

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

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

31 December 2009

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**Mobile Telecommunications Company K.S.C.
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. ("the Parent Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

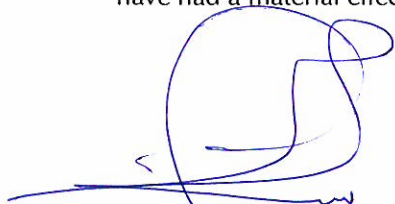
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Mobile Telecommunications Company K.S.C.
Kuwait

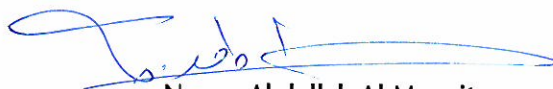
INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (Continued)

Report on other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of accounts have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by Commercial Companies Law of 1960, as amended, and by the Parent Company's Articles of Association; that an inventory was duly carried out; and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, or of the Articles of Association have occurred during the year ended 31 December 2009 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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PricewaterhouseCoopers



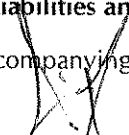
Nasser Abdullah Al Muqait
Licence No.9A
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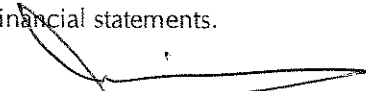
Kuwait
31 March 2010

Consolidated Statement of Financial Position as at 31 December 2009

	Note	2009	2008
		KD '000	
ASSETS			
Current assets			
Cash and bank balances	4	267,175	367,871
Trade and other receivables	5	405,434	355,321
Loan to an associate	6	-	79,673
Inventories	7	32,554	30,427
Investment securities at fair value through profit or loss	8	7,464	16,676
		<u>712,627</u>	<u>849,968</u>
Non-current assets			
Deferred tax assets	9	134,049	88,805
Investment securities available for sale	8	98,492	96,904
Investments in associates	10	165,771	216,389
Interest in a jointly controlled entity	11	44,063	-
Loans to an associate	6	141,996	-
Property and equipment	12	2,151,768	2,026,790
Intangible assets	13	2,245,453	2,234,423
Other financial assets	14	2,539	2,378
		<u>4,984,131</u>	<u>4,665,689</u>
Total Assets		<u>5,696,758</u>	<u>5,515,657</u>
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	15	939,944	970,191
Due to banks	16	536,472	231,138
		<u>1,476,416</u>	<u>1,201,329</u>
Non-current liabilities			
Due to banks	16	1,615,994	1,670,788
Deferred tax liabilities	9	38,704	30,283
Other non-current liabilities	17	87,166	212,128
		<u>1,741,864</u>	<u>1,913,199</u>
Equity			
Attributable to Parent Company's shareholders			
Share capital	18	428,285	427,240
Share premium	18	1,691,105	1,690,772
Treasury shares	18	(567,834)	(567,834)
Legal reserve	18	147,989	127,788
Voluntary reserve	18	63,091	63,091
Foreign currency translation reserve		(21,174)	(97,692)
Treasury shares reserve		1,967	1,967
Equity issue transaction cost of associate		(1,814)	(1,746)
Investment fair valuation reserve		(7,719)	(9,201)
Share based compensation reserve		18,361	20,395
Hedge reserve		(49,298)	(60,382)
Retained earnings		593,643	625,014
		<u>2,296,602</u>	<u>2,219,412</u>
Non-controlling interests		<u>181,876</u>	<u>181,717</u>
Total equity		<u>2,478,478</u>	<u>2,401,129</u>
Total Liabilities and Equity		<u>5,696,758</u>	<u>5,515,657</u>

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


Asaad Ahmed Al Banwan
Chairman


Nabeel Bin Salamah
Chief Executive Officer

Mobile Telecommunications Company K.S.C.

Consolidated Statement of Income – Year ended 31 December 2009

	Note	2009	2008
		KD '000	
Revenue	19	2,318,372	2,003,080
Cost of sales		(639,843)	(571,122)
Gross profit		1,678,529	1,431,958
Distribution, marketing and operating expenses		(518,533)	(467,467)
General and administrative expenses		(222,944)	(210,609)
Depreciation and amortization	12,13	(398,093)	(303,363)
Impairment losses – goodwill	13	(22,864)	(63,262)
Provision for impairment – trade and other receivables		(10,974)	(6,556)
Operating profit		505,121	380,701
Interest income		13,372	31,489
Investment income	20	(8,226)	(599)
Share of loss of associates	10	(61,145)	(20,659)
Share of loss of jointly controlled entity	11	(4,229)	-
Fair value gain on the previously held equity interest in a subsidiary		-	152,413
Other income		11,666	21,470
Finance cost		(160,710)	(128,002)
Loss from currency revaluation		(38,172)	(37,091)
Board of Directors' remuneration		(32)	(32)
Contribution to Kuwait Foundation for Advancement of Sciences		(1,818)	(2,978)
National Labour Support Tax and Zakat	21	(5,156)	(5,877)
Profit for the year before income tax		250,671	390,835
Income tax expense of subsidiaries	22	(39,430)	(53,720)
Profit for the year		211,241	337,115
Profit attributable to:			
Shareholders of the Parent Company		195,008	322,002
Non-controlling interests		16,233	15,113
		211,241	337,115
Earnings per share (EPS)	23		
		Fils	Fils
Basic earnings per share		51	88
Diluted earnings per share		50	87

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

Consolidated Statement of Comprehensive Income – Year ended 31 December 2009

	2009	2008
	KD '000	
Profit for the year	211,241	337,115
Other comprehensive income :		
Exchange differences on translating foreign operations	67,098	(72,615)
Net unrealised gain/ (loss) on available-for-sale investments	7,364	(75,302)
Net realised gains transferred to statement of income on available-for-sale investments (net of impairment losses)	(5,882)	(1,603)
Cash flow hedges	11,084	(60,382)
Share based compensation	7,207	8,173
Share of other comprehensive income of an associate	(68)	(1,746)
Total comprehensive income for the year	<u>298,044</u>	<u>133,640</u>
Total comprehensive income attributable to:		
Shareholders of the Parent Company	291,231	119,464
Non controlling interests	<u>6,813</u>	<u>14,176</u>
	<u>298,044</u>	<u>133,640</u>

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

Mobile Telecommunications Company K.S.C.

Consolidated Statement of Changes in Shareholders' Equity – Year ended 31 December 2009

	Equity attributable to Parent Company's Shareholders											Non-controlling interests	Total	
	Share capital	Share premium	Treasury shares	Legal reserve	Voluntary reserve	Foreign currency translation reserve	Treasury shares reserve	Equity issue transaction cost of associate	Investment fair valuation reserve	Share based compensation reserve	Hedge reserve			Retained earnings
	KD '000													
Balance at 1 January 2009	427,240	1,690,772	(567,834)	127,788	63,091	(97,692)	1,967	(1,746)	(9,201)	20,395	(60,382)	625,014	181,717	2,401,129
Transfer to reserves	-	-	-	20,201	-	-	-	-	-	-	-	(20,201)	-	-
Adjustments to non-controlling interest share	-	-	-	-	-	-	-	-	-	-	-	-	(1,393)	(1,393)
Sale/ purchase of shares to/ from non-controlling interest (Note 3)	-	-	-	-	-	-	-	-	-	-	-	(22,477)	4,101	(18,376)
Exercise of share options	1,045	333	-	-	-	-	-	-	-	-	-	(468)	-	910
Cash dividends (2008)	-	-	-	-	-	-	-	-	-	-	-	(192,474)	(9,362)	(201,836)
Transfer to retained earnings	-	-	-	-	-	-	-	-	-	(9,241)	-	9,241	-	-
Total comprehensive income for the year	-	-	-	-	-	76,518	-	(68)	1,482	7,207	11,084	195,008	6,813	298,044
Balance at 31 December 2009	<u>428,285</u>	<u>1,691,105</u>	<u>(567,834)</u>	<u>147,989</u>	<u>63,091</u>	<u>(21,174)</u>	<u>1,967</u>	<u>(1,814)</u>	<u>(7,719)</u>	<u>18,361</u>	<u>(49,298)</u>	<u>593,643</u>	<u>181,876</u>	<u>2,478,478</u>
Balance at 1 January 2008	189,398	624,465	(15,576)	94,699	63,091	(26,014)	-	-	67,704	12,222	-	571,938	166,379	1,748,306
Transfer to reserves	-	-	-	33,089	-	-	-	-	-	-	-	(33,089)	-	-
Issue of share capital	142,174	1,066,307	-	-	-	-	-	-	-	-	-	-	-	1,208,481
Profit on sale of treasury shares	-	-	-	-	-	-	1,967	-	-	-	-	-	-	1,967
Purchase of treasury shares	-	-	(552,258)	-	-	-	-	-	-	-	-	-	-	(552,258)
On business acquisition (Note 27)	-	-	-	-	-	-	-	-	-	-	-	-	21,467	21,467
Adjustments to non-controlling interest share	-	-	-	-	-	-	-	-	-	-	-	-	(16,140)	(16,140)
Sale/ purchase of shares to/ from non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	26,682	(1,526)	25,156
Exercise of share options	885	-	-	-	-	-	-	-	-	-	-	(301)	-	584
Issue of bonus shares (2007)	94,783	-	-	-	-	-	-	-	-	-	-	(94,783)	-	-
Cash dividends (2007)	-	-	-	-	-	-	-	-	-	-	-	(167,435)	(2,639)	(170,074)
Total comprehensive income for the year	-	-	-	-	-	(71,678)	-	(1,746)	(76,905)	8,173	(60,382)	322,002	14,176	133,640
Balance at 31 December 2008	<u>427,240</u>	<u>1,690,772</u>	<u>(567,834)</u>	<u>127,788</u>	<u>63,091</u>	<u>(97,692)</u>	<u>1,967</u>	<u>(1,746)</u>	<u>(9,201)</u>	<u>20,395</u>	<u>(60,382)</u>	<u>625,014</u>	<u>181,717</u>	<u>2,401,129</u>

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

Mobile Telecommunications Company K.S.C.

Consolidated Statement of Cash Flows – Year ended 31 December 2009

	2009	2008
	KD '000	
Cash flows from operating activities		
Profit for the year before income tax	250,671	390,835
Adjustments for:		
Depreciation, amortization and goodwill written off	420,957	366,625
Interest income	(13,372)	(31,489)
Investment income	8,226	599
Share of loss of associates	61,145	20,659
Share of loss of jointly controlled entity	4,229	-
Fair value gain on the previously held equity interest in a subsidiary	-	(152,413)
Finance cost	160,710	128,002
(Gain)/ loss on sale of property and equipment	(8)	424
Loss from currency revaluation	38,172	37,091
<i>Operating profit before working capital changes</i>	930,730	760,333
Increase in trade and other receivables	(83,925)	(90,671)
Increase in inventories	(1,149)	(6,426)
Increase in trade and other payables	23,696	49,623
<i>Cash generated from operations</i>	869,352	712,859
<i>Payments:</i>		
Income tax	(12,685)	(36,161)
Board of Directors' remuneration	-	(28)
Kuwait Foundation for Advancement of Sciences	(2,841)	(3,004)
National Labour Support Tax and Zakat	(6,247)	(5,414)
<i>Net cash from operating activities</i>	847,579	668,252
Cash flows from investing activities		
Proceeds from sale of investment securities	5,561	8,022
Investments in securities	(1,404)	(1,779)
Investments in subsidiaries	(18,583)	13,005
Sale of shares in a subsidiary	-	50,154
Deferred purchase consideration paid (Note 15)	(192,915)	-
Investments in associates	(1,786)	(15,796)
Investment in jointly controlled entity	(50,522)	-
Acquisition of property and equipment (net)	(469,385)	(651,873)
Acquisition of intangible assets	(7,072)	(141,957)
Interest received	24,888	36,933
Dividend received	2,216	6,141
<i>Net cash used in investing activities</i>	(709,002)	(697,150)
Cash flows from financing activities		
Proceeds from/ (repayments of) bank borrowings (net)	184,308	(149,267)
Loan to an associate	(59,246)	(76,688)
Proceeds from issue of share capital	910	1,194,809
Purchase of treasury shares	-	(540,577)
Sale of treasury shares	-	4,539
Dividends paid	(191,086)	(166,763)
Dividends paid to non-controlling interests	(9,362)	(2,654)
Finance cost paid	(178,772)	(128,488)
<i>Net cash (used in)/ from financing activities</i>	(253,248)	134,911
Net (decrease)/ increase in cash and cash equivalents	(114,671)	106,013
Effects of exchange rate changes on cash and cash equivalents	13,975	595
Cash and cash equivalents at beginning of year	367,871	261,263
Cash and cash equivalents at end of year (Note 4)	267,175	367,871

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

1. Incorporation and activities

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

The Parent Company and its subsidiaries (the Group) along with associates provide mobile telecommunication services in Kuwait and 22 other countries (2008 : Kuwait and 21 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.

During the year, the Group incorporated a jointly controlled entity in Morocco - Zain Al Ajjal S.A., with 50% interest, 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 (Note 11).

The principal subsidiaries and associates are listed in Note 3.

These consolidated financial statements were authorized and approved for issue by the Board of Directors of the Parent Company on 31 March 2010 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” or “available for sale” and previously held equity interests in business combinations achieved in stages. These consolidated financial statements have been presented in Kuwaiti Dinars, rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent assets and contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a high degree of judgment or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 33.

2.2 Changes in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year except for adoption of a new accounting policy for “Interests in joint ventures” (Note 2.10) and the following new and amended IASB Standards that are effective from 1 January 2009:

IFRS 7 (Amended)	: Financial Instruments: Disclosures
IFRS 8	: Operating Segments
IAS 1 (Revised)	: Presentation of Financial Statements
IAS 16 (Amended)	: Property, Plant and Equipment
IAS 23 (Revised)	: Borrowing Costs
IAS 32 (Amended)	: Financial Instruments: Presentation
IAS 36 (Amended)	: Impairment of Assets
IAS 39 (Amended)	: Financial Instruments: Recognition and Measurement
IFRIC 13	: Customer Loyalty Programmes

i) Amendments to IFRS 7 ‘Improving Disclosures about Financial Instruments’

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Measurements related to items at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments. The amended standard also requires disclosing reconciliation between the beginning and ending balance for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy.

ii) IFRS 8 ‘Operating Segments’

The new standard which replaced IAS 14 ‘Segment reporting’ requires a ‘management approach’ under which segment information is presented on the same basis as that used for internal reporting purposes. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker.

iii) IAS 1 ‘Presentation of Financial Statements’

The revised standard separates owner and non-owner changes in shareholders’ equity. The statement of changes in shareholders’ equity includes only details of transactions with owners, with non-owner changes in shareholders’ equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two linked statements.

iv) IAS 23 ‘Borrowing Costs’

The revised standard has eliminated the previously available option to expense all borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset when incurred. Borrowing costs incurred on qualifying assets have to be capitalized.

v) IFRIC 13 ‘Customer Loyalty Programmes’

This interpretation applies to customer loyalty award credits that (a) an entity grants to its customers as part of a sales transaction and (b) subject to meeting any further qualifying conditions, the customers can redeem in the future for free or services. Such award credits should be accounted as a separately identifiable component of the sales transaction in which they are granted (“the initial sale”). The fair value of the consideration received or receivable in respect of the initial sale shall be allocated between the award credits and the other components of the sale.

The application of other IASB standards did not have material impact on the consolidated financial statements of the Group.

Standards and Interpretations issued but not yet effective

The following International Accounting Standard Board (IASB) Standard and International Financial Reporting Interpretation Committee (IFRIC) Interpretation have been issued but are not yet effective and have not been early adopted by the Group:

For annual periods beginning on or after 1 July 2009

IAS 31 (Revised)	: Interests in Joint Ventures
IAS 38 (Revised)	: Intangible Assets
IAS 39 (Revised)	: Financial Instruments – Recognition and Measurement
IFRIC 17	: Distributions of Non-cash Assets to Owners
IFRIC 18	: Transfers of Assets from Customers

For annual periods beginning on or after 1 January 2010

IAS 1 (Revised)	: Presentation of Financial Statements
IAS 7 (Revised)	: Statement of Cash Flows
IAS 17 (Revised)	: Leases
IAS 36 (Revised)	: Impairment of Assets
IFRS 2 (Revised)	: Share-based Payments
IFRS 8 (Revised)	: Operating Segments

For annual periods beginning on or after 1 July 2010

IFRIC 19 : Extinguishing Financial Liabilities with Equity Instruments

For annual periods beginning on or after 1 January 2013

IFRS 9 : Financial Instruments: Classification and Measurement

This standard will replace IAS 32 and IAS 39 upon its effective date. IFRS 9 establishes principles for the financial reporting of financial assets that will present relevant and useful information to users of the financial statements for their assessment of the amounts, timing and uncertainty of the entity's future cash flows.

The application of these standards will be made in the financial statements when these standards and interpretations become effective and are not expected to have a material impact on the consolidated financial statements of the Group.

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 income. The fair value of the equity of the acquiree at the acquisition date is determined using valuation techniques and considering the outcome of recent transactions for similar assets in the same industry in the same geographical region.

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

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

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

2.4 Consolidation

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

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

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

2.5 Financial instruments

Classification

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

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

Recognition/ de-recognition

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

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

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

Measurement

Financial instruments

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Available for sale

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

Financial liabilities/ equity

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

Financial guarantees

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

Fair values

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

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

Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Derivatives with positive fair values (unrealised gains) are included in other receivables and derivatives with negative fair values (unrealised losses) are included in other payables in the 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 income. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates derivatives as either hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

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

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

Fair value hedge

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

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

Cash flow hedge

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

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

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

Impairment

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An assessment is made at each 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 income. For "available for sale" equity investments, reversals of impairment losses are recorded as increases in fair valuation reserve through equity.

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

2.6 Cash and cash equivalents

Cash on hand, demand and time deposits with banks whose original maturities do not exceed three months are classified as cash and cash equivalents in the 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 at the 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 shareholding of between 20% and 50% of the voting rights. The excess of the cost of investment over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recognised as goodwill. Goodwill on acquisition of associates is included in the carrying values of investments in associates. Investments in associates are initially recognised at cost and are subsequently accounted for by the equity method of accounting from the date of significant influence to the date it ceases. Under the equity method, the Group recognises in the consolidated statement of income, its share of the associate's post acquisition results of operations and in equity, its share of post acquisition movements in reserves that the associate directly recognises in equity. The cumulative post acquisition adjustments, and any impairment, are directly adjusted against the carrying value of the associate. Appropriate adjustments such as depreciation, amortisation and impairment losses are made to the Group's share of profit or loss after acquisition to account for the effect of fair value adjustments made at the time of acquisition.

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

2.10 Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control. A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The Group recognises its interests in jointly controlled entities 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:

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

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

2.12 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, key money and software rights.

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

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

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

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

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

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

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 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 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 recognised when the related service is rendered and comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of activities. Other revenues, which arise from service contracts, sales of telephones and accessories or other services, are recognised in the month during which the services or goods are provided.

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

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

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

2.19 Borrowing costs

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

2.20 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 income.

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

The income and cash flow statements of foreign operations are translated into the Parent Company's reporting currency at average exchange rates for the year and their 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 and fair value adjustments arising on business combinations) and of borrowings and other currency instruments designated as hedges of such instruments, are taken to shareholders' equity. When a foreign operation is sold, any resultant exchange differences are recognised in the consolidated statement of income 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 of. An item is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Such a component represents a separate major line of business or geographical area of operations.

2.22 Contingencies

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

3. Subsidiaries and Associates

The principal subsidiaries and associates are:

Subsidiary	Country of Incorporation	Percentage of ownership	
		2009	2008
Zain International B.V. (formerly Mobile Telecommunications Company International B.V.) – “ZIBV”	The Netherlands	100%	100%
Pella Investment Company – “Pella”	Jordan	96.516%	96.516%
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%
Atheer Telecom Iraq Limited – “Atheer”	Cayman Islands	71.667%	71.667%
Athir National Co. W.L.L. “ANC”	Bahrain	100%	100%
Associate			
Saudi Mobile Telecommunications Company (SMTC)	Saudi Arabia	25%	25%

Zain International B.V. holds 100% of Zain Africa B.V., Netherlands (ZABV) which is a Dutch holding and finance company principally engaged in the business of operating cellular telecommunications networks in 15 (2008 - 15) countries in Africa as follows:

Subsidiary	Country of Incorporation	Percentage of ownership	
		2009	2008
Celtel Burkina Faso S.A	Burkina Faso	100%	100%
Celtel Tchad S.A	Chad	100%	100%
Celtel Congo (DRC) SARL	Dem. Rep of Congo	98.50%	98.50%
Celtel Congo S.A	Republic of Congo	90%	90%
Celtel Gabon S.A	Gabon	90%	90%
Celtel Kenya Limited	Kenya	95%	80%
Celtel Malawi Limited	Malawi	100%	100%
Celtel Niger S.A	Niger	90%	90%
Celtel (S.L) Limited	Sierra Leone	100%	100%
Celtel Limited Uganda	Uganda	100%	100%
Celtel Zambia Limited	Zambia	78.88%	78.88%
Celtel Tanzania Limited	Tanzania	60%	60%
Celtel Madagascar SA	Madagascar	100%	100%
Celtel Nigeria Limited	Nigeria	65.702%	65.702%
Zain Ghana Limited	Ghana	75%	75%

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

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

MTCL

On 30 January 2009, the Parent Company signed a new Network Management Agreement (NMA) with the Republic of Lebanon. This agreement expires on 30 January 2010 and is renewable for an additional year. The financial statements of MTCL are prepared on a going concern basis as the management believes that any potential adjustments to the presentation and amounts in the statement of financial position arising from expiry of the NMA may not be significant.

Celtel Kenya Limited

During the year, the Group acquired an additional 15% equity interest in Celtel Kenya Limited from a non- controlling interest for a consideration of US\$ 63.75 million (KD 18.58 million). The difference between the consideration paid and the share acquired of the carrying value of net assets is recorded in equity.

Palestinian Telecommunications Company PLC, Palestine (Paltel)

In May 2009, the Group acquired 56.53% of the equity shares and voting rights of Palestinian Telecommunications Company PLC, Palestine (Paltel) - a Palestinian public shareholding company, listed on the Palestinian Stock Exchange and Abu Dhabi Securities Exchange - in exchange for the Group's 96.516% equity shares and voting rights in Pella Investment Company LLC, Jordan (Pella). This deal did not take place as the Group did not receive the required Government approvals for the acquisition.

Financial support to Group companies

The Group has committed to provide working capital and other financial support to Atheer, Zain Sudan, SMTC, ZABV, Celtel Nigeria Ltd., Celtel Gabon Ltd. and Celtel Kenya Ltd. whose working capitals were 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:

	2009	2008
	KD '000	
Cash on hand and at banks	169,277	171,140
Short-term deposits with banks with original maturities of less than three months	97,898	196,731
Cash and bank balances	<u>267,175</u>	<u>367,871</u>

The effective interest rate on short-term deposits as of 31 December 2009 was 1.98% to 6% per annum (2008 – 3.02% to 6.13%).

5. Trade and other receivables

	2009	2008
	KD '000	
Trade receivables:		
Customers	90,453	64,785
Distributors	19,334	37,161
Other operators (interconnect)	83,639	75,535
Roaming partners	15,788	17,678
Provision for impairment	(51,458)	(50,014)
	<u>157,756</u>	<u>145,145</u>
Accrued income	7,339	8,336
Staff	5,162	5,808
Due from an associate	44,678	68,775
Prepayments, advances and deposits	190,499	127,257
	<u>405,434</u>	<u>355,321</u>

As of 31 December 2009, trade receivables of KD 69,958,000 (2008 - KD 80,623,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

Notes to the Consolidated Financial Statements – 31 December 2009

The ageing analysis of these trade receivables is as follows:

	2009	2008
	KD '000	
Up to 3 months	21,834	23,129
3 – 6 months	9,987	14,452
6 – 12 months	14,882	14,087
More than 12 months	23,255	28,955
	<u>69,958</u>	<u>80,623</u>

As of 31 December 2009, trade receivables of KD 54,600,000 (2008 - KD 53,756,000) were impaired against which the Group carries a provision of KD 51,458,000 (2008 - KD 50,014,000). The individually impaired receivables mainly relate to post paid customers. It was assessed that a portion of the impaired receivables is expected to be recovered.

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

	2009	2008
	KD '000	
Kuwaiti dinar	19,089	37,803
US dollar	155,599	142,992
Euro	19,674	29,928
Bahraini dinar	20,837	22,023
Sudanese pound	33,972	28,049
Jordanian dinar	45,271	13,639
Others	110,992	80,887
	<u>405,434</u>	<u>355,321</u>

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

	2009	2008
	KD '000	
Opening balance - 1 January	50,014	42,870
On acquisition of subsidiary	-	6,542
Recoveries/ write back of provisions	(9,530)	(5,954)
Charge for the year	10,974	6,556
Closing balance – 31 December	<u>51,458</u>	<u>50,014</u>

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

6. Loans to an associate

This comprises of two shareholders loans, one denominated in Saudi Riyals and the other in United States Dollars provided by the Group to SMTC. The SAR 1.1 billion (KD 83 million) loan, disbursed in 2008 carries an interest rate of 4.25% per annum over six month Saudi Inter-Bank Offered Rate (SIBOR) starting from 12 August 2009.

In 2009 the Group provided an additional US Dollar 206 million (KD 59 million) loan which carries an interest rate of 6.75% per annum over six month Saudi Inter-Bank Offered Rate (SIBOR).

These loans are subordinate to the associate's borrowings from banks and are repayable only after 12 August 2011.

7. Inventories	<u>2009</u>	<u>2008</u>
	<u>KD '000</u>	
Handsets and accessories	36,784	32,402
Provision for obsolescence	(4,230)	(1,975)
	<u>32,554</u>	<u>30,427</u>

8. Investment securities	<u>2009</u>	<u>2008</u>
	<u>KD '000</u>	
<i>Current investments</i>		
<i>At fair value through profit or loss</i>		
Quoted equities	7,464	9,872
Funds	-	6,804
	<u>7,464</u>	<u>16,676</u>
<i>Non-current investments</i>		
<i>Available for sale</i>		
Quoted equities	53,120	58,094
Funds	26,665	28,560
Unquoted equities	26,043	15,913
Impairment loss	(7,336)	(5,663)
	<u>98,492</u>	<u>96,904</u>

Investment securities are denominated in the following currencies:

	<u>2009</u>	<u>2008</u>
	<u>KD '000</u>	
Kuwaiti dinar	71,714	76,280
US dollar	26,915	26,195
Other currencies	7,327	11,105
	<u>105,956</u>	<u>113,580</u>

Available for sale investments include unlisted securities with original cost of KD 4,640,000 (2008 - KD 5,674,000) carried at cost less impairment since it is not possible to reliably measure their fair value.

During the year the Group recognized an unrealized gain of KD 7,364,000 (2008 - unrealized loss of KD 75,302,000) in investment fair valuation reserve arising from fair valuation of 'available for sale' investments and transferred a gain of KD 7,555,000 (2008 - KD 5,574,000) from investment fair valuation reserve to the consolidated statement of income, arising from disposals. The Group also recognized an impairment loss of KD 1,673,000 (2008 - KD 3,971,000) in the consolidated statement of income by transferring the loss from the investment fair valuation reserve.

9. Deferred tax assets/ liabilities	<u>2009</u>	<u>2008</u>
	<u>KD '000</u>	
Deferred tax assets:		
Deferred tax assets to be recovered after more than 12 months	128,597	79,284
Deferred tax assets to be recovered within 12 months	5,452	9,521
	<u>134,049</u>	<u>88,805</u>
Deferred tax liabilities:		
Deferred tax liability payable after more than 12 months	36,474	25,892
Deferred tax liability payable within 12 months	2,230	4,391
	<u>38,704</u>	<u>30,283</u>

10. Investments in associates

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

	2009	2008
	KD '000	
Opening balance	216,389	259,640
Capital contribution during the year	1,779	608
Share of loss for the year (See below)	(61,145)	(20,659)
Acquisition of additional shares	-	15,152
Cost of IPO (SMTC)	-	(1,746)
Foreign currency translation adjustment	8,748	1,276
Adjustment – Atheer (Note 27)	-	(37,882)
Closing balance	<u>165,771</u>	<u>216,389</u>

The carrying amount of the Group's investment in SMTC included above is KD 165 million (2008: KD 216 million) and the Group's net investment in SMTC including loans and receivables (Note 6) is KD 351.578 million (2008 - KD 334.596 million). The Group is also contingently liable for guarantees amounting to US\$ 774 million (KD 222 million) relating to loan and other vendor financing availed by SMTC.

In August 2009, SMTC refinanced the US\$ 2.5 billion murabaha loan that matured in July 2009 with a new murabaha facility of a similar amount repayable in full in August 2011.

Under the murabaha financing agreement, SMTC must 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 incurred a net loss of Saudi Riyals 3.1 billion (KD 238 million) for the year ended 31 December 2009 (2008 – KD 132 million) and has accumulated losses of Saudi Riyals 5.4 billion (KD 413 million) as of that date (2008 – KD 169 million). SMTC's current liabilities also exceed current assets by Saudi Riyals 4.9 billion (KD 375 million) as of 31 December 2009 (2008 – KD 876 million). Furthermore, SMTC is in breach of certain covenants attached to some of the loan facilities. The lenders have provided waivers for the non-compliance, subject to SMTC providing to them, revised financial milestones for the quarters ending 31 December 2010 for their approval.

SMTC's audited financial statements for the year ended 31 December 2009 disclose that they have been prepared on a going concern basis as it is currently in the process of providing such information to lenders and its management is of the opinion that negotiations with the lenders to obtain their approval on such revised milestones as well as efforts to secure funding to meet its obligations in the normal course of operations will be successful.

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

	2009	2008
	KD '000	
Assets	537,228	493,571
Liabilities	371,457	277,182
Revenue	57,935	9,056
Net (loss)/ profit for the year:		
Atheer, Iraq	-	12,704
SMTC, Saudi Arabia	(59,514)	(32,877)
Others	(1,631)	(486)
	<u>(61,145)</u>	<u>(20,659)</u>

11. Interest in a jointly controlled entity

During the year, the Group incorporated a jointly controlled entity Zain Al Ajial S.A. in the Kingdom of Morocco 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 for US\$ 175 million (KD 50.52 million). The Group's share of loss in the jointly controlled entity amounting to KD 4.229 million has been recognized in the consolidated statement of income.

12. Property and equipment

	Land and buildings	Cellular and other equipment	Projects in progress	Total
				KD '000
Cost				
As at 31 December 2007	79,969	1,844,919	348,568	2,273,456
Additions	7,619	391,705	308,512	707,836
On acquisition of subsidiaries	-	306,929	8,644	315,573
Transfers and adjustments	7,858	163,233	(174,328)	(3,237)
Disposals	(155)	(18,916)	(31)	(19,102)
Exchange adjustment	2,052	(107,022)	(34,838)	(139,808)
As at 31 December 2008	97,343	2,580,848	456,527	3,134,718
Additions	28,030	499,555	37,837	565,422
Transfers and adjustments	4,164	165,432	(171,386)	(1,790)
Disposals	(14,872)	(54,654)	(71,867)	(141,393)
Exchange adjustment	3,028	38,486	(16,200)	25,314
As at 31 December 2009	117,693	3,229,667	234,911	3,582,271
Accumulated depreciation				
As at 31 December 2007	33,297	744,557	-	777,854
Charge for the year	3,977	269,255	-	273,232
On disposals	(174)	(5,510)	-	(5,684)
On acquisition of subsidiaries	-	107,705	-	107,705
Exchange adjustment	190	(45,369)	-	(45,179)
As at 31 December 2008	37,290	1,070,638	-	1,107,928
Charge for the year	5,891	337,823	-	343,714
On disposals	(11)	(35,190)	-	(35,201)
Exchange adjustment	1,158	12,904	-	14,062
As at 31 December 2009	44,328	1,386,175	-	1,430,503
Net Book Value				
As at 31 December 2009	73,365	1,843,492	234,911	2,151,768
As at 31 December 2008	60,053	1,510,210	456,527	2,026,790

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

Property and equipment includes vehicles with a net book value of KD 1,168,000 (2008 – KD 1,431,000) acquired under finance lease by Zain Sudan and buildings with a net book value equivalent to KD 785,000 (2008 – KD 788,000) acquired under a finance lease by MTCB. Projects in progress comprise of cellular and other equipment amounting to KD 222,040,000 (2008 - KD 444,895,000) and buildings amounting to KD 12,871,000 (2008 – KD 11,632,000).

The Group re-evaluated the estimated useful life of towers of its Sub Saharan operating segment in 2009 based on internal technical assessments, contractual guarantees from suppliers, historical replacements information and industry benchmarks and decided to extend the useful life of towers from 8 to 15 years. This change in accounting estimate applies prospectively and resulted in a KD 14.91 million lower depreciation charge for the year.

13. Intangible assets

	Goodwill	Licence fees	Others	Total
	KD '000			
Cost				
At 31 December 2007	1,363,775	327,368	43,748	1,734,891
Additions	150,497	7,589	339	158,425
Disposals	(28,741)	(22,133)	-	(50,874)
On subsidiaries acquired	259,054	335,404	989	595,447
Adjustments to identifiable asset	(4,336)	-	4,336	-
Exchange adjustments	(4,543)	5,933	575	1,965
At 31 December 2008	1,735,706	654,161	49,987	2,439,854
Additions	5,966	4,910	2,228	13,104
Disposals	(512)	-	(19)	(531)
Adjustments to identifiable asset	(11,008)	(8,950)	183	(19,775)
Exchange adjustments	76,472	8,578	3,546	88,596
As at 31 December 2009	1,806,624	658,699	55,925	2,521,248
Accumulated amortization and impairment losses				
At 31 December 2007	11,941	69,914	15,781	97,636
On disposals	-	(22,132)	-	(22,132)
Of subsidiaries acquired	-	26,511	989	27,500
Impairment losses	63,262	-	-	63,262
Charge for the year	-	23,506	6,625	30,131
Exchange adjustments	1,680	7,001	353	9,034
At 31 December 2008	76,883	104,800	23,748	205,431
On disposals	-	-	(13)	(13)
Adjustments to identifiable asset	-	(4,176)	4,333	157
Impairment losses	22,864	-	-	22,864
Charge for the year	-	45,621	8,758	54,379
Exchange adjustments	2,568	(8,600)	(991)	(7,023)
As at 31 December 2009	102,315	137,645	35,835	275,795
Net book value				
As at 31 December 2009	1,704,309	521,054	20,090	2,245,453
As at 31 December 2008	1,658,823	549,361	26,239	2,234,423

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

The addition to goodwill in 2008 arises from the step up acquisition in Atheer.

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

	<u>License expiry date</u>	<u>2009</u>	<u>2008</u>
		<u>KD '000</u>	
Pella Investment Company, Jordan	February 2021	79,516	79,516
Zain Bahrain B.S.C (Closed), Bahrain	April 2018	-	-
Celtel Burkina Faso S.A	May 2010	32,743	27,876
Celtel Tchad S.A	October 2019	31,889	27,030
Celtel Congo (DRC) SARL	December 2019	105,838	103,192
Celtel Congo S.A	December 2013	77,959	66,418
Celtel Gabon S.A	April 2017	107,226	91,302
Celtel Kenya Limited	January 2015	36,839	57,836
Celtel Malawi Limited	February 2014	17,724	21,425
Celtel Niger S.A	December 2015	27,747	23,661
Celtel (S.L) Limited	November 2013	31,448	39,853
Celtel Limited Uganda	October 2013	6,860	7,224
Celtel Zambia Limited	May 2013	61,323	52,315
Celtel Tanzania	November 2032	4,371	14,895
Celtel, Madagascar	September 2015	28,166	28,505
Celtel, Nigeria	February 2016	104,389	113,548
Sudanese Mobile Telephone Company Limited (Zain, Sudan)	February 2029	484,841	456,510
Zain Ghana Limited	October 2021	32,310	34,867
Atheer Telecom Iraq Limited, Cayman Islands	September 2022	433,120	412,850
		<u>1,704,309</u>	<u>1,658,823</u>

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.

In 2009 the Group determined recoverable amount using fair value less costs to sell based on a bid made by a major mobile telecom operator based in India in February 2010. This is deemed to be a most recent transaction as defined by IAS 36. Even though this is a contemplated transaction that arose in 2010, it has been considered by Group management to be an objective indication of a value attributed to the Group's telecom operations by a knowledgeable and willing party. Where this approach led to possible impairment situations additional impairment assessments were made resulting in an impairment loss on Celtel Kenya.

To compute the fair value less costs to sell for Celtel Kenya, a variety of alternative valuation approaches was used, which include amongst others a recent market transaction, the recent acquisition by the Company of a 15% share from a non-controlling interest shareholder and the net asset value in combination with an offer from a third party to purchase towers, which would imply a significant excess value over the current book value of such assets. Whilst the various valuation approaches showed a variety of outcomes, management has decided to record an impairment charge of KD 22,864,000 (2008 - KD 63,262,000) based on the lower end of the range of valuations obtained. This amount is disclosed in the consolidated statement of income as impairment losses. The main driver for the impairment charge is increased competition and the economic conditions in general that lead to lower than anticipated revenues. There was no change in the basis of aggregating the assets of the Kenya operations since the previous estimate of its recoverable value.

Celtel Tchad license

During the year, the telecom license in Celtel Tchad which was previously cancelled in August 2008 was extended for ten years from October 2009.

14. Other financial assets	2009	2008
	KD '000	
Import duties recoverable	2,539	2,378
	<u>2,539</u>	<u>2,378</u>
15. Trade and other payables	2009	2008
	KD '000	
Trade payables	209,985	211,296
Deferred revenue	104,168	83,659
Due to roaming partners	10,936	9,003
Due to other operators (interconnect)	11,571	18,295
Due to Government of Jordan	12,906	12,862
Provision for income taxes – foreign subsidiaries	88,870	80,567
Kuwait Foundation for the Advancement of Sciences	2,939	5,848
National Labour Support Tax and Zakat	4,762	5,914
Dividend payable	7,638	6,192
Accrued expenses	277,322	253,812
Directors' remuneration	64	32
Deferred purchase consideration (See note below)	-	196,064
License fee payable (See note below)	179,313	57,573
Other payables	29,470	29,074
	<u>939,944</u>	<u>970,191</u>

The deferred purchase consideration payable for the acquisition of Iraqna Company for Mobile Services Limited (Iraqna) in 2008, was settled during the year.

License fee payable represents the deferred payment liability for Atheer's telecom license fee, payable to the Telecom Regulatory Authority of Iraq (TRAI). It was due for repayment on 31 March 2009 but was deferred and is now payable in three equal annual installments beginning 1 March 2009 at a finance cost of 8% per annum on the outstanding balance. The first installment due on 1 March 2009 was not paid and consequently, the entire outstanding amount has been demanded by the TRAI. Accordingly, the entire balance outstanding, including the interest due on it, has now been reclassified as a current liability.

16. Due to banks

	2009	2008
	KD '000	
<i>MTC (the Parent Company)</i>		
Short term loans	40,535	21,855
Long term loans	67,418	5,166
	<u>107,953</u>	<u>27,021</u>
<i>JMTC – Jordan</i>		
Long term loans	-	31,200
Notes payable	-	311
Finance lease obligations	17	142
	<u>17</u>	<u>31,653</u>
<i>MTCB – Bahrain</i>		
Short term loan	-	5,972
Long term loans	1,967	6,397
Finance lease obligations	333	427
	<u>2,300</u>	<u>12,796</u>
<i>ZABV – The Netherlands</i>		
Short term loans	156,901	146,809
Long term loans	422,149	405,718
	<u>579,050</u>	<u>552,527</u>
<i>Zain – Sudan</i>		
Long term loan	111,346	106,055
Finance lease obligations	161	979
	<u>111,507</u>	<u>107,034</u>
<i>Atheer – Iraq</i>		
Short term loan	178,549	55,270
Bank overdraft	14,014	-
	<u>192,563</u>	<u>55,270</u>
<i>ZIBV – The Netherlands</i>		
Short term loan	11,476	-
Long term loan	1,147,600	1,115,625
	<u>1,159,076</u>	<u>1,115,625</u>
	<u>2,152,466</u>	<u>1,901,926</u>

The above is disclosed in the statement of financial position as follows:

	2009	2008
	KD '000	
Current liabilities	536,472	231,138
Non-current liabilities	1,615,994	1,670,788
	<u>2,152,466</u>	<u>1,901,926</u>

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the statement of financial position date are as follows:

	2009	2008
	KD '000	
Less than 6 months	941,772	689,402
6 – 12 months	-	80,104
Fixed rate borrowings	1,210,694	1,132,420
	<u>2,152,466</u>	<u>1,901,926</u>

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

	2009	2008
	KD '000	
US dollar	1,689,557	1,461,747
Euro	131,881	106,055
Kuwaiti dinar	20,000	-
Bahraini dinar	6,974	12,796
Jordanian dinar	17	31,653
Other currencies	304,037	289,675
	<u>2,152,466</u>	<u>1,901,926</u>

The effective interest rate as at 31 December 2009 was 1.20% to 7.40% (2008 – 3.91% to 7.68%) per annum.

MTC

During the year, MTC obtained an unsecured long term loan of US\$ 200 million and an unsecured short term loan of Euro 200 million from foreign banks. Three installments of Euro 50 million each were repaid during the year. Under the US\$ 206 million loan agreement MTC is obliged to hedge its interest rate exposure on this loan during its tenure. MTC has hedged this exposure through Interest Rate Swaps (IRS).

Principal financial covenants include:

- consolidated total net borrowings not to exceed four times annualized consolidated EBITDA for the period;
- ratio of annualized consolidated EBITDA to annualized consolidated net finance charge payable to be not less than 3:1.

MTC also obtained a long term loan of BD 6.7 million (KD 5 million) from a Kuwaiti bank which is secured by first mortgage of a freehold land and building located in Bahrain with a net book value as of 31 December 2009 of KD 13,138,000 (Note 12).

MTCB

MTCB's long term loan is secured by mortgage of its freehold land and building with a net book value as of 31 December 2009 of KD 382,000 (2008 – KD 394,000) (Note 12).

ZABV

The majority of the assets of ZABV are pledged to lenders and certain of its subsidiaries have entered into various loan agreements that include financial covenants in relation to debt-to-equity and leverage ratios. Financial covenants also include restrictions on dividend distributions. ZABV's Nigerian subsidiary was in breach of certain financial loan covenants during the year. Celtel Nigeria renegotiated the financial covenants with the lenders prior to year-end and as of 31 December 2009 they are in compliance with all financial covenants.

Zain Sudan

This represents Euro 270 million (KD 111 million) (2008 - Euro 270 million - KD 106 million) Islamic murabaha financing obtained from a consortium of foreign banks in 2007. This facility is guaranteed by the Parent Company. This loan is fully repayable in 2010. Financial covenants stipulate maximum debt of 3 times EBITDA (Earnings before interest, tax, depreciation and amortization) and ratio of EBITDA to net finance charges of not less than 3:1. As of 31 December 2009 the Company was in compliance with these financial covenants.

Atheer

These are US Dollar denominated unsecured short term credit facilities obtained from local and foreign banks. The credit facilities are guaranteed by MTC and it is also required to comply with certain financial covenants and restrictions on dividend distribution. In addition, there are restrictions on the Company over distribution of dividend, payment of management fees, capital expenditure, use of net proceeds from issue of any equity shares or new borrowings and the holding of excess cash in banks on relevant dates.

ZIBV

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

In June 2009 ZIBV obtained a short term loan of US\$ 40 million (KD 11.5 million) from a foreign bank. This loan is guaranteed by MTC.

17. Other non-current liabilities

	<u>2009</u>	<u>2008</u>
	<u>KD '000</u>	
Customer deposits	11,284	8,160
Post employment benefits	19,364	13,712
Licence fee payable (Note 15)	-	115,146
Derivative liability (Note 30)	49,298	60,382
Refundable deposit	7,220	14,728
	<u>87,166</u>	<u>212,128</u>

18. Share capital and reserves

Share capital (par value of KD 0.100 per share)

	<u>2009</u>	<u>2008</u>
	<u>No of shares</u>	<u>No of shares</u>
<i>Authorised</i>		
Opening balance	4,280,306,722	1,895,655,826
Bonus shares	-	947,827,913
Rights issue	-	1,421,741,870
Shares approved for Employee Share Option Plan (ESOP) – net	17,064,948	15,081,113
	<u>4,297,371,670</u>	<u>4,280,306,722</u>
<i>Issued and fully paid up</i>		
Opening balance	4,272,405,303	1,893,979,581
Bonus shares	-	947,827,913
Rights issue	-	1,421,741,870
Shares issued for 2006 ESOP	2,813,652	3,183,805
Shares issued for 2007 ESOP	7,278,150	5,672,134
Shares issued for 2008 ESOP	356,400	-
	<u>4,282,853,505</u>	<u>4,272,405,303</u>

Rights issue - 2008

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

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

At the extraordinary general meeting held on 30 March 2009, the Parent Company's shareholders approved decrease in authorized share capital by 5,123,576 shares and then to increase it by 22,188,524 shares to 4,297,371,670 shares.

Treasury shares

	<u>2009</u>	<u>2008</u>
Number of shares	425,711,648	425,711,648
Percentage of issued shares	9.94%	9.96%
Market value (KD '000)	434,226	378,883
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 Law of Commercial Companies and the Parent Company's Articles of Association, 10% of the profit for the year has been appropriated towards legal reserve. This reserve can be utilised only for distribution of a maximum dividend of 5% in years when retained earnings are inadequate for this purpose.

Voluntary reserve

The Parent Company's Articles of Association provide for the Board of Directors to propose appropriations to voluntary reserve up to a maximum of 50% of its share capital. During the year the Board of Directors did not propose any addition (2008 - Nil). There is no restriction on distribution of this reserve.

Dividend - 2008

The annual general meeting of shareholders held on 30 March 2009 approved distribution of cash dividends of 50 fils per share for the year 2008.

Proposed dividend

The Board of Directors, subject to the approval of shareholders, recommends distribution of a cash dividend of 170 fils per share (2008 - 50 fils per share) to the registered shareholders as of the date of the Annual General Meeting.

19. Revenue

	<u>2009</u>	<u>2008</u>
	<u>KD '000</u>	
Airtime and subscription	2,272,572	1,965,193
Trading income	45,800	37,887
	<u>2,318,372</u>	<u>2,003,080</u>

20. Investment income

	<u>2009</u>	<u>2008</u>
	<u>KD '000</u>	
Loss on investments at fair value through profit or loss	(2,463)	(7,071)
Realised (loss)/gains from available for sale investments	(6,306)	4,302
Impairment loss on available for sale investments	(1,673)	(3,971)
Dividend income	<u>2,216</u>	<u>6,141</u>
	<u>(8,226)</u>	<u>(599)</u>

21. National Labour Support Tax and Zakat

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

22. Income tax expense of subsidiaries

	<u>2009</u>	<u>2008</u>
	<u>KD '000</u>	
JMTS	13,980	11,981
MTCL	1,109	661
Zain Sudan	15,370	13,082
ZABV	(5,737)	24,848
Atheer	<u>14,708</u>	<u>3,148</u>
	<u>39,430</u>	<u>53,720</u>

23. Earnings per share

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

	<u>2009</u>	<u>2008</u>
	<u>KD '000</u>	
Net profit for the year	<u>195,008</u>	<u>322,002</u>
	<u>Shares</u>	<u>Shares</u>
Weighted average number of shares in issue	3,857,141,857	3,656,617,078
Effect of dilution (ESOP - Note 24)	<u>12,710,249</u>	<u>36,307,021</u>
Weighted average number of shares in issue outstanding during the year adjusted for the effect of dilution	<u>3,869,852,106</u>	<u>3,692,924,099</u>
	<u>Fils</u>	<u>Fils</u>
<i>Basic earnings per share</i>	<u>51</u>	<u>88</u>
<i>Diluted earnings per share</i>	<u>50</u>	<u>87</u>

24. 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.

Notes to the Consolidated Financial Statements – 31 December 2009

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

	2006 Plan		2007 Plan		2008 Plan		2009 Plan	
	Numbers	Weighted average exercise price	Numbers	Weighted average exercise price	Numbers	Weighted average exercise price	Numbers	Weighted average exercise price
		KD		KD		KD		KD
Granted	2,956,000	0.100	14,271,038	0.100	14,179,440	1.084	16,843,774	0.624
Adjustment for bonus shares	<u>1,478,000</u>		-		-		-	
Total	4,434,000	0.067	14,271,038	0.065	14,179,440	1.084	16,843,774	0.624
Exercised in 2007	<u>1,250,195</u>	0.067	-		-		-	
Stock options outstanding at 31 Dec 2007	3,183,805	0.067	14,271,038	0.065	14,179,440	1.084	16,843,774	0.624
Adjustment for bonus shares	<u>1,378,582</u>		<u>7,549,379</u>		-		-	
Total	4,562,387	0.067	21,820,417	0.065	14,179,440	1.084	16,843,774	0.624
Exercised in 2008	1,676,245	0.067	7,179,695	0.065	-		-	
Stock options forfeited	<u>39,299</u>		<u>43,874</u>		-		-	
Total	2,846,843	0.034	14,596,848	0.065	14,179,440	1.084	16,843,774	0.624
Additional shares granted	-		-		82,886	1.084	-	
Adjustment for dividend	-		977,784		-		-	
Exercised in 2009	2,813,652	0.034	7,278,150	0.065	4,575,005	1.034	-	
Stock options forfeited	<u>33,191</u>		<u>1,251,994</u>		<u>1,049,773</u>		-	
Stock options outstanding at 31 Dec 2009	<u>-</u>		<u>7,044,488</u>	0.065	<u>8,637,548</u>	1.034	<u>16,843,774</u>	0.624
Stock options exercisable at the end of the year	-		7,044,488	0.061	4,318,744	1.034	5,614,591	0.624
Weighted average remaining contractual life (in years)	-		1		2		3	
Weighted average share price of options exercised during the year		1.030		1.030		1.030		-

2006 Plan

The exercise price of the granted options is KD 0.100 per share. The options vest over three years at the rate of 33%, 33% and 34% each year, beginning 1 January 2007 exercisable from the date of vesting and up to three years from the service date.

The Parent Company initially granted 5,485,000 shares at an exercise price of KD 1.760 per share. The fair value of these options was KD 1.873 per share with a total fair value of KD 10,273,000. This Plan, which was subject to approval of shareholders, was amended before that date. The amended Plan granted 2,956,000 shares at an exercise price of KD 0.067 per share after adjusting for eligible bonus shares. The fair value of these options was KD 3.126 per share with a total fair value of KD 9,241,000 which was approved by shareholders. The significant inputs into the fair value model were a share price of KD 3.220 - the market price at the grant date, the exercise price shown above, volatility of 10%, dividend yield of nil (due to the ESOP terms), option life of 3 years and an annual interest rate of 5.5%. The Group recognised total expenses of KD Nil (2008 - KD 1,047,000) related to equity settled share-based compensation during the year.

2007 Plan

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

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

The Group recognised total expenses of KD 3,273,000 (2008 - KD 5,783,000) related to equity settled share-based compensation during the year.

2008 Plan

The Parent Company granted 14,179,440 shares at an exercise price of KD 1.084 per share. The options vest over three years at the rate of 33%, 33% and 34% each year, beginning 1 January 2009 exercisable from the date of vesting and up to three years from the service date. The fair value of these options was KD 0.235 per share with a total fair value of KD 3,330,750. The significant inputs into the fair value model were a share price of KD 1.160 - the market price at the grant date 1 November 2008, the exercise price shown above, volatility of 10%, dividend yield of nil (due to the ESOP terms), option life of 3 years and an annual interest rate of 7.25%.

The Group recognised total expenses of KD 849,000 (2008 – 1,343,000) related to equity settled share-based compensation during the year.

2009 Plan

The Parent Company granted 16,843,774 shares at an exercise price of KD 0.624 per share. The options vest over three years at the rate of 33%, 33% and 34% each year, beginning 1 January 2010 exercisable from the date of vesting and up to three years from the service date. The fair value of these options was KD 0.302 per share with a total fair value of KD 4,969,449. The significant inputs into the fair value model were a share price of KD 0.840 - the market price at the grant date 1 January 2009, 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%.

The Group recognised total expenses of KD 3,084,000 (2008 – Nil) related to equity settled share-based compensation during the year.

The average market price per share of the Parent Company for the year ended 31 December 2009 was KD 1.030 (2008 - KD 2.024).

25. Segment information

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

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	31-Dec-09							Total KD '000
	Kuwait	Jordan	Bahrain	Lebanon	Sudan	Iraq	Sub-Saharan Africa	
Segment revenues	351,463	138,147	75,047	25,922	286,117	386,343	1,055,333	2,318,372
Net profit before impairment loss on goodwill	131,122	51,830	21,461	6,483	115,305	129,511	47,504	503,216
Less: Impairment losses – goodwill	-	-	-	-	-	-	(22,864)	(22,864)
Net profit after impairment loss on goodwill	131,122	51,830	21,461	6,483	115,305	129,511	24,640	480,352
Interest income	4,648	2,552	261	43	3,663	-	2,205	13,372
Share of loss of jointly controlled entity	-	-	-	-	-	-	(4,229)	(4,229)
Finance cost	-	(1,318)	(406)	-	(6,505)	(31,858)	(120,623)	(160,710)
Income tax expense	-	(13,980)	-	(1,109)	(15,370)	(14,708)	5,737	(39,430)
<i>Unallocated items:</i>								
Investment income								(8,226)
Share of loss of associates								(61,145)
Others								(8,743)
Profit for the year								211,241
Segment assets	214,759	249,900	91,554	10,714	1,031,807	1,003,400	2,449,232	5,051,366
<i>Unallocated items:</i>								
Investment securities at fair value through profit or loss								7,464
Deferred tax assets								134,049
Investment securities available for sale								98,492
Investment in associates								165,771
Interest in jointly controlled entity								44,063
Loans to an associate								141,996
Others								53,557
Consolidated assets								5,696,758
Segment liabilities	76,797	39,526	21,709	6,499	89,585	289,850	382,402	906,368
<i>Unallocated items:</i>								
Due to banks								2,152,466
Deferred tax liabilities								38,704
Others								120,742
Consolidated liabilities								3,218,280
Net consolidated assets								2,478,478
Capital expenditure incurred during the year	33,676	8,962	7,276	16	67,067	28,944	317,126	463,067
Unallocated								6,318
Total capital expenditure								469,385
Depreciation and amortization	26,643	18,258	6,334	14	32,583	63,488	248,419	395,739
Unallocated								2,354
Total depreciation and amortization								398,093

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	31-Dec-08							Total
	Kuwait	Jordan	Bahrain	Lebanon	Sudan	Iraq*	Sub-Saharan Africa	
								KD '000
Segment revenues	381,144	130,528	61,141	18,547	234,280	59,911	1,117,529	2,003,080
Net profit before impairment loss on goodwill	171,716	45,759	15,728	3,914	89,948	37,070	91,896	456,031
Less: Impairment losses – goodwill	-	-	-	-	-	-	(63,262)	(63,262)
Net profit after impairment loss on goodwill	171,716	45,759	15,728	3,914	89,948	37,070	28,634	392,769
Interest income	24,398	2,922	485	116	596	27	2,945	31,489
Finance cost	-	(2,088)	(895)	-	(7,855)	(4,558)	(112,606)	(128,002)
Income tax expense	-	(11,981)	-	(661)	(13,082)	(3,148)	(24,848)	(53,720)
<i>Unallocated items:</i>								
Investment income								(599)
Share of loss of associates								(33,363)
Fair value gain on the previously held equity interest in a subsidiary								152,413
Others								(23,872)
Profit for the year								337,115
Segment assets	254,120	267,534	70,875	6,143	857,723	1,009,262	2,544,060	5,009,717
<i>Unallocated items:</i>								
Investment securities at fair value through profit or loss								16,676
Deferred tax assets								88,805
Investment securities available for sale								96,904
Investment in associates								216,389
Loan to an associate								79,673
Others								7,493
Consolidated assets								5,515,657
Segment liabilities	78,650	37,057	19,896	3,312	111,194	462,464	454,503	1,167,076
<i>Unallocated items:</i>								
Due to banks								1,901,926
Deferred tax liabilities								30,283
Others								15,243
Consolidated liabilities								3,114,528
Net consolidated assets								2,401,129
Capital expenditure incurred during the year	23,803	9,095	12,060	19	98,463	9,962	487,193	640,595
Unallocated								11,278
Total capital expenditure								651,873
Depreciation and amortization	24,375	16,890	5,047	11	19,692	7,093	229,731	302,839
Unallocated								524
Total depreciation and amortization								303,363

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

26. 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>2009</u>	<u>2008</u>
	<u>KD '000</u>	
Transactions		
Management fees (included in other income)	9,671	10,322
Interest income on loans to an associate	3,307	-
Balances		
Trade and other receivables	3,090	4,015
Trade and other payables	1,021	3,000
Due to banks	39,859	42,577
Key management compensation		
Salaries and other short term employee benefits	6,133	5,396
Post-employment benefits	891	685
Share based payments	3,604	4,071

27. Business combination

In October 2008 the Group acquired control over Atheer through a step up acquisition of an additional 31.667% equity interest. There were no financial effects to be recognized in 2009 on completion of the purchase price allocation.

This acquisition was accounted in 2008 using provisional fair values in accordance with revised IFRS 3 as follows:

	<u>KD '000</u>
Consideration transferred in cash	9,251
Non-controlling interest share	21,467
Acquisition date fair value of the previously held equity interest	190,295
	<u>221,013</u>
Less:	
Total identifiable net assets	<u>70,516</u>
Goodwill arising from business combination	<u>150,497</u>

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

28. Commitments and contingencies

	<u>2009</u>	<u>2008</u>
	<u>KD '000</u>	
Capital commitments	258,906	355,999
Capital commitments – share of associates	38,033	37,921
Uncalled share capital of investee companies	411	396
Letters of credit	66,886	61,142
Letters of guarantee	394,903	233,900

Legal proceedings have been initiated by and against some of the other subsidiaries in a number of jurisdictions. On the basis of information currently available, and having taken counsel with legal 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 and the consolidated operations of the Group.

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

ZABV and its subsidiary Celtel Nigeria are jointly or separately the defendant in several lawsuits in which another shareholder is contesting its pre-emptive right status. These cases are on going and are yet to proceed to trial. ZABV is of the view that the cases initiated are without merit. Given the remote probability of any adverse effect to the Group's consolidated financial position and the difficulties in estimating probable outcomes in a reliable manner, the Group determined that it was appropriate not to provide for this matter in the consolidated financial statements.

Operating lease commitments – Group as lessee

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

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

	2009	2008
	KD '000	
Not later than 1 year	13,779	9,724
Later than 1 year and no later than 5 years	43,288	32,399
Later than 5 years	14,446	3,840
	<u>71,513</u>	<u>45,963</u>

Financial guarantees

The Parent Company is a guarantor for a credit facility of US\$ 460 million, approximately KD 132 million (2008- US\$ 404 million, approximately KD 110 million) granted to a fellow member of the Saudi consortium that won the third telecom license in Saudi Arabia. The Parent Company holds a cash collateral of US\$ 22,227,000, approximately KD 6,377,000 (2008 - US\$ 38,641,000, approximately KD 10,678,000) to cover interest payable by the borrower.

29. Financial risk management

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

	Loans and receivables	Assets at fair value through profit and loss	Available for sale
	KD '000		
31 December 2009			
Cash and bank balances	267,175	-	-
Trade and other receivables	405,434	-	-
Investment securities	-	7,464	98,492
Loan to an associate	141,996	-	-
Other financial assets	2,539	-	-
Total	<u>817,144</u>	<u>7,464</u>	<u>98,492</u>
31 December 2008			
Cash and bank balances	367,871	-	-
Trade and other receivables	355,321	-	-
Investment securities	-	16,676	96,904
Loan to an associate	79,673	-	-
Other financial assets	2,378	-	-
Total	<u>805,243</u>	<u>16,676</u>	<u>96,904</u>

All financial liabilities as of 31 December 2009 and 31 December 2008 are categorized as 'other than at fair value through profit or loss'.

Financial risk factors

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

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

(a) Market risk

(i) *Foreign exchange risk*

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

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

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

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

Currency	2009	2008
	KD '000	
U S Dollar	3,694	5,012
Euro	13,561	13,548

(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 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	2009		2008	
	Impact on net profit	Effect on equity	Impact on net profit	Effect on Equity
	KD '000			
Kuwait Stock Exchange	373	3,245	494	4,845

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 2009 and 2008, the Group's borrowings at variable rates were denominated in US Dollar and Euro. The fair value impact of fixed rate borrowings as at 31 December 2009 and 2008 is not material.

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

At 31 December 2009, if interest rates at that date had been 50 basis points higher/lower with all other variables held constant, profit for the year would have been lower/higher by KD 8,068,000 (2008 -KD 8,892,000).

b) Credit risk

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

(c) Liquidity risk

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

The Group has committed to provide working capital and other financial support to some of its subsidiaries. (Note 3).

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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.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	KD '000			
At 31 December 2009				
Bank borrowings	599,329	1,353,295	339,526	24,585
Trade and other payables	939,944	-	-	-
Derivative financial instruments - cash flow hedge	-	49,298	-	-
Customer deposits	-	11,284	-	-
Refundable deposit	-	7,220	-	-
Licence fee payable	179,313	-	-	-
Commitments	326,203	-	-	-
At 31 December 2008				
Bank borrowings	299,704	265,200	1,357,702	89,100
Trade and other payables	970,191	-	-	-
Derivative financial instruments - cash flow hedge	-	-	60,382	-
Customer deposits	-	8,160	-	-
Refundable deposit	-	14,728	-	-
Licence fee payable	-	66,785	62,179	-
Commitments	417,537	-	-	-

30. Derivative financial instruments

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

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

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

	Notional amounts by term to maturity					
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	Over 1 year
	Total					
	KD '000					
<i>Derivatives held for hedging:</i>						
<i>Cash flow hedges</i>						
Interest rate swaps	-	(49,298)	1,204,980	-	-	1,204,980
	-	(49,298)	1,204,980	-	-	1,204,980

	Notional amounts by term to maturity					
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	Over 1 year
	Total					
	KD '000					
<i>Derivatives held for trading:</i>						
Foreign currency swaps	206	-	34,518	34,518	-	-

<i>Derivatives held for hedging:</i>						
<i>Cash flow hedges</i>						
Interest rate swaps	-	(60,382)	1,105,400	-	-	1,105,400
	206	(60,382)	1,139,918	34,518	-	1,105,400

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

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

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

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

31. Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide 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 statement of financial position dates were as follows:

	2009	2008
	KD '000	
Total borrowings	2,152,466	1,901,926
Less: Cash and cash equivalents (Note 4)	267,175	367,871
Net debt	1,885,291	1,534,055
Total equity	2,478,478	2,401,129
Total capital	4,363,769	3,935,184
Gearing ratio	43%	39%

32. Fair value of financial instruments

Fair values of financial instruments are not materially different from their carrying values. For financial assets and liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value.

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 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 following table shows a reconciliation of the opening and closing amount of level 3 financial assets:

	At 1 January 2009	Gain/loss recorded in the statement of income	Gains recorded in equity	Net purchases, sales and settlements	At 31 December 2009
					KD '000
31 December 2009					
Investment securities available for sale:					
Unquoted securities (net of impairment losses)	12,612	-	10,130	-	22,742

During the year ended 31 December 2009, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

33. Significant accounting judgments and estimates

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

Judgments

Business combinations

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

Classification of investments

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

Substance of relationship with special purpose entities

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

Impairment

When there is a significant or prolonged decline in the value of an “available for sale” quoted investment security management uses objective evidence to judge if it may be impaired.

At each 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

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.

34. Post balance sheet event

On 30 March 2010, the Group entered into a legally binding definitive Sale Purchase Agreement (SPA) with a major mobile telecom operator based in India to sell its wholly owned subsidiary Zain Africa BV (Note 3) based on an enterprise valuation of US\$ 10.7 billion (KD 3.08 billion). This is subject to receiving appropriate approvals. Under the SPA consideration will be fully settled in cash, of which US\$ 8.3 billion (KD 2.39 billion) will be paid upon closing and US\$ 700 million (KD 202 million) will be paid one year thereafter. The buyer will also assume US\$ 1.7 billion (KD 490 million) of Zain Africa BV's consolidated debt obligations.

35. Comparative figures

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