


Annual Report 2001

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Chairman's Message

Dear MTC Shareholders,

It gives me great pleasure to present to you the Annual Report for the fiscal year which ended in December 31st 2001.

The satisfactory results shown in this fiscal report reflect the innovative and productive spirit at MTC as the Net profit, prior to deductions and contributions reached 80 Million KD. an increase of 10 Million KD to that of last year's profit. This has translated into higher return for shareholders. Once again, MTC has proven its continuous leadership and profitability throughout the year 2001. Therefore, I am honoured to introduce you to the latest mobile telecommunications and technology systems, put forth for our valuable customers in the past year.

In its pursuit to reach the summit of customer care and satisfaction, MTC worked jointly with local and international communications service and content providers, to implement a multitude of upgrades and end-user services, aimed at providing the best and the latest in mobile communications. MTC is proud to be the premier provider in the Middle East region to introduce, General Packet Radio Service, better known as "GPRS" which was tested in October 2001 for the first time in Kuwait by MTC. This new system will allow our customers much faster, easier, continuous and cheaper access to the Internet, multimedia, uninterrupted data streams and sprint net surfing will be possible using GPRS mobile sets. Other exciting services introduced this year include "MyInfo2Cell". Subscribers to this informative service will receive up-to-date news headlines, sports, weather, jokes and more, according to her/his selection via SMS. "SMS Them" service came as a response to increasing demand felt by MTC for a service that allows a person to send one message to a number of recipients at once. A special service number facilitates "SMS Them" task. MTC is currently working vigorously to test a new, practical and innovative service called Omnimail. It is a combination of telecommunication mobility and Internet flexibility. Omnimail is basically a web-based email service, however, its main advantage is allowing MTC's subscribers to take control of their GSM account services, such as, emails, Voice messages, SMS, fax, call screening and more, all through the Internet.

During 2001 MTC added more countries from Asia and Africa to its roaming list, granting our travelling customers more freedom to stay connected with family, friends and business partners wherever they are. The rapid growth in pre-paid calling card market in Kuwait was met by MTC's sister company Eezee with the introduction of "Eezee Online" Internet pre-paid cards, with values starting from 1, 2, 3, 5, 10 to 15 KD denominations. Due to the unprecedented success of last year's first "Information and Telecommunications Exhibition" organized and sponsored by MTC, we decided to hold this popular event annually. Preparations for the second exhibition are well underway. A number of local and international corporations from the financial and communications sectors are expected to attend the next event to be held from January 27 to February 2nd 2002.

We at MTC strive to excel in our technological services; however, in hindsight we are committed to serve our community, which is why we are able to provide better services to our clientele. Social interaction and participation is a major part of our mission and our growing work environment. As a result, MTC will remain forever a part of Kuwait's society and culture, and will continue to coordinate and support charitable events and organizations.

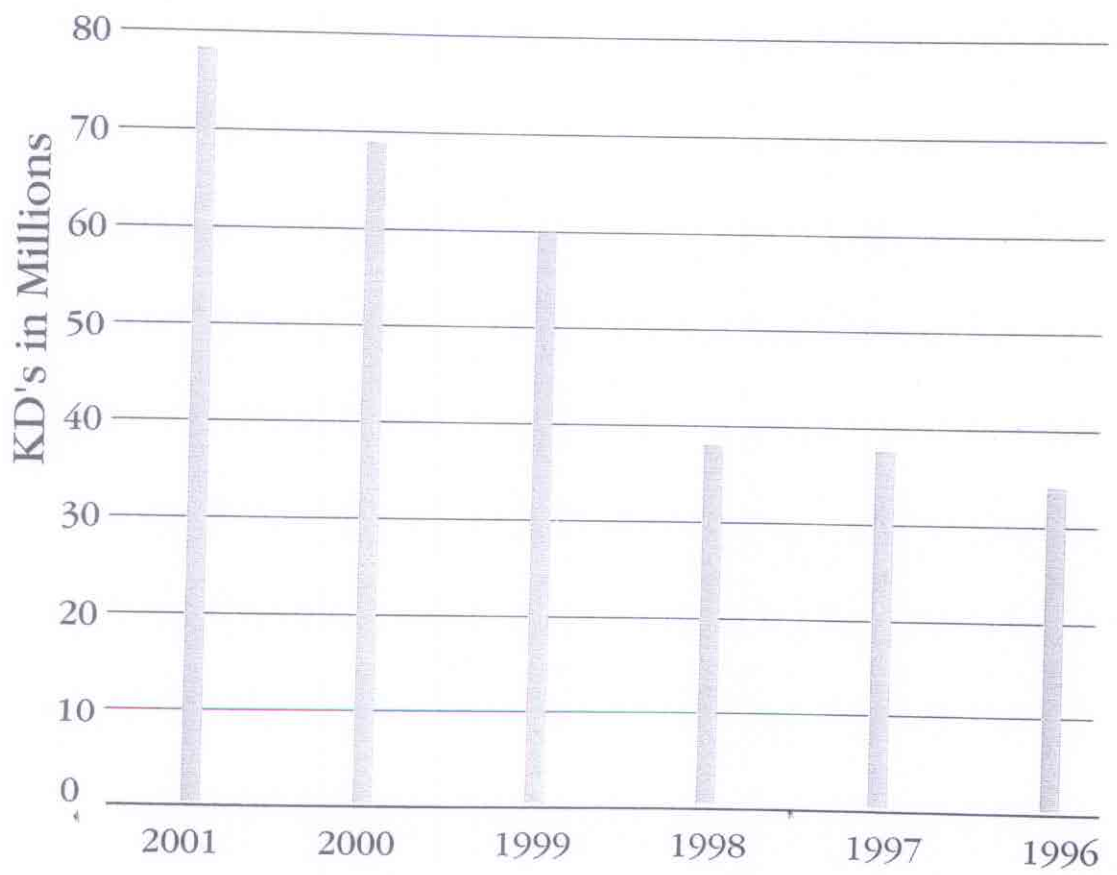
I am proud and honored to give my best regards and appreciation to all those who worked hard to reach with this prominent company these new heights. It is also worth mentioning that MTC is the only telecom company in Kuwait to obtain the ISO9001 certificate. Thank you for your innovative ideas and for finding exemplary ways to better serve our valuable customers.

MTC is growing bigger and excelling further each day. This success is paralleled only by a growth in our customers and valued shareholders. That is why, MTC will always strive to be on the cutting edge of mobile communications services.

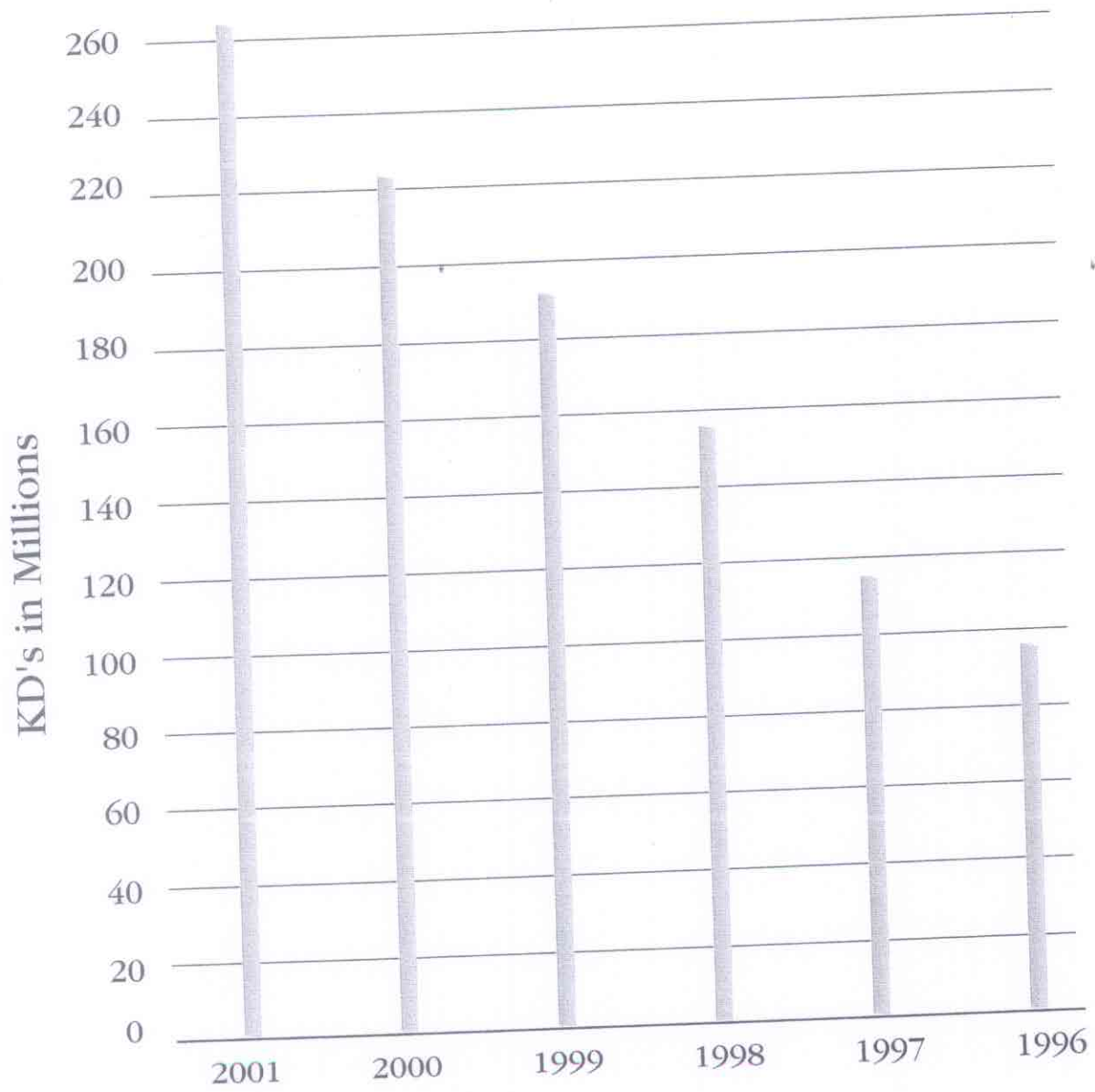
Sincerely,



Engineer, Salman Yousef Al-Roumi
Chairman and Managing Director
Mobile Telecommunications Company



Increase of Net Profits



Growth of Shareholders' Equity

Board of Directors



Engineer Salman Yousef Al-Roum
Chairman and Managing Director



Mr. Assad Ahmed Al-Banwan
Board Member



Mr. Fahad Khaled Al-Zamami
Board Member



Sheikh Hmoud Sabah Al-Salem
Al-Hmoud Al-Sabah
Vice Chairman



Mr. Abdul Mohsen Ibrahim Al-Faris
Board Member



Khaled Abdul Rahman Al-Mujhem
Board Member



Eng. Abdul Aziz Mohammed Al-Osaimi
Board Member



Review of Operations

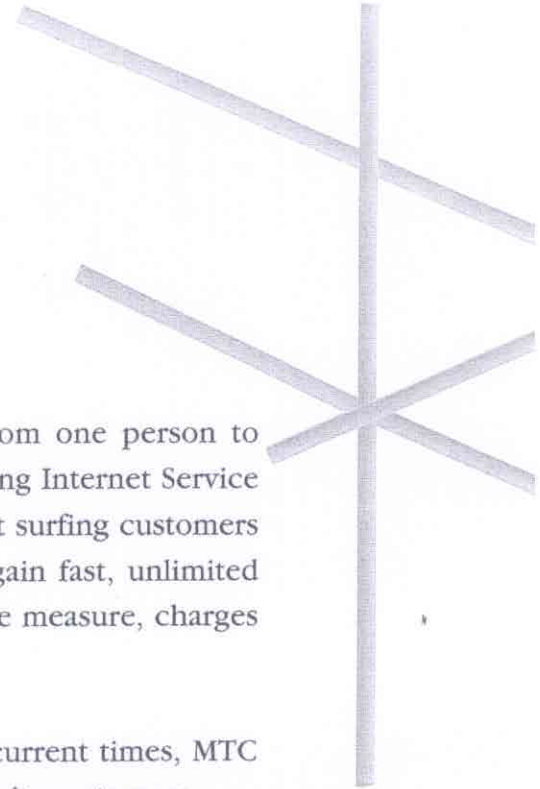
The Mobile Telecommunications Company board of directors is honored to present you with the 2001 Annual Report.

After 18 years of serving our valued customer with dedication and diligence, we at MTC continue to fulfill what we have committed ourselves to: To provide our valued customers with the latest in mobile communications technologies available inside and outside Kuwait; thus truly becoming "The Voice of Kuwait...the one that's always there for you".

During 2001 MTC and its subsidiary companies Etisalat Plus and Ezee were able to implement their ambitious plans to upgrade MTC's infrastructure in order to support it with cutting edge telecommunication technologies.

These plans paved the way to provide our dear customers with new services, some of which were introduced for the first time in Kuwait and the Middle East.

Noting the strong demand that grew for dedication services, MTC launched "Deg Dial" service, which enable our subscribers to dedicate songs, poems and jokes to their friends and loved one's via different service numbers provided in cooperation with local providers.



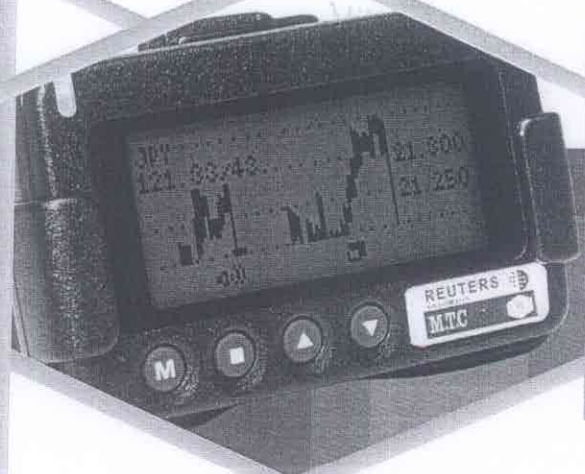
“Deg Dial” is the primary and ultimate way to show affection from one person to another. MTC had also joined hands with Qualitynet, Kuwait’s leading Internet Service Provider, to introduce “e9”; an Internet access service for MTC’s net surfing customers only. This flexible service has made it easy for our customers to gain fast, unlimited uninterrupted Internet access via regular landlines. As a convenience measure, charges for this service is counted per time usage and paid through MTC.

Realizing the importance of fast and easy access to information in current times, MTC was pleased to bring Wireless Application Protocol “WAP” service for its customers. With this service, customers owning WAP-enabled mobile sets can access specifically tailored pages with a wide range of information utilizing their MTC’s Mobi Data service. Soon afterwards, MTC incorporated its Mobi Data and Mobi Fax services in one package called “UNO”; an easy and economical package provided specially for our savvy customers. Youth are the future investment of our country, society and national economy, therefore, MTC gave a hand to E-Communication Company, a new and aggressive company, which quickly established itself as a leading content provider in Kuwait.

E-Communication Company is run by innovative, creative and ambitious group of young Kuwaiti men, who were able to strike gold with their informative service “Pixel”. Subscribers to this service will be updated weely via SMS after making their selection from a number of information categories that include; jokes, logos, ringtones, movie screening schedule and more.

In addition to the line of information services, MTC joined efforts with Reuters international news agency to bring “SmartWatch” paging system. For the first time in Kuwait, businessmen, stock dealers and investors are able to receive live stock ticker and information of Kuwait Stock Exchange “KSE”, International Stock Exchanges, currency rates, charts and more over their “SmartWatch” pager.

During the past year, MTC overhauled the customer service calling center “107” and made it faster, more efficient, added bill payment facility and incorporated additional personal services to be accessed automatically, or, through a customer service specialist.



MTC has always been a forerunner in cost cutting services for our private and commercial subscribers that is why "Besten" calls restriction service became so popular, so fast. "Besten" allows individuals and company owners to restrict incoming and outgoing call to ten numbers only. This is useful for family members, or company employees usage, because it offers more control over expenses

In April 2001, and after a period of careful planning and preparation, MTC released a unique feature to Kuwait, the ability to send SMS messages online from the company's web site at the following address: <http://www.mtc.com.kw/online/SMS>.

In August, MTC made a breakthrough for its customers in Kuwait when it cancelled dual-charges made on incoming calls from our colleague in mobile services National Mobile Telecommunications Company "Wataniya". Within four months, MTC and Wataniya moved to a new level in mobile services cooperation by allowing their subscribers in each company to send and receive SMS.

With the major increase in demand for GSM service, MTC sought to fulfill that need by increasing the network capacity, thus 94, 79, 78 and 702 prefixes were added.

Another MTC advancement in the Middle East region, was its preparation and testing of General Packet Radio Service "GPRS" mobile communication system, also known as (G2.5), which took place in October 2001 for the first time in Kuwait. GPRS takes mobile communications to new heights; with faster data transfer rate of over 40 kbps (four times faster than current GSM (G2.5) networks). It provides users with an open communication channel for live broadcasts, Internet downloads and much more. GPRS standard is the precursor of the third generation (G3) standard. MTC Projected launch date for GPRS: 2nd half of 2002.

Another unique service that MTC introduced was "MyInfo2Cell", an instant SMS service providing a variety of up-to-date news and information for subscribers, in English, language and for the first time in the region in Arabic.

During the first quarter of 2002, MTC is planning to start another exciting service named "SMS Them", a point-to-multipoint messaging system. It allows one user to send the same message to a number of predefined recipients via one service number.



After the exceptional success of the first "Information and Communications Exhibition" held last years, MTC decided to go ahead and organize the second exhibition during the period from January 27 to February 1st 2002. Similar to last year's exhibition, a number of leading telecommunications and information technology companies, banks and corporations are expected to participate in this year's event.

MTC has always felt an obligation towards individual and community service, which is why it donated money to build a Nose, Ear and Throat hospital in AlSabah medical area. The new ENT facility is fully equipped by MTC with the best and latest medical instruments. After the inauguration ceremony in February 2001, the hospital was handed over to the Ministry of Health to operate and administer.

In parallel to its determination to be at the forefront of cutting edge technology, MTC did not forget its core organizational interest, the workers. As a result, most employees at MTC attend specialized training courses in telecommunications fields, inside and outside Kuwait, and throughout their working period at the company.

Being a leading national company with its commitment to provide jobs and training for the citizens, the percentage of Kuwaitis employed by MTC in 2001 has exceeded by 45%. Nevertheless, this is accomplished with great care and professionalism as to maintain MTC's lead in the market.



To show appreciation for its Kuwaiti employee's hard work, MTC presented them with share option after a public offering period has concluded. Additionally, MTC gave its full support to the new National Worker's Social Benefits Law, which was effective late 2001.

Since its inception in 1983, MTC had worked diligently to obtain, and retain the highest working standards as a result, it was awarded the International Quality Management Certificate "ISO 9001" for the year 2000, making it the first local company of its kind to receive this significant award.

In conclusion, MTC would like to reaffirm its constant resolve to search for and present our dear customers with the best from the world of mobile telecommunications and information technology at the lowest costs possible and the highest standards all around the clock.



**MOBILE TELECOMMUNICATIONS CO.
(A KUWAITI SHAREHOLDING COMPANY)
AND SUBSIDIARIES
STATE OF KUWAIT**

Consolidated Financial Statement
for the Year Ended December 31, 2001
with Auditors' Report

MOBILE TELECOMMUNICATIONS CO.
(A KUWAITI SHAREHOLDING COMPANY)
AND SUBSIDIARIES
STATE OF KUWAIT

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Abdul Rahman Al-Qaoud & Partners
Public Accountants

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Andersen Al-Bazie & Co.

P.O. Box: 2115 Safat 13022- State of Kuwait
Tel : (965) 2410010 - Fax : (965) 2412761


The Shareholders
Mobile Telecommunications Co.
(A Kuwaiti Shareholding Company)
State of Kuwait

We have audited the accompanying consolidated balance sheet of Mobile Telecommunications Co. (A Kuwaiti Shareholding Company) and Subsidiaries as at December 31, 2001 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on the audit.

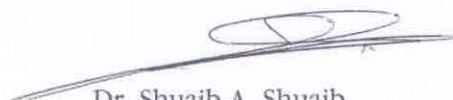
The audit was conducted in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis,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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mobile Telecommunications Co. (A Kuwaiti Shareholding Company) and Subsidiaries as at December 31, 2001, and the consolidated results of its operations and its cash flows for the year then ended in conformity with International Accounting Standards.

Also, in our opinion, the consolidated statements include the disclosures required by the Commercial Companies' Law and the Company's Articles of Association, and we obtained the information we required to perform our audit. In addition, proper books of account have been kept, physical stocktaking was carried out in accordance with recognized practice, and the accounting information given in the Directors' Report is in agreement with the Company's books. According to the information available to us, there were no contraventions during the year of either the Commercial Companies' Law or of the Company's Articles of Association which might have materially affected the Company's consolidated financial position or results of its operations.



Abdul Rahman Mubarak Al-Qaoud
Licence No. 25-A
Abdul Rahman Al-Qaoud & Partners
Public Accountants



Dr. Shuaib A. Shuaib
Licence No. 33-A
Arthur Andersen Al-Bazie & Co.
Member of Andersen Worldwide

State of Kuwait, February 5, 2002

MOBILE TELECOMMUNICATIONS CO.
(A KUWAITI SHAREHOLDING COMPANY) AND SUBSIDIARIES
STATE OF KUWAIT

CONSOLIDATED BALANCE SHEET
December 31, 2001

| <u>ASSETS</u> | <u>Note</u> | <u>2001</u> <u>KD '000</u> | <u>2000</u> <u>KD '000</u> |
|--|-------------|-------------------------------|-------------------------------|
| Current assets: | | | |
| Cash on hand and at banks | | 22,236 | 6,518 |
| Short-term deposits | 3 | 44,245 | 46,339 |
| Accounts receivable and other debit balances | 4 | 38,467 | 29,981 |
| Inventories | 5 | 1,672 | 2,096 |
| Investments | 6 | <u>10,419</u> | <u>7,483</u> |
| Total current assets | | 117,039 | 92,417 |
| Investments | 6 | 103,939 | 91,237 |
| Fixed assets | 7 | <u>101,315</u> | <u>83,596</u> |
| | | <u>322,293</u> | <u>267,250</u> |
| LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Accounts payable and other credit balances | 8 | <u>56,766</u> | <u>44,365</u> |
| Total current liabilities | | 56,766 | 44,365 |
| Provision for staff indemnity | 9 | 1,699 | 1,176 |
| Minority interest | | 9 | - |
| Shareholders' equity: | | | |
| Share capital | 10 | 49,330 | 46,981 |
| Legal reserve | 11 | 44,733 | 36,483 |
| Voluntary reserve | 12 | 44,733 | 36,483 |
| Cumulative change in fair value | | 2,731 | - |
| Retained earnings | | <u>126,320</u> | <u>105,790</u> |
| | | <u>267,847</u> | <u>225,737</u> |
| Treasury shares | 13 | <u>(4,028)</u> | <u>(4,028)</u> |
| Total shareholders' equity | | <u>263,819</u> | <u>221,709</u> |
| | | <u>322,293</u> | <u>267,250</u> |


 Eng. Salman Yousef Al-Roumi
 Chairman and Managing Director

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

**MOBILE TELECOMMUNICATIONS CO.
(A KUWAITI SHAREHOLDING COMPANY) AND SUBSIDIARIES
STATE OF KUWAIT**

**CONSOLIDATED STATEMENT OF INCOME
For the year ended December 31, 2001**

| | <u>Note</u> | <u>2001 KD '000</u> | <u>2000 KD '000</u> |
|---|-------------|-------------------------|-------------------------|
| Revenues | 14 | 131,063 | 119,225 |
| Costs | 7 | <u>(57,761)</u> | <u>(47,976)</u> |
| Gross profit | | 73,302 | 71,249 |
| General and administrative expenses | 15 | (6,834) | (5,702) |
| Provision for doubtful debts | | <u>(2,759)</u> | <u>(1,353)</u> |
| Gross profit | | 63,709 | 64,194 |
| Interest income | | 2,531 | 2,729 |
| Investment income | | 1,061 | 5,767 |
| Provision for decline in value of investments | | - | (3,080) |
| Gain (loss) from currency revaluation | | <u>939</u> | <u>(34)</u> |
| Profit for the year before minority interest | | 68,240 | 69,576 |
| Minority interest | | <u>14</u> | <u>-</u> |
| Profit for the year before Board of Directors remuneration, contribution to Kuwait Foundation for the Advancement of Sciences (KFAS) and National Labor Support Tax | | 68,254 | 69,576 |
| Board of Directors' remuneration | | (28) | (28) |
| Contribution to KFAS | | (1,350) | (1,382) |
| National Labor Support Tax | 16 | <u>(1,270)</u> | <u>-</u> |
| Profit for the year before extraordinary item | | 65,606 | 68,166 |
| Extraordinary item | 26 | <u>13,958</u> | <u>1,461</u> |
| Net profit for the year | | <u>79,564</u> | <u>69,627</u> |
| | | <u>Fils</u> | <u>Fils</u> |
| Earnings per share | 17 | <u>165</u> | <u>144</u> |

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

MOBILE TELECOMMUNICATIONS CO.
(A KUWAITI SHAREHOLDING COMPANY) AND SUBSIDIARIES
STATE OF KUWAIT

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
For the year ended December 31, 2001

| | Share capital KD '000 | Legal reserve KD '000 | Voluntary reserve KD '000 | Cumulative change in fair value KD '000 | Retained earnings KD '000, | Treasury shares KD '000 | Total KD '000 |
|--|-----------------------------|-----------------------------|---------------------------------|--|----------------------------------|-------------------------------|------------------|
| Balance at December 31, 1999 | 44,744 | 29,376 | 29,376 | - | 87,685 | (4,028) | 187,153 |
| Issue of bonus shares (1999 - 5%) | 2,237 | - | - | - | (2,237) | - | - |
| Cash dividends (1999 - 80%) | - | - | - | - | (35,071) | - | (35,071) |
| Transfer to reserves | - | 7,107 | 7,107 | - | (14,214) | - | - |
| Net profit for the year | - | - | - | - | 69,627 | - | 69,627 |
| Balance at December 31, 2000 | 46,981 | 36,483 | 36,483 | - | 105,790 | (4,028) | 221,709 |
| Effect of adopting IAS 39 (Note 18) | - | - | - | - | 1,243 | - | 1,243 |
| Issue of bonus shares (2000 - 5%) | 2,349 | - | - | - | (2,349) | - | - |
| Cash dividends (2000 - 90%) | - | - | - | - | (41,428) | - | (41,428) |
| Transfer to reserves | - | 8,250 | 8,250 | - | (16,500) | - | - |
| Net profit for the year | - | - | - | - | 79,564 | - | 79,564 |
| Change in fair value of investments available-for- sale | - | - | - | 2,731 | - | - | 2,731 |
| Balance at December 31, 2001 | 49,330 | 44,733 | 44,733 | 2,731 | 126,320 | (4,028) | 263,819 |

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

MOBILE TELECOMMUNICATIONS CO.
(A KUWAITI SHAREHOLDING COMPANY) AND SUBSIDIARIES
STATE OF KUWAIT

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2001

| | <u>2001</u> <u>KD '000</u> | <u>2000</u> <u>KD '000</u> |
|--|-------------------------------|-------------------------------|
| Cash flows from operating activities: | | |
| Profit for the year before Board of Directors' remuneration, contribution to Kuwait Foundation for the Advancement of Sciences (KFAS) and National Labor Support Tax | 68,254 | 69,576 |
| Adjustments: | | |
| Minority interest | 14 | - |
| Depreciation | 10,268 | 9,224 |
| Assets' impairment losses | 8,277 | 2,238 |
| Provision for decline in value of investments | - | 3,080 |
| Interest income | (2,531) | (2,729) |
| Gain on sale of fixed assets | - | (9) |
| Investment income | (1,061) | (5,767) |
| Provision for staff indemnity | 615 | 346 |
| Operating profit before working capital changes | <u>83,836</u> | <u>75,959</u> |
| Decrease (increase) in inventories | 424 | (271) |
| Increase in accounts receivable and other debit balances | (8,486) | (4,736) |
| Increase (decrease) in accounts payable and other credit balances | 10,576 | (2,049) |
| Cash generated from operations | <u>86,350</u> | <u>68,903</u> |
| Paid to Kuwait Foundation for the Advancement of Sciences | (1,412) | (1,228) |
| Staff indemnity paid | (92) | (195) |
| Board of Directors' remuneration paid | (28) | (28) |
| Cash flows before extraordinary items | <u>84,818</u> | <u>67,452</u> |
| Proceeds from compensation claim for losses suffered as a result of the Iraqi invasion of Kuwait | 14,243 | 1,491 |
| Net cash from operating activities | <u>99,061</u> | <u>68,943</u> |
| Cash flows from investing activities | | |
| Purchase of investments | (26,190) | (8,898) |
| Proceeds from investments | 15,587 | 7,093 |
| Interest received | 2,531 | 2,729 |
| Purchase of fixed assets | (36,326) | (29,538) |
| Proceeds from sale of fixed assets | 62 | 18 |
| Increase in short-term deposits | (9,836) | (970) |
| Net cash used in investing activities | <u>(54,172)</u> | <u>(29,566)</u> |
| Cash flows from financing activities | | |
| Dividends paid | (41,096) | (34,693) |
| Minority interest | (5) | - |
| Net cash used in financing activities | <u>(41,101)</u> | <u>(34,693)</u> |
| Net increase in cash and cash equivalents | 3,788 | 4,684 |
| Cash and cash equivalents at beginning of the year | 23,494 | 18,810 |
| Cash and cash equivalents at end of the year (Note 19) | <u>27,282</u> | <u>23,494</u> |

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

MOBILE TELECOMMUNICATIONS CO.
(A KUWAITI SHAREHOLDING COMPANY) AND SUBSIDIARIES
STATE OF KUWAIT

NOTES TO CONSOLIDATED FININCIAL STATEMENT
For the year ended December 31, 2001

1. Incorporation and activities

The Company was incorporated as a Kuwaiti shareholding company in 1983 in accordance with the provisions of the Commercial Companies Law and its Articles of Association. Its shares are traded on the Kuwait Stock Exchange.

The Company's principal activities are the purchase, delivery, installation, management and maintenance of mobile telephones and paging systems.

The Company and other companies provide telecommunication services without contradicting the services provided by the Government of Kuwait.

The address of the Company's registered office is P.O. Box 22244, 13083 Safat, State of Kuwait.

The consolidated financial statements were authorized for issue by the Board of Directors on February 5, 2002. The Shareholders' General Assembly has the power to amend these financial statements after issuance.

2. Significant accounting policies

The accompanying consolidated financial statements have been prepared in accordance with the accounting standards issued by the International Accounting Standards Committee (IASC). Significant accounting policies are summarized as follows:

a) Basis of preparation

The financial statements are presented in Kuwaiti Dinars (KD '000) and are prepared under the historical cost convention, except that investments held for trading and available-for-sale are stated at fair value. The group's accounting policies have been consistently applied and, except for the change in accounting policy described (Note 18), are consistent with those used in the previous year.

b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries as follows:

| Company's Name | Percentage Ownership |
|--|---------------------------------|
| Communication & Information Consultancy Group Co. K.S.C. (Closed) | 100% |
| Etisalat Plus Co. K.S.C. (Closed) | 100% |
| E - Communication Co. W.L.L. | 60% |

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company 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 from the date that control effectively commences until the date that control effectively ceases. Equity and net income attributable to minority shareholders' interests are shown separately in the balance sheet and statement of income, respectively. At the acquisition date, the minority interests are measured by the proportion of the pre-acquisition carrying amounts of the identifiable assets and liabilities of the subsidiaries.

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

c) Inventories

Inventories are valued at the lower of cost and net realizable value, using the weighted average method.

d) Receivables

Receivables are stated at face value, after impairment losses or provision for doubtful accounts.

e) Payables

Accounts payable are stated at their cost.

f) Treasury shares

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

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

g) Investments

Investments are initially recognized at cost, being the fair value of the consideration given, which is measured using settlement date, including all acquisition costs associated with the investment.

After initial recognition, both investments held for trading and investments available-for-sale are measured at fair value. The fair value of investments traded in recognized financial markets is their quoted market price based on the current bid price. For investments where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current market value of another instrument that is substantially the same or is based on discounted cash flow analysis or option pricing models. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses. Where the Group has the positive intent and ability to hold bonds to maturity, they are stated at amortized cost less impairment losses.

Any gain or loss arising from a change in the fair value of investments classified as held for trading is recognized in the statement of income in the period in which it arises. Any gain or loss arising from a change in the fair value of investments classified as available-for-sale is recognized in equity. When an available-for-sale investment is disposed of, any amount in equity that relates to that investment is transferred to the statement of income in calculating the gain or loss. Amounts in equity are also transferred to the statement of income whenever the investment is impaired.

h) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the statement of income.

The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of fixed assets.

The Company depreciates its furniture fully upon the time of purchase. Other fixed assets are depreciated on a straight-line basis over their estimated economic useful lives, which are as follows:

| | Years |
|-----------------------------|--------|
| Buildings and constructions | 20 |
| Machinery and equipment | 5 - 10 |
| Equipment for hire | 3 |

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of fixed assets.

i) Provision for staff indemnity

Provision is made for amounts payable to employees under the Kuwaiti Labor Law and employee contracts. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination on the balance sheet date, and approximates the present value of the final obligation.

j) Revenue recognition

- I. Revenues from the sale of handsets and accessories, net of discount allowed, if any, are recognized upon shipment to dealers or at point-of-sale (in case of sales through the Company's retail outlets).
- II. Revenue from the sale of sim starter pack cards, included in the eeZee service packages, net of discounts allowed, if any, are recognized upon delivery to the retailers.
- III. Revenue from airtime, net of discount allowed, if any are recognized based on usage.
- IV. Revenue from all subscriptions, net of discount allowed, if any, are recognized on a time apportionment basis.

V. Revenues from sale of equipment held on consignment at retailers, net of discount allowed, if any, are recognized upon sales by the retailers.

VI. Gain on sale of investments is measured by the difference between the sale proceeds and the carrying amount of the investment at the date of disposal, and is recognized at the time of the sale.

VII. Interest on bank deposits is recognized when earned, on a time apportionment basis.

k) Financial instruments

Financial assets and financial liabilities carried on the balance sheet include cash, deposits, accounts receivable, accounts payable and investments. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies found in this Note.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

l) Foreign currencies

Foreign currency transactions are recorded in Kuwaiti Dinars at rates of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currency at the balance sheet date are translated to Kuwaiti Dinars at rates of exchange prevailing on that date. Exchange differences are reported as part of the results for the year.

m) Cash and cash equivalents

Cash and cash equivalents for the purpose of the statement of cash flows represent cash in hand and at banks and term deposits with maturities of three months or less from the date of deposit.

n) Impairment of assets

The carrying amounts of the Group's assets, other than inventory, are reviewed at each balance sheet date to determine whether there is any indication or objective evidence of impairment. If any such indication or evidence exists, the asset's recoverable amount is estimated and an impairment loss is recognized in income whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of the receivables and bonds held to maturity is calculated as the present value of expected future cash flows, discounted at the original effective interest rates inherent in the asset. Receivables with a short duration are not discounted. The recoverable amount of the Group's trading investments and investments available-for-sale is their fair value. The recoverable amount of other assets is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or has decreased. The reversal is recorded in income.

o) Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

3. Short-term deposits

| | <u>2001</u> <u>KD '000</u> | <u>2000</u> <u>KD '000</u> |
|---|-------------------------------|-------------------------------|
| Term deposits maturing within three months | 5,043 | 16,976 |
| Term deposits maturing within a period of more than three months and less than a year | <u>39,202</u> | <u>29,363</u> |
| | <u><u>44,245</u></u> | <u><u>46,339</u></u> |

The interest rate on short-term deposits ranges between 2.13% and 5.59% per annum (2000- 6.25% and 7.50%).

4. Accounts receivable and other debit balances

| | <u>2001</u> <u>KD '000</u> | <u>2000</u> <u>KD '000</u> |
|------------------------------|-------------------------------|-------------------------------|
| Due from subscribers | 40,612 | 34,375 |
| Provision for doubtful debts | <u>(11,799)</u> | <u>(9,056)</u> |
| | <u>28,813</u> | <u>25,319</u> |
| Accrued income | 462 | 580 |
| Staff receivables | 4,086 | 240 |
| Due from distributors | 2,526 | 2,253 |
| Ministry of Communication | 600 | 600 |
| Prepaid expenses | 985 | 873 |
| Refundable deposits | 86 | 68 |
| Advance payment to suppliers | 794 | - |
| Others | <u>115</u> | <u>48</u> |
| | <u><u>38,467</u></u> | <u><u>29,981</u></u> |

Staff receivables include an amount of KD 3,696,509 representing a payment made by the Company during the period to Kuwait Investment Authority (KIA) for the purpose of securing 2,544,053 of MTC shares. The transaction formed part of KIA's privatization program and was made for the benefit of the Company's Kuwaiti employees, with share ownership being initially financed by the Company.

In accordance with the Company's financing arrangement, amounts due from an employee for shares allotted are repayable within one year from the date of allotment, and in the event of default, the Company has the right to sell the shares at whatever price in satisfaction of the employee's obligation.

| | | |
|--|----------------|----------------|
| 5. Inventories | 2001 | 2000 |
| | KD '000 | KD '000 |
| Goods for sale | 6,219 | 6,806 |
| Provision for obsolescence | (4,547) | (4,710) |
| | <u>1,672</u> | <u>2,096</u> |
| | | |
| 6. Investments | 2001 | 2000 |
| | KD '000 | KD '000 |
| Current investments: | | |
| Portfolios held for trading | 10,419 | 6,483 |
| Bonds held to maturity | - | 1,000 |
| | <u>10,419</u> | <u>7,483</u> |
| Non-current investments: | | |
| Portfolios available-for-sale | 57,615 | 64,232 |
| Quoted direct investments available-for-sale | 3,987 | 3,010 |
| Quoted funds available-for-sale | 26,342 | 10,653 |
| Unquoted funds available-for-sale | 9,645 | 6,901 |
| Unquoted direct investments available-for-sale | 7,291 | 7,433 |
| Impairment losses | (1,941) | (1,992) |
| | <u>102,939</u> | <u>90,237</u> |
| Bonds held to maturity | 1,000 | 1,000 |
| | <u>103,939</u> | <u>91,237</u> |

The bonds par value is KD '000 1,000 with interest at the rate of 8.125% per annum (2000- KD '000 2,000 and interest ranging between 7.875 and 8.125% per annum). The bonds mature during a period of two years from the balance sheet date.

It was not possible to reliably measure the fair value of certain available-for-sale investments. These investments are stated at their original cost of KD '000 5,720 - less impairment losses.

7. Fixed assets

| | Buildings and constructions KD '000 | Machinery and equipment KD '000 | Equipment for rental KD '000 | Projects in progress KD '000 | Total KD '000 |
|----------------------------------|--|--|------------------------------------|------------------------------------|------------------|
| Cost: | | | | | |
| At January 1, 2001 | 6,528 | 93,757 | 530 | 36,576 | 137,391 |
| Additions | 5 | 3,044 | - | 33,277 | 36,326 |
| Transfers | 5,204 | 60,462 | - | (65,666) | - |
| Disposals | (10) | (56) | - | - | (66) |
| At December 31, 2001 | <u>11,727</u> | <u>157,207</u> | <u>530</u> | <u>4,187</u> | <u>173,651</u> |
| Accumulated depreciation: | | | | | |
| At January 1, 2001 | 2,418 | 50,848 | 529 | - | 53,795 |
| Charge for the year | 1,641 | 8,627 | - | - | 10,268 |
| Impairment losses | - | 8,277 | - | - | 8,277 |
| On disposals | (1) | (3) | - | - | (4) |
| At December 31, 2001 | <u>4,058</u> | <u>67,749</u> | <u>529</u> | <u>-</u> | <u>72,336</u> |
| Net book value: | | | | | |
| At December 31, 2001 | <u>7,669</u> | <u>89,458</u> | <u>1</u> | <u>4,187</u> | <u>101,315</u> |
| At December 31, 2000 | <u>4,110</u> | <u>42,909</u> | <u>1</u> | <u>36,576</u> | <u>83,596</u> |

Depreciation expense in the amount of KD'000 9,101 was charged during the year to cost of revenues (2000 - KD'000 8,328). The rapid advancement in the telecommunication systems caused the Company to assess the recoverable amount of certain systems and as a result, the carrying amount of the assets was written down by KD '000 8,277 under cost of revenues for the year (2000 - KD '000 2,238). The estimate of recoverable amount was based on the assets' value in use, determined using a discount rate of 9.75%

8. Accounts payable and other credit balances

| | 2001 KD '000 | 2000 KD '000 |
|---|-----------------|-----------------|
| Trade payables | 22,102 | 11,158 |
| Subscriptions received in advance | 7,807 | 7,461 |
| Subscribers' deposits | 3,842 | 3,602 |
| Directors' remuneration | 28 | 28 |
| Kuwait Foundation for the Advancement of Sciences | 1,635 | 1,412 |
| National Labor Support Tax | 1,270 | - |
| Dividend payable | 2,208 | 1,876 |
| Provisions | 779 | 1,057 |
| Staff vacation and penalty | 664 | 536 |
| Roaming services payable | 3,715 | 1,602 |
| Staff bonus | 2,322 | 1,911 |
| Accrued expenses | 10,394 | 13,722 |
| | <u>56,766</u> | <u>44,365</u> |

| | | |
|---|----------------|----------------|
| 9. Provision for staff indemnity | 2001 | 2000 |
| | KD '000 | KD '000 |
| Balance at beginning of the year | 1,176 | 1,025 |
| Charge for the year | 615 | 346 |
| Paid during the year | (92) | (195) |
| Balance at end of the year | 1,699 | 1,176 |

The provision includes amounts payable to key management personnel in the amount of KD '000 139 (2000 - KD '000 73).

10. Share capital

Authorized, issued and fully paid capital as of December 31, 2001 consists of 493,298,592 shares of 100 fils each (2000 - 469,808,183 shares of 100 fils each).

11. Legal reserve

As required by the Commercial Companies Law and the Company's Articles of Association, 10% of profit is transferred to legal reserve. The Company may resolve to discontinue such annual transfers when the reserve equals 50% of the capital. This reserve is not available for distribution except in cases stipulated by Law and the Company's Articles of Association.

12. Voluntary reserve

As required by the Company's Articles of Association, 10% of profit is transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' General Assembly upon a recommendation by the Board of Directors.

13. Treasury shares

The Company owns these shares based on the authorization granted to the Board of Directors by the General Assembly and the concerned parties approval in accordance with Ministerial Decrees No. 10 of 1987 and No. 11 of 1988. Part of the reserves equivalent to the cost of these shares is restricted and not subject to appropriation as long as these shares are owned.

| | | |
|-----------------------------|------------------|------------------|
| | 2001 | 2000 |
| | <u>9,975,530</u> | <u>9,500,506</u> |
| Number of shares | 2.02% | 2.02% |
| Percentage of issued shares | 17,357 | 14,821 |
| Market value (KD '000) | 4,028 | 4,028 |
| Cost (KD '000) | | |

14. Revenues

| | | |
|--|----------------|----------------|
| | 2001 | 2000 |
| | KD '000 | KD '000 |
| Subscriptions, call and operating income | 125,388 | 113,374 |
| Trading income | 5,675 | 5,851 |
| | <u>131,063</u> | <u>119,225</u> |

15. General and administrative expenses

Included in the general and administrative expenses is the remuneration of Communication & Information Consultancy Co. Directors' in the amount of KD 67,000 (2000 - KD 52,000).

16. National Labor Support Tax

In accordance with the National Labor Support Tax resolution No. 19 of 2000 and the Ministry of Finance resolution No. 26 of 2001, it had been legislated to calculate tax at 2.5% of net profit for listed Kuwaiti Shareholding Companies. Accordingly, the Company calculated its contribution to the National Labor Support Tax at 2.5% of taxable profit.

17. Earnings per share

The information necessary to calculate basic earnings per share based on weighted average number of shares outstanding during the year is as follows:

| | 2001 KD '000 | 2000 KD '000 |
|--|-------------------------------|-------------------------------|
| Net profit for the year | <u>79,564</u> | <u>69,627</u> |
| | Shares | Shares |
| Company's issued and paid-up shares | <u>493,298,592</u> | <u>469,808,183</u> |
| Issuance of bonus shares | - | 23,490,409 |
| Weighted average number of treasury shares | <u>(9,975,530)</u> | <u>(9,975,530)</u> |
| | 483,323,062 | 483,323,062 |
| | Fils | Fils |
| Earnings per share | <u>165</u> | <u>144</u> |

Earnings per share excluding the extraordinary item amounts to 136 fils (2000 - 141 fils).

18. Adoption of IAS 39

Effective January 1, 2001, the Group adopted IAS 39, Financial Instruments - Recognition and Measurement. The adoption of IAS 39 has resulted in the Group categorizing its investments into three categories: investments held for trading, available-for-sale investments and investments held to maturity. Each category of investments is accounted for using the respective policy indicated in note 2 (g). This change has been accounted for by adjusting the opening balance of retained earnings at January 1, 2001 in the amount of KD '000 1,243; in accordance with the standard, comparative figures have not been restated.

19. Cash and cash equivalents

Cash and cash equivalents represent cash on hand and at banks and short-term deposits maturing within three months.

| | 2001 KD '000 | 2000 KD '000 |
|---------------------------|-------------------------------|-------------------------------|
| Cash on hand and at banks | <u>22,236</u> | <u>6,518</u> |
| Short-term deposits | <u>5,046</u> | <u>16,976</u> |
| | 27,282 | 23,494 |

20. Proposed dividends

The Directors proposed a cash dividend of KD '000 62,832 or 130 fils per share (2000 - 90 fils per share and 5 % bonus shares). This proposal is subject to the approval of the shareholders' annual general assembly.

21. Staff costs

At December 31, 2001, the Group employed 1,042 employees and staff costs for the year then ended amounted to KD '000 10,949 (2000 - 898 employees costing KD '000 8,471).

22. Financial instruments

In the normal course of business, the Company uses primary financial instruments such as cash, deposits, receivables, payables and investments, and as a result, is exposed to the risks indicated below. The Company currently does not use derivative financial instruments to manage its exposure to these risks.

Interest rate risk:

Financial instruments are subject to the risk of changes in value due to changes in the level of interest. The effective interest rates and the periods in which interest bearing financial assets and liabilities are repriced or mature are indicated in the related notes.

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 Company to credit risk consist principally of fixed and short notice bank deposits, bonds and receivables. The Company's fixed and short notice bank deposits are placed with high credit rating financial institutions. Bonds are issued by either high credit rating financial institutions or the Government of Kuwait. Receivables are presented net of allowance for doubtful debts. Credit risk with respect to receivables is limited due to the large number of customers and their dispersion across different industries.

Foreign currency risk:

The Company incurs foreign currency risk on purchases and investments that are denominated in a currency other than the Kuwaiti Dinar. The Company may reduce its exposure to fluctuations in foreign exchange rates through the use of derivative financial instruments. The Company ensures that the net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the Kuwaiti Dinar.

Other risks:

Other risks are mainly represented in liquidity and cash flow risks. Liquidity risk arises from the possibility that customers may not be able to settle obligations to the Company within the normal terms of trade. To manage this risk, the Company periodically assesses the financial viability of customers.

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount. At present, the Company has no significant cash flow risk.

Fair value of financial instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and other models as appropriate. At December 31, the fair values of financial instruments approximate their carrying amounts

23. Geographical concentration of term deposits and investments

An analysis of term deposits and investments by geographical location is as follows:

| | 2001 KD '000 | | | | 2000 KD '000 | | | |
|----------------------------|----------------------------|--------|---------|---------|----------------------------|--------|---------|--------|
| | Kuwait & Middle East | Europe | America | Total | Kuwait & Middle East | Europe | America | Total |
| Short-term deposits | 43,640 | 605 | - | 44,245 | 45,718 | 621 | - | 46,339 |
| Current investments | 10,419 | - | - | 10,419 | 7,483 | - | - | 7,483 |
| Non-current investments | 62,436 | 27,195 | 14,308 | 103,939 | 54,806 | 23,868 | 12,563 | 91,237 |

24. Commitments

At the balance sheet date the Group has total commitments for future capital expenditure of KD 16,482,283 (2000 - KD 30,296,583).

25. Contingent liabilities

At the balance sheet date, the Group is contingently liable in respect of the following:

| | 2001 KD '000 | 2000 KD '000 |
|----------------------|-----------------|-----------------|
| Letters of credit | 1,385 | 5,071 |
| Letters of guarantee | 1,150 | 1,147 |
| | <u>2,535</u> | <u>6,218</u> |

26. Compensation claim and extraordinary item

The Group has submitted claims amounting to KD '000 30,313 to the Public Authority for the Assessment of Compensation for losses suffered as a result of the Iraqi invasion and occupation of Kuwait. A total amount of KD '000 15,734 was collected as of the balance sheet date out of the approved compensation claim as per a report issued by United Nations on March 19, 1999. The amounts collected are booked and recorded as extraordinary item upon receipt.

The extraordinary item is presented net of related KFAS contribution as follows:

| | 2001 KD '000 | 2000 KD '000 |
|--|-----------------|-----------------|
| Received from United Nations Compensation Commission | 14,243 | 1,491 |
| Contribution to KFAS | (285) | (30) |
| | <u>13,958</u> | <u>1,461</u> |

27. Comparative figures

Certain of the prior year amounts have been reclassified to conform with the current year presentation.