

**Mobile Telecommunications Company KSC and subsidiaries  
Kuwait**

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

**31 December 2003**

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**Mobile Telecommunications Company KSC  
Auditors' Report to the Shareholders**


We have audited the accompanying consolidated balance sheet of Mobile Telecommunications Company KSC (the Parent Company) and subsidiaries (collectively called "the Group") as at 31 December 2003, the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

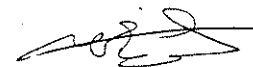
The consolidated financial statements include assets, liabilities and results of operations of the Jordanian and Bahraini subsidiaries amounting to KD 139,854, KD 87,433 and KD 18,295 respectively. For the purpose of consolidation, we have solely relied on the audited financial statements of these subsidiaries audited by other auditors under their reports dated 16 February 2004 and 12 February 2004 respectively.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2003, and the consolidated results of its operations, changes in shareholders' equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Furthermore, in our opinion, proper books of accounts have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Board of Directors relating to these consolidated financial statements are in agreement therewith. We further report that we obtained all the information and explanations, that we required for the purpose of our audit and the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended and by the Parent Company's Articles of Association; that an inventory was duly carried out and that to the best of our knowledge and belief, no violations of the Law of Commercial Companies of 1960 or of the Parent Company's Articles of Association have occurred during the year ended 31 December 2003 that might have had a material effect on the business of the Group or its consolidated financial position or results of its operations.

  
Bader A. Al Wazzan  
Licence No. 62 A  
PricewaterhouseCoopers

State of Kuwait  
3 March 2004



Awdah Jaber Al Ali Al Sabah  
Licence No. 85 A  
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Mobile Telecommunications Company KSC and subsidiaries

Consolidated Balance Sheet as of 31 December 2003

	Note	2003	2002
			KD'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash on hand and at banks		26,697	12,615
Short-term deposits with banks	3	71,590	59,477
Trade and other receivables	4	40,076	33,816
Inventories	5	3,153	2,174
Investments	6	31,677	29,240
<b>Total current assets</b>		<u>173,193</u>	<u>137,322</u>
<b>Non-current assets</b>			
Investments	6	109,857	103,210
Property and equipment	7	216,935	109,061
Intangible assets	8	87,187	-
		<u>413,979</u>	<u>212,271</u>
<b>Total assets</b>		<u>587,172</u>	<u>349,593</u>
<b>LIABILITIES, SHAREHOLDERS' EQUITY AND MINORITY INTEREST</b>			
<b>Current liabilities</b>			
Trade and other payables	9	120,270	63,219
Due to banks	10	28,052	-
		<u>148,322</u>	<u>63,219</u>
<b>Non-current liabilities</b>			
Due to banks	10	96,553	-
Other non-current liabilities	11	3,079	2,208
		<u>99,632</u>	<u>2,208</u>
<b>Minority interest</b>		<u>2,927</u>	<u>-</u>
<b>Shareholders' equity:</b>			
Share capital	12	49,330	49,330
Treasury shares	13	(4,028)	(4,028)
Legal reserve	12	49,330	49,330
Voluntary reserve	12	44,733	44,733
Foreign currency translation account		(1,019)	-
Investment fair valuation reserve		24,108	10,640
Retained earnings		173,837	134,161
<b>Total shareholders' equity</b>		<u>336,291</u>	<u>284,166</u>
<b>Total liabilities and shareholders' equity</b>		<u>587,172</u>	<u>349,593</u>

These financial statements have been approved by the Board of Directors on 3 March 2004 and signed on their behalf by:

Dr.Saad Hamad Al Barrak  
Director General

Ahmed Mohammed Al Nassar  
Chairman and Managing Director

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

Mobile Telecommunications Company KSC and subsidiaries

Consolidated Statement of Income – Year ended 31 December 2003

	Note	2003	2002
		KD'000	
Revenues	14	254,605	132,685
Direct costs		(103,338)	(52,147)
<b>Gross profit</b>		<u>151,267</u>	<u>80,538</u>
General and administrative expenses		(38,503)	(8,638)
Provision for doubtful debts		(4,458)	(1,806)
Amortisation of goodwill		(5,843)	-
<b>Operating profit</b>		<u>102,463</u>	<u>70,094</u>
Interest income		1,614	2,085
Investment income		12,288	5,229
Finance cost		(5,642)	-
Foreign currency revaluation gains		1,012	1
Board of Directors' remuneration		(28)	(28)
Contribution to Kuwait Foundation for Advancement of Sciences		(1,054)	(765)
National Labour Support Tax	15	(2,109)	(1,574)
<b>Profit for the year before income tax</b>		<u>108,544</u>	<u>75,042</u>
Income tax	16	(7,890)	-
<b>Profit for the year before minority interest</b>		<u>100,654</u>	<u>75,042</u>
Minority interest		1,558	-
<b>Net profit for the year</b>		<u>102,212</u>	<u>75,042</u>
		Fils	Fils
<b>Earnings per share</b>	17	<u>211</u>	<u>155</u>

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

Mobile Telecommunication Company KSC and subsidiaries

Consolidated Statement of Changes in Shareholders' Equity – 31 December 2003

	Share capital	Treasury shares	Legal reserve	Voluntary reserve	Foreign currency translation account	Investment fair valuation reserve	Retained Earnings	Total
	KD '000							
<b>At 31 December 2001</b>	49,330	(4,028)	44,733	44,733	-	2,731	126,320	263,819
Cash dividends (2001 - 130%)	-	-	-	-	-	-	(62,832)	(62,832)
Net profit for the year – 2002	-	-	-	-	-	-	75,042	75,042
Transfer to reserves	-	-	4,597	-	-	-	(4,597)	-
Realised (gains)/losses on available-for-sale investments	-	-	-	-	-	(144)	228	84
Changes in fair value of available-for-sale investments	-	-	-	-	-	8,053	-	8,053
<b>At 31 December 2002</b>	49,330	(4,028)	49,330	44,733	-	10,640	134,161	284,166
Cash dividends (2002 - 140%)	-	-	-	-	-	-	(67,665)	(67,665)
Net profit for the year – 2003	-	-	-	-	-	-	102,212	102,212
Foreign currency translation differences	-	-	-	-	(1,019)	-	-	(1,019)
Reclassification of investment fair valuation reserve	-	-	-	-	-	(5,388)	5,388	-
Transfer of reserve pertaining to investment in subsidiary	-	-	-	-	-	(4,800)	-	(4,800)
Realised gains on available-for-sale investments	-	-	-	-	-	(199)	(259)	(458)
Changes in fair value of available-for-sale investments	-	-	-	-	-	23,855	-	23,855
<b>At 31 December 2003</b>	49,330	(4,028)	49,330	44,733	(1,019)	24,108	173,837	336,291

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

Mobile Telecommunications Company KSC and subsidiaries

Consolidated statement of cash flows – year ended 31 December 2003

	2003	2002
	KD '000	
<b>Cash flows from operating activities</b>		
Profit for the year before income tax	108,544	75,042
Adjustments for:		
Depreciation	30,964	13,289
Impairment loss	-	3,640
Amortisation of goodwill	5,843	-
Amortisation of licence fees	430	-
Provision for post employment benefits	866	823
Gain on disposal of property and equipment	(4)	-
Property and equipment written off	1,609	-
Interest income	(1,614)	(2,085)
Investment income	(12,288)	(5,229)
Finance cost	5,642	-
Operating profit before working capital changes	139,992	85,480
Decrease in trade and other receivables	3,993	4,910
Decrease/(increase) in inventories	322	(502)
Increase in trade and other payables	37,371	9,456
<i>Cash generated from operations</i>	181,678	99,344
Post employment benefits paid	(81)	(314)
Income tax paid	(7,030)	-
Board of directors' remuneration paid	(28)	(28)
Paid to Kuwait Foundation for Advancement of Sciences	(765)	(1,635)
National labour tax paid	(1,574)	(783)
<i>Net cash from operating activities</i>	172,200	96,584
<b>Cash flows from investing activities</b>		
Deposits maturing after three months withdrawn from banks	-	39,199
Purchase of investments	(12,484)	(18,942)
Proceeds from sale of investments	39,741	13,599
Acquisition of subsidiary (Note 21)	(108,847)	-
Payment for acquiring intangible assets	(195)	-
Purchase of property and equipment	(65,254)	(25,257)
Proceeds from disposal of property and equipment	418	-
Interest received	1,614	1,826
<i>Net cash (used in)/from investing activities</i>	(145,007)	10,425
<b>Cash flows from financing activities</b>		
Due to banks	68,724	-
Minority interest	(4)	(12)
Dividends paid	(67,183)	(62,187)
Minority shares in the share capital of Bahraini subsidiary	3,156	-
Finance cost	(5,642)	-
<i>Net cash used in financing activities</i>	(949)	(62,199)
Net increase in cash and cash equivalents	26,244	44,810
Effect of foreign currency translation	(313)	-
Cash and cash equivalents at beginning of year	72,092	27,282
Cash and cash equivalents at end of year (Note 18)	98,023	72,092

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

## Mobile Telecommunications Company KSC and subsidiaries

### Notes to the Financial Statements - 31 December 2003

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#### 1. Incorporation and activities

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

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

The principal subsidiaries are as follows:

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

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

On 15 January 2003 the Parent Company acquired an additional 91.596% shares of Pella Investment Company LLC, a limited liability company registered in Jordan – "Jordanian subsidiary" (which wholly owns Jordan Mobile Telephone Services Company – "operating Jordanian subsidiary" that operates one of the two national mobile telecommunications network in Jordan) taking its total holding to 96.516%.

On 19 April 2003 the Parent Company's Bahraini subsidiary obtained the licence to provide telecommunication services in the Kingdom of Bahrain. Commercial operations commenced on 28 December 2003.

In 2003, the Parent Company signed a subscription and shareholders agreement for the incorporation of Atheer Telecom Iraq, a Cayman Islands company. On 22 December 2003, Atheer Telecom Iraq obtained a licence to operate a telecommunication network in Southern Iraq for two years. The network is expected to become operational in the first quarter of 2004.

## 2. Basis of preparation and Accounting Policies

### 2.1. Basis of preparation

These consolidated financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS) under the historical cost basis of measurement except for investments "held for trading" and "available for sale"; and the assets and liabilities of the subsidiaries acquired during the year, which are stated at their fair values.

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

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

Intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances based on latest audited financial statements of the subsidiaries.

### 2.2. Financial instruments

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

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

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

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

**Significant accounting policies (Contd.)**

**2.3. Cash and cash equivalents**

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

**2.4. Inventories**

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

**2.5. Investments**

Investments of the Group are classified as under :

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

*Held to maturity* investments are those with fixed and determinable payments and fixed maturity, where the management has the positive intent and ability to hold them to maturity, but excludes financial assets originated by the Group. These are subsequently re-measured and carried at amortised cost using the effective yield method, less any provision for impairment. The impairment loss is recognised in statement of income.

*Available for sale* investments are those which are not classified as above, and are principally those acquired to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates or equity prices. These are subsequently measured and carried at fair value. Any resultant unrealised gains and losses arising from changes in fair value are taken to investment fair valuation reserve in equity. When the "available for sale" asset is disposed off or impaired, any prior fair value adjustments earlier reported in equity is transferred to statement of income.

**2.6. Investment in associate**

Associated companies are those undertakings in which the Group has a long term investment comprising of voting powers between 20% and 50%, and over which it exerts significant influence, but which it does not control. Investment in associate is accounted for using the equity method of accounting using the latest available audited financial statements.

**Significant accounting policies (Contd.)**

**2.7. Property and equipment**

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

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

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

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

**2.8. Intangible assets**

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

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

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

**2.9. Notes payable**

Notes payable are stated at amortised cost. Discount on notes payable is amortised over the period of its maturities.

**2.10. Provisions**

Provisions 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.

**Significant accounting policies (Contd.)**

**2.11. Post employment benefits**

The Group is liable under labour laws of the countries in which they operate to make payments under defined benefit plans to employees on completion of employment. This liability, which is unfunded, represents the amount payable to employees as a result of involuntary termination on the balance sheet date, and approximates the present value of the final obligation.

**2.12. Treasury shares**

Treasury shares consist of the Parent Company's own shares that have been issued; subsequently acquired by the Parent Company and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. The cost of the shares reacquired is classified under equity. When the treasury shares are sold, gains are credited to a separate account in shareholders' equity (gain on sale of treasury shares), which is not distributable. Any realized losses are charged to the same account to the extent of the credit balance on that account. Any unabsorbed losses are charged to retained earnings, then reserves. Gains realized subsequently on the sale of treasury shares are first used to offset any previously recorded losses, to reserves, to retained earnings and then to gain on sale of treasury shares account, in that order.

No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

**2.13. 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 lease. Payments made under operating leases are charged to statement of income on a straight line basis over the period of the lease.

**Finance leases**

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

## Mobile Telecommunications Company KSC and subsidiaries

### Notes to the Financial Statements - 31 December 2003

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#### Significant accounting policies (Contd.)

##### 2.14. Revenue

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

##### 2.15. Foreign currencies

The functional currency of the Parent Company is the Kuwaiti Dinar. Foreign currency transactions are recorded at rates of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currency at the balance sheet date are translated to Kuwaiti Dinars at rates of exchange prevailing on that date. Resultant gains and losses are taken to statement of income. Statement of income and cash flows of foreign entities are translated into the Parent Company's reporting currency at average exchange rates for the year and their balance sheets are translated at exchange rates ruling at the year-end. Exchange differences arising from the translation of the net investment in foreign entities and of borrowings and other currency instruments designated as hedges of such instruments, are taken to shareholders' equity. When a foreign entity is sold, any resultant exchange differences are recognised in the statement of income as part of the gain or loss on sale.

##### 2.16. Contingencies

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

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

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

	<u>2003</u>	<u>2002</u>
		<u>KD'000</u>
Term deposits maturing within three months	71,590	59,477
	<u>71,590</u>	<u>59,477</u>

The effective interest rate on short-term deposits range between 2% and 3.25% per annum. (2002 - 1.50% and 3.38%)

Mobile Telecommunications Company KSC and subsidiaries

Notes to the Financial Statements - 31 December 2003

4. Trade and other receivables

	2003	2002
	KD'000	
Subscribers	45,905	38,985
Distributors	7,015	5,132
Provision for doubtful debts	(19,238)	(13,539)
	<u>33,682</u>	<u>30,578</u>
Accrued income	451	420
Staff	719	430
Ministry of Communication	639	600
Prepayments, advances and deposits	4,585	1,788
	<u>40,076</u>	<u>33,816</u>

5. Inventories

	2003	2002
	KD'000	
Handsets and accessories	8,455	6,646
Provision for obsolescence	(5,302)	(4,472)
	<u>3,153</u>	<u>2,174</u>

6. Investments

	2003	2002
	KD'000	
<b>Current investments</b>		
<i>Held for trading</i>		
Portfolio investments	20,515	11,990
Funds	11,162	17,250
	<u>31,677</u>	<u>29,240</u>
<b>Non current investments</b>		
<i>Available for sale</i>		
Portfolio investments	64,190	56,331
Listed equities	6,559	4,260
Funds	35,876	32,041
Unlisted equities	4,994	11,485
Impairment loss	(1,762)	(1,907)
	<u>109,857</u>	<u>102,210</u>
<i>Held to maturity</i>		
Bonds	-	1,000
	<u>109,857</u>	<u>103,210</u>

Portfolio investments comprise of investments in listed and unlisted equity securities and bonds.

**Mobile Telecommunications Company KSC and subsidiaries**

**Notes to the Financial Statements - 31 December 2003**

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Available for sale investments include unlisted securities with original cost of KD 5,427,000 (2002 – KD 4,973,000) carried at cost less impairment since it was not possible to reliably measure its fair value.

During the year the Group recognized KD 23,855,000 (2002 – KD 8,053,000) in investment fair valuation reserve as net unrealized gain arising from fair valuation of 'available for sale' investments and transferred a profit of KD 458,000 (2002 – loss of KD 84,000) from investment fair valuation reserve to statement of income arising from disposals.

An amount of KD 5,388,000 was transferred from investment fair valuation reserve to retained earnings to recognize gains on disposal made during 2001 when IAS 39 became first applicable.

Notes to the Financial Statements - 31 December 2003

7. Property and equipment

	Land	Buildings	Cellular & other equipment	Projects in progress	Total
	KD '000s				
<b>Cost</b>					
As at 31 December 2002	-	11,934	170,699	14,846	197,479
Assets of the acquired subsidiary	510	23,683	78,885	4,128	107,206
Additions	-	2,652	19,445	43,157	65,254
Transfers and adjustments	-	(1,289)	43,911	(44,243)	(1,621)
Disposals	-	(45)	(1,741)	-	(1,786)
Foreign currency translation adjustment	(8)	(362)	(1,469)	(119)	(1,958)
As at 31 December 2003	502	36,573	309,730	17,769	364,574
<b>Depreciation</b>					
As at 31 December 2002	-	4,657	83,761	-	88,418
Accumulated depreciation on subsidiary's assets	-	5,353	24,877	-	30,230
Charge for the year	-	2,710	28,254	-	30,964
Adjustments	-	(774)	762	-	(12)
Disposals	-	(3)	(1,369)	-	(1,372)
Foreign currency translation adjustment	-	(94)	(495)	-	(589)
As at 31 December 2003	-	11,849	135,790	-	147,639
<b>Net Book Value</b>					
As at 31 December 2003	502	24,724	173,940	17,769	216,935
As at 31 December 2002	-	7,277	86,938	14,846	109,061

Mobile Telecommunications Company KSC and subsidiaries

Notes to the Financial Statements - 31 December 2003

Depreciation has been allocated as follows:

	2003	2002
	KD'000	
Direct costs	28,098	11,418
General and administrative expenses	2,866	1,871
	<u>30,964</u>	<u>13,289</u>

During the year the Group recognized KD Nil (2002 – KD 3,640,000) in statement of income as impairment loss of cellular and other equipment and fully depreciated purchases of such items amounting to KD 1,202,000 (2002 – KD 3,628,000).

Assets of the operating Jordanian subsidiary with a carrying value of equivalent KD 34,238,000 and those of the operating Bahraini subsidiary with a carrying value of equivalent KD 528,000 have been pledged against their borrowings.

Property and equipment include cellular equipment with a net book value of equivalent KD 6,492,000 acquired under finance lease with "sale and lease back" arrangement and vehicles with a net book value of equivalent KD 362,000 acquired under "finance lease" by the operating Jordanian subsidiary.

**8. Intangible assets**

	2003	2002
	KD'000	
Goodwill – Note 21	91,457	-
License fees	2,934	-
Key money, Software rights, license fees and other	1,422	-
	<u>95,813</u>	<u>-</u>
Less: Accumulated amortization	(8,626)	-
	<u>87,187</u>	<u>-</u>

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

Mobile Telecommunications Company KSC and subsidiaries

Notes to the Financial Statements - 31 December 2003

9. Trade and other payables

	2003	2002
		KD'000
Trade payables	36,404	21,902
Deferred revenue	11,841	8,007
Subscribers' deposits	5,589	3,441
Due to roaming partners	3,655	4,014
Due to Government of Jordan	8,509	-
Accrued expenses	38,513	18,805
Directors' remuneration	28	28
Kuwait Foundation for the Advancement of Sciences	1,054	765
National Labour Support Tax	2,596	2,061
Provision for income and sales taxes - Jordan	5,287	-
Dividend payable	3,605	2,813
Unrealised losses on cash flow hedges	359	-
Other payables	2,830	1,383
	<u>120,270</u>	<u>63,219</u>

10. Due to banks

	2003	2002
		KD'000
<i>Parent Company</i>		
Long term loans	88,654	-
<i>Operating Jordanian subsidiary</i>		
Long term loans	13,318	-
Notes payable	16,357	-
Finance lease obligations	5,183	-
	<u>34,858</u>	-
<i>Operating Bahraini subsidiary</i>		
Bank overdraft	264	-
Long term loan	489	-
Finance lease obligations	340	-
	<u>1,093</u>	-
	<u>124,605</u>	-

The Parent Company has borrowed from a Kuwaiti bank in US Dollars and the subsidiaries in US Dollars and in their respective local currencies from banks in their countries.

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These dues mature as follows:

	2003	2002
	KD '000	
Less than one year	28,052	-
Between one and two years	34,632	-
Between two and five years	61,678	-
Over five years	243	-
	<u>124,605</u>	<u>-</u>

The effective interest rates ranges from 4% to 9.5%.

**11. Other non-current liabilities**

	2003	2002
	KD '000	
Post employment benefits	2,994	2,208
Unrealised losses on cash flow hedges	85	-
	<u>3,079</u>	<u>2,208</u>

**12. Share capital and reserves**

*Share capital*

The authorised, issued and fully paid up share capital as of 31 December 2003 consists of 493,298,592 shares of 100 fils each (2002 – 493,298,592 shares of 100 fils each).

*Legal reserve*

In 2002 the legal reserve reached 100% of share capital and as permitted by its Articles of Association, the Parent Company resolved in the General Assembly meeting held on 22 March 2003 to discontinue appropriations to legal reserve. This reserve can be utilised only for distribution of a maximum dividend of 5% in years when the retained earnings are inadequate for this purpose.

*Voluntary reserve*

In 2002 the voluntary reserve exceeded 50% of share capital and as permitted by its Articles of Association, the Parent Company resolved in the General Assembly meeting held on 22 March 2003 to discontinue appropriations to voluntary reserve. There is no restriction on distribution of this reserve.

*Proposed dividend*

The Board of Directors, subject to approval of shareholders, recommends distribution of a cash dividend of 150 fils per share (2002 - 140 fils per share) and bonus shares of 5% of the paid up capital (2002 – Nil) to the registered shareholders as of the date of the Annual General Meeting.

**13. Treasury shares**

	<u>2003</u>	<u>2002</u>
Number of shares	9,975,530	9,975,530
Percentage of issued shares	2.02%	2.02%
Market value (KD '000)	39,503	20,151
Cost (KD '000)	4,028	4,028

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

**14. Revenue**

	<u>2003</u>	<u>2002</u>
		<u>KD'000</u>
Airtime and subscription	243,570	121,081
Trading income	11,035	11,604
	<u>254,605</u>	<u>132,685</u>

**15. National Labour Support Tax**

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

**16. Income Tax**

This represents estimated income tax liability in Jordan of the operating Jordanian subsidiary.

**17. Earnings per share**

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

	<u>2003</u>	<u>2002</u>
		<u>KD'000</u>
Net profit for the year	<u>102,212</u>	<u>75,042</u>
	Shares	Shares
Number of shares issued and paid-up	493,298,592	493,298,592
Weighted average number of treasury shares	<u>(9,975,530)</u>	<u>(9,975,530)</u>
	<u>483,323,062</u>	<u>483,323,062</u>
	Fils	Fils
Earnings per share	<u>211</u>	<u>155</u>

**18. Cash and cash equivalents**

	2003	2002
		KD'000
Cash on hand and at banks	26,697	12,615
Short-term deposits with banks	71,590	59,477
Bank overdraft	(264)	-
	<u>98,023</u>	<u>72,092</u>

**19. Staff costs**

At 31 December 2003, the Group employed 2,016 employees (2002 – 1,042). Staff costs for the year amounted to KD 19,296,000 (2002 - KD 12,177,000).

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

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

**Credit risk**

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

**Market risk**

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

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

The total of such forward contracts amount to USD 25,265,000 (equivalent KD 7,456,000) with maturity dates ranging from 25 April 2004 to 30 June 2005.

**Liquidity risk**

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

**Fair value of financial instruments**

At 31 December 2003, the fair values of financial instruments are not significantly different from their carrying values.

**21. Acquisition of Jordanian subsidiary**

On 15 January 2003, the Parent Company acquired 91.596% of the share capital of Pella Investment Company (a limited liability company registered in Jordan) for a total consideration of USD 418,900,000 (equivalent KD 125,597,000). An amount of USD 388,900,000 was paid upto 31 December 2003 and the balance is payable. The fair values of the assets and liabilities acquired (as evaluated by independent valuers), goodwill arising upon acquisition and related cash flows were as follows:

	<u>15 January 2003</u> <u>KD'000</u>
Assets acquired	118,702
Liabilities assumed	(79,544)
Fair value of net assets	<u>39,158</u>
Less: Minority interest	(3,291)
<b>Fair value of net assets acquired</b>	<u>35,867</u> →
<i>Less: Cost of acquisition :</i>	
Purchase consideration	125,597
Other direct costs related to acquisition	1,626
	<u>127,223</u> →
Goodwill arising upon acquisition	91,356
Add: Goodwill arising on 4.92% shares acquired earlier	101
<b>Total Goodwill (Note 8)</b>	<u>91,457</u>

**Cash flows upon acquisition of Jordanian subsidiary**

Cash payment	116,506
Other direct costs related to acquisition	1,627
Cash and cash equivalents of Jordanian subsidiary acquired	(9,286)
	<u>108,847</u>

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22. Parent Company – Financial position and results

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

	2003	2002
	KD'000	
<b>Assets</b>		
Current assets	136,242	110,063
Non current assets	372,833	235,032
Total	<u>509,075</u>	<u>345,095</u>
<b>Liabilities</b>		
Current liabilities	81,146	58,926
Non current liabilities	91,638	2,003
Total	<u>172,784</u>	<u>60,929</u>
<b>Net assets</b>	<u>336,291</u>	<u>284,166</u>
	2003	2002
	KD'000	
<b>Operating results – Income and expenses</b>		
Revenue	157,604	88,346
Net profit of the parent	83,917	42,148
Profit of Kuwaiti subsidiaries	-	32,894
Profit of foreign subsidiaries	18,295	-
<b>Net profit of the Group</b>	<u>102,212</u>	<u>75,042</u>

During the year, the activities of Kuwaiti subsidiaries were transferred to the parent.

23. 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 and Bahrain. The commercial operations in Bahrain commenced on 28 December 2003. This forms the basis of the geographical segments.

	2003			
	Kuwait	Jordan	Bahrain	Total
	KD '000			
Gross revenues	<u>157,604</u>	<u>96,917</u>	<u>84</u>	<u>254,605</u>
Segment result	<u>83,917</u>	<u>21,813</u>	<u>(3,518)</u>	<u>102,212</u>
Total assets	447,318	124,283	15,571	587,172
Total liabilities	163,448	74,333	13,100	250,881
Net assets	<u>283,870</u>	<u>49,950</u>	<u>2,471</u>	<u>336,291</u>

The functional currencies of the subsidiaries in Jordan and Bahrain are their respective national currencies. Previous year comparatives are not given since Kuwait was the only geographic segment in that year.

## Mobile Telecommunications Company KSC and subsidiaries

### Notes to the Financial Statements - 31 December 2003

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#### 24. Commitments and contingencies

At the balance sheet date, the Group has the following capital commitments and contingent liabilities:

	2003	2002
		KD '000
Capital expenditure	31,214	17,959
Uncalled share capital of investee companies	8,487	4,481
Letters of credit	33	2,702
Letters of guarantee	3,573	655

The operating Jordanian subsidiary is a defendant in lawsuits and arbitration proceedings amounting to around equivalent KD 14,197,000. The management considers the possibility of any material liability arising from these lawsuits to be remote.

#### 25. Comparative figures

Certain prior year amounts have been reclassified to confirm with current year presentation.