudan	Iraq	Others	
<b>Segment revenues</b>	339,725	140,063	176,533	494,158	89,556	1,240,035
<b>Net profit before interest and tax</b>	107,048	42,571	29,503	123,630	(259)	302,493
Interest income	36	1,296	2,151	434	106	4,023
Finance cost	-	(99)	-	(16,591)	(6,936)	(23,626)
Income tax expense	-	(9,838)	(4,156)	(5,233)	2,142	(17,085)
	<u>107,084</u>	<u>33,930</u>	<u>27,498</u>	<u>102,240</u>	<u>(4,947)</u>	265,805
<i>Unallocated items:</i>						
Investment income						1,972
Share of results of associates and joint ventures						(36,159)
Others						12,323
<b>Profit for the year</b>						<b><u>243,941</u></b>
<b>Segment assets</b>	241,256	257,479	430,436	1,052,283	215,106	2,196,560
<i>Unallocated items:</i>						
Investment securities at fair value through profit or loss						1,930
Investment securities available for sale						46,363
Investment in associates and joint ventures						265,197
Due from associates						271,952
Others						314,938
<b>Consolidated assets</b>						<b><u>3,096,940</u></b>
<b>Segment liabilities</b>	92,644	80,831	38,777	206,747	172,470	591,469
Due to banks	-	-	-	180,175	15,647	195,822
	<u>92,644</u>	<u>80,831</u>	<u>38,777</u>	<u>386,922</u>	<u>188,117</u>	787,291
<i>Unallocated items:</i>						
Due to banks						559,899
Others						(13,452)
<b>Consolidated liabilities</b>						<b><u>1,333,738</u></b>
<b>Net consolidated assets</b>						<b><u>1,763,202</u></b>
Capital expenditure incurred during the year	58,016	36,017	29,182	83,160	37,991	244,366
Unallocated						9,657
<b>Total capital expenditure</b>						<b><u>254,023</u></b>
Depreciation and amortization	51,400	18,324	26,848	65,417	30,019	192,008
Unallocated						2,558
<b>Total depreciation and amortization</b>						<b><u>194,566</u></b>
<b>Net increase/decrease in cash flows of subsidiaries with significant non-controlling interests Al Khatem, Iraq and Zain Bahrain in Others)</b>	-	-	-	7,623	1,048	-

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	31-Dec-12					Total KD '000
	Kuwait	Jordan	Sudan	Iraq	Others	
<b>Segment revenues</b>	331,878	142,477	241,457	484,657	81,434	1,281,903
<b>Net profit before interest and tax</b>	114,174	43,623	19,801	138,265	1,302	317,165
Interest income	6	982	3,957	913	68	5,926
Finance cost	-	(1,144)	(1,336)	(15,490)	(8,045)	(26,015)
Income tax expense	-	(9,445)	(12,851)	(20,427)	2,736	(39,987)
	<u>114,180</u>	<u>34,016</u>	<u>9,571</u>	<u>103,261</u>	<u>(3,939)</u>	257,089
<i>Unallocated items:</i>						
Investment income						(8,811)
Share of results of associates and joint ventures						(31,574)
Others						63,488
<b>Profit for the year</b>						<u><b>280,192</b></u>
<b>Segment assets</b>	219,313	235,890	512,003	1,016,628	205,105	2,188,939
<i>Unallocated items:</i>						
Investment securities at fair value through profit or loss						2,693
Investment securities available for sale						48,659
Investment in associates and joint ventures						300,842
Due from associates						231,875
Others						157,983
<b>Consolidated assets</b>						<u><b>2,930,991</b></u>
<b>Segment liabilities</b>	77,623	51,795	149,379	252,496	159,427	690,720
Due to banks	-	12,381	-	193,810	8,333	214,524
	<u>77,623</u>	<u>64,176</u>	<u>149,379</u>	<u>446,306</u>	<u>167,760</u>	905,244
<i>Unallocated items:</i>						
Due to banks						437,268
Others						(122,275)
<b>Consolidated liabilities</b>						<u><b>1,220,237</b></u>
<b>Net consolidated assets</b>						<u><b>1,710,754</b></u>
Capital expenditure incurred during the year	55,774	13,618	56,460	41,929	22,050	189,831
Unallocated						124
<b>Total capital expenditure</b>						<u><b>189,955</b></u>
Depreciation and amortization	43,265	19,770	34,645	68,833	23,110	189,623
Unallocated						3,424
<b>Total depreciation and amortization</b>						<u><b>193,047</b></u>
<b>Net increase/decrease in cash flows of subsidiaries with significant non-controlling interests</b>	-	-	-	(2,333)	(2,552)	-
<b>Al Khatem, Iraq and Zain Bahrain in Others)</b>						

**25. Related party transactions**

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

	<u>2013</u>	<u>2012</u>
	<u>KD '000</u>	
<b>Transactions</b>		
Management fees (included in other income)	3,569	12,897
Interest income on loans to associates	11,616	8,830
<b>Key management compensation</b>		
Salaries and other short term employee benefits (refer note below)	6,904	8,393
Post-employment benefits	1,558	2,321
Share based payments	428	1,440

**26. Commitments and contingencies**

	<u>2013</u>	<u>2012</u>
	<u>KD '000</u>	
Capital commitments	81,384	61,909
Capital commitments – share of associates	7,683	20,320
Uncalled share capital of investee companies	157	156
Letters of credit	9,575	28,872
Letters of guarantee	465,009	322,931

The above include guarantees/letters of credit amounting to US\$ 1.491 billion (KD 421 million) (2012 - KD 289 million) relating to loans and other vendor financing availed by SMTC.

The Parent Company is a guarantor for credit facilities of US\$ 35 million (KD 10 million) (2012 – KD 10 million) granted to a founding shareholder in SMTC. The Parent Company believes that the collaterals provided by the founding shareholder to the bank, covers the credit facilities.

The Iraqi income tax authority, the General Commission for Taxes (the “Tax Authority”), has raised claims for additional income taxes of US\$ 65 million (KD 18 million) for Atheer’s operations upto fiscal year 2007. The Group has reviewed these claims and has filed an appeal denying liability for these additional tax claims on the basis that they are arbitrary, and contrary to the applicable Iraqi tax law. Based on the appeal filed by Atheer, the Ministry of Finance has instructed the Tax Authority to re-open the assessment of the aforementioned tax years. In December 2013, the Tax Authority has raised claim for income tax for the fiscal year 2008 amounting to US\$ 44 million ( KD 12 million). Atheer has filed an appeal against this by paying, under protest, 25% of the amount demanded, in order to comply with taxation laws and to protect its right to appeal.

On 6 March 2011, the Iraqi Telecom Regulatory Authority, the Communication and Media Commission (CMC) claimed a total amount of US\$ 262 million (KD 74 million) (US\$ 100 million as a fine, and US\$ 162 million as the CMC’s portion of the revenue share) (31 December 2012 - US\$ 262 million) from Atheer citing non-compliance with certain license terms. In response to the appeal made by Atheer, the Board of Appeals of the CMC issued an order dated 30 January 2012, which annulled the above claim and asked the CMC to review it again and determine the amounts that should be paid by Atheer. In March 2012, the CMC again demanded payment of US\$ 262 million. Atheer has appealed against this demand by citing the CMC’s Board of Appeals order dated 30 January 2012 for cancellation of the penalty charged and its re-assessment. Furthermore, CMC has also levied a penalty of US\$ 18 Million (KD 5 million) (31 December 2012 - US\$ 18 million) citing breach of network quality covenants. The Group believes that it has complied with the license terms and the network quality covenants and that it has strong meritorious defenses against these claims.

In 2007, Atheer acquired Iraqna Company for Mobile Phone Services Limited (Iraqna) from Orascom Telecom Iraq Corp. Limited (the Seller). Under the terms of the Share Purchase Agreement (SPA), the Seller is responsible for all income tax payable by Iraqna upto the Closing Date of the SPA. The Tax Authority has raised claims for additional corporate income taxes of US\$ 89 million (KD 25 million) for Iraqna upto 2007. Atheer has reviewed these claims and has filed appeals denying liability for these claims on the basis that they are arbitrary and contrary to the applicable Iraqi tax law. Atheer also has a contingent asset in the form of a right, under the SPA to make claims against the Seller for Iraqna tax claims upto US\$ 60 million (KD 17 million). Based on the appeal filed by Atheer, the Ministry of Finance has instructed the Tax Authority to re-open the assessment of the aforementioned tax years.

The Tax Authority has also claimed from Atheer the capital gains taxes payable by the Seller amounting to US\$ 187 million (KD 53 million) arising on sale of Iraqna to Atheer and instructed the various banks in Iraq to block Atheer's bank balances with them to the extent of an equivalent amount. Atheer filed legal action in Iraqi courts requesting an order preventing the Tax Authority from continuing to block Atheer's bank accounts or claim the amount of the capital gains tax from Atheer. On 13 November 2012, the Court of First Instance of Rusafah, passed a decision in favour of Atheer canceling the capital gains tax claim and to release the freeze on Atheer's bank account. The Tax Authority appealed against this decision in the Court of Appeals, and the Court of Appeals issued an order on 9 December 2012 affirming the Court of First Instance of Rusafah's decision and ordered the Tax Authority to release the freeze on Atheer's bank accounts and to claim the capital gains tax from the Seller and not from Atheer or Iraqna. In January 2013, the Tax Authority filed an appeal against this order with the Court of Cassation of Iraq. In February 2013, Iraq's Ministry of Finance issued an order to limit the amount blocked to the extent of claim of US\$ 187 million (KD 53 million) and to release the balance amounts (refer note 4). There are also other claims against Atheer including by the Ministry of Communications, Iraq.

The Group expects a favorable outcome on this matter and does not consider that these matters could have an adverse impact on the Group's business or its operations in Iraq.

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

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

#### Operating lease commitments – Group as lessee

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

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

	<u>2013</u>	<u>2012</u>
	<u>KD '000</u>	
Not later than 1 year	11,189	6,935
Later than 1 year and no later than 5 years	28,404	27,399
Later than 5 years	<u>31,890</u>	<u>26,288</u>
	<u>71,483</u>	<u>60,622</u>

**27. Financial risk management**

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

	Loans and receivables	Assets at fair value through profit or loss	Available for sale
	KD '000		
<b>31 December 2013</b>			
Cash and bank balances	399,242	-	-
Trade and other receivables	350,300	-	-
Investment securities	-	1,930	46,363
Dues from associates	271,952	-	-
Other assets	11,357	-	-
	<u>1,032,851</u>	<u>1,930</u>	<u>46,363</u>
<b>31 December 2012</b>			
Cash and bank balances	302,609	-	-
Trade and other receivables	319,109	-	-
Investment securities	-	2,693	48,659
Dues from associates	231,875	-	-
Other assets	11,339	-	-
	<u>864,932</u>	<u>2,693</u>	<u>48,659</u>

All financial liabilities as of 31 December 2013 and 31 December 2012 are categorized as 'other than at fair value through profit or loss'.

**Financial risk factors**

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

## (a) Market risk

*(i) Foreign exchange risk*

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

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

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

Currency	2013	2012
	KD '000	
US Dollar	9,880	16,624
Euro	153	1,841
SAR	166	3,738

(ii) Equity price risk

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

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

Market indices	2013		2012	
	Impact on net profit	Effect on equity	Impact on net profit	Effect on Equity
KD '000				
Kuwait Stock Exchange	± 96	± 1,854	± 135	± 1,956

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 2013 and 2012, the Group's borrowings at variable rates were denominated mainly in US Dollar, Bahraini Dinar, Euro, SAR and Jordanian Dinar.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on consolidated statement of profit or loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions. The Group manages interest rate risk by monitoring interest rate movements and by using Interest Rate Swaps to hedge interest rate risk exposures.

At 31 December 2013, if interest rates at that date had been 50 basis points higher/lower with all other variables held constant, consolidated profit for the year would have been lower/higher by KD 3,870,000 (2012 - KD 2,249,000).

## b) Credit risk

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

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

## (c) Liquidity risk

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

The Group has committed to provide working capital and other financial support to some of its affiliates (refer note 3).

Other than cash and bank balance of KD 72.897 million (2012 - KD 64.20 million) equivalent held in Sudanese pounds and KD 8.139 million (2012 - KD 6.4) held in South Sudanese pounds, all other cash and bank balance are maintained in freely convertible currencies.

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

	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>
	<b>KD '000</b>			
<b>At 31 December 2013</b>				
Bank borrowings	210,470	366,743	198,275	20,717
Trade and other payables	479,206	-	-	-
Customer deposits	523	540	4,443	-
Refundable deposits and others	-	413	-	-
<b>At 31 December 2012</b>				
Bank borrowings	277,209	320,952	62,683	15
Trade and other payables	399,491	-	-	-
Customer deposits	-	628	-	4,616
Refundable deposits and others	-	1,803	-	-

**28. Derivative financial instruments**

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

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

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

**At 31 December 2013:**

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

**At 31 December 2012:**

	Notional amounts by term to maturity					Over 1 year KD '000
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3 -12 months	
<i>Derivatives held for hedging:</i>						
<i>Cash flow hedges</i>						
	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Interest rate swaps are contractual agreements between two parties to exchange interest based on notional value in a single currency for a fixed period of time. The Group uses interest rate swaps to hedge changes in interest rate risk arising from floating rate borrowings.

**29. Capital risk management**

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

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

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

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

	2013	2012
	KD '000	
Total borrowings	755,721	651,792
Less: Cash and bank balances (refer note 4)	<u>(399,242)</u>	<u>(302,609)</u>
Net debt	356,479	349,183
Total equity	<u>1,763,202</u>	<u>1,710,754</u>
Total capital	<u>2,119,681</u>	<u>2,059,937</u>
<b>Gearing ratio</b>	17%	17%

**30. Fair value of financial instruments**

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

Determination of fair value and fair value hierarchy:

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

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

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

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

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

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

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

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

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

**31 December 2013**

	Kuwaiti Dinars			
	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value:</b>				
Investments at fair value through profit or loss	1,930	-	-	1,930
Available for sale investments	27,104	19,259	-	46,363
Total assets	29,034	19,259	-	48,293

**31 December 2012**

	Kuwaiti Dinars			
	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value:</b>				
Investments at fair value through profit or loss	2,693	-	-	2,693
Available for sale investments	27,285	21,374	-	48,659
Total assets	29,978	21,374	-	51,352

**31. Significant accounting judgments and estimates**

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

**Judgments**

*Business combinations*

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

*Classification of investments*

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

*Impairment*

When there is a significant or prolonged decline in the value of an “available for sale” quoted investment security management uses objective evidence to judge if it may be impaired. At each statement of financial position date, management assesses, whether there is any indication that 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/liabilities*

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

**Sources of estimation uncertainty**

*Fair values - unquoted equity investments and business combinations*

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

*Accounts receivable*

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

*Tangible and intangible assets*

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

*Taxes*

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes a liability for anticipated taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Any changes in the estimates and assumptions used as well as the use of different, but equally reasonable estimates and assumptions may have an impact on the carrying values of the deferred tax assets.

*Goodwill*

The Group annually tests whether goodwill has suffered any impairment, in accordance with its accounting policy. The recoverable amounts of cash generating units are determined based on value-in-use calculations or at fair value less costs to sell. The fair value less cost to sell is based on recent/intended market transactions and the related EBITDA multiples used in such transactions. These calculations require the use of estimates.

*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.

**32. Comparative figures**

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