



**Serving
our customers
and the community is
the key to our future**



Wataniya Telecom
Annual Report 2012



H.H. Sheikh
Sabah Al Ahmad Al Jaber Al Sabah
The Amir of the State of Kuwait



H.H. Sheikh
Nawaf Al Ahmad Al Jaber Al Sabah

The Crown Prince



H.H. Sheikh
Jaber Al Mubarak Al Hamad Al Sabah

The Prime Minister



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A photograph of two men standing outdoors, looking at a tablet together. The man on the left is wearing a white thobe and a white ghutra with a black agal. The man on the right is wearing a grey suit. They are both smiling and looking at the tablet. A large red circle is overlaid on the image, containing the text.

**Creating new
opportunities to
develop regional
and local success**



CHAIRMAN'S MESSAGE

Dear Shareholders,

Wataniya is a leading communication company that has taken over the dynamic market of the region. 2012 has been a year of transformation; we have developed new strategies, created innovative products, enhanced our network and developed services that are in tune with the changing needs of our market.

The three strategic pillars of Wataniya's strategy are to differentiate with customer experience, strengthen our internal foundation, and invest in new growth. We have increased our focus on broadband solutions, business-to-business opportunities, digital futures (TV, finance and health) and fiber technologies.

There are plenty of reasons for optimism thanks to the steady growth in our markets; the capabilities of our management and the consistent investment in our network have opened new vistas of opportunities.

Our Financial Achievements

I'm happy to report that in the financial year of 2012, our total revenue was KD 742.5 million and it has increased by 2% in comparison to 2011. Our EBITDA for this year is KD 299.4 million compared to last year's EBITDA of KD 314.2 million. There was also a significant increase in our customer base and today we have 19.2 million subscribers in the region which has grown by 1.4 million since last year. We have achieved net profit of KD 75.5 million as compared to net profit of KD 96.8 million of last year. (2011 net profit excludes a fair value gain of KD 265.3 million recorded due to revaluation of existing 50% held interest in Tunisiana following the increase in the shareholding from 50% to 75%).

Our Accomplishments

In Algeria, Nedjma introduced new affordable Internet packages and a postpaid plan for the youth segment. As a result of these innovations, Nedjma's reputation has continued to grow. Keeping in line with Wataniya's strategy of enhancing customer experience, several new features like Reverse Charge, 'Nedjmanet' Chat, Missed Call Notification Premium and Call Filter Functions were also introduced. The company also broadened its existing 'Noudjoum' customer loyalty program designed to reward customers through benefits such as free airtime and incentives from Nedjma partners.

Tunisiana has continued to grow despite the political changes that enveloped the country. The company acquired a ground-breaking license to provide fixed line and 3G services. Within 3 months, Tunisiana's 3G services were switched on and accessible to nearly 71% of the population. 2012 also saw the unveiling of Mobiflouss: a pioneering Mobile Money service, which provides subscribers with a simple and secure method to make payments from their mobile phones.

Wataniya Maldives has also made incredible progress, they are able to offer mobile and internet services to over 97% of

the population. During the year, the company carried out an extensive network upgrade to HSPA. The company's ongoing commitment to customer experience is also demonstrated by the launch of an online customer care program and a widespread employee customer training initiative.

Wataniya Mobile in Palestine formed strategic partnerships with a number of important local businesses and has continued to improve the capacity of its network. A wholesale network security project was undertaken, which has not only improved the resilience of Wataniya Mobile's network, but has also reduced the network's operating costs. On the corporate social responsibility front, Wataniya Palestine was awarded the title "Sponsor of Culture" for the year 2012 because of their support to major cultural activities.

In 2012, Wataniya Kuwait achieved a historical milestone by crossing the 2 million customer mark despite increasing competition. As part of the Customer Experience Revolution Program, Wataniya Kuwait strengthened its customer service touch point by investing in technology platforms and transforming its processes to better serve its customers' needs. The new Packet Core upgrade will allow Wataniya Kuwait to accommodate double the internet users to further drive its data growth. They also have one of the most advanced billing and charging systems in the Middle East which will allow them to efficiently provide new and compelling offerings to postpaid and prepaid customers.

Our Future

Our new vision for 2013 is to build on our previous strategy and refine it by increasing our focus on differentiated customer experience, transforming the way we manage our operations and embracing emerging and parallel business opportunities. At the same time, we will continue to set ourselves challenging financial targets. In addition, we are also planning to drive further operational and cost efficiency, productivity, and scale benefits while growing organizational and people capabilities.

Throughout 2013, we will continue to invest in our network by enhancing our 3G services and launching 4G within the region. We plan to simplify our group structure and maximize our growth potential by improving the overall operational efficiencies thereby making Wataniya more conducive to supporting and augmenting customer experience. We have laid the foundation to create and capture the opportunities in our marketplace to further drive shareholder value.

Sheikh Abdulla Bin Mohammad Bin Saud Al Thani Chairman



A hand holding a green pen with a red arrow pointing upwards, overlaid on a bar chart with a red circle containing text. The background is a blurred image of a person's face and a bar chart with labels 'Mar', 'Apr', and 'May' at the bottom. A red circle is centered over the text, and a red arrow points from the bottom left towards the top right, passing through the circle.

**Our growth journey
is driven by customer
satisfaction and
innovation**



CEO'S MESSAGE

In 2012, Wataniya embarked on a journey of innovation, customer experience and positive change. I firmly believe that there are many more great opportunities ahead of us to enhance the products we offer to our customers, improve our efficiency and effectiveness which will deliver even higher returns to our shareholders. However, this is only possible if we resolutely focus on our customers and the experience that we provide them in everything we do. This has been my aim since the day I joined.

Our focus and strategy in 2012 was to differentiate ourselves through customer experience and to develop our network and technology so that we may provide our customers with experiences that surpass expectations and safeguard our competitive advantage. I am proud to say that we have achieved these targets.

Revenue and Customer Growth

As a result of our collective efforts, Wataniya delivered total revenue of KD 742.5 million and a Net profit of KD 75.5 million, in fiscal year 2012. More customers joined the Wataniya family and now we have 19.2 million subscribers compared to the last year's 17.8 million. We are promising best in class network and continuing our compelling commercial efforts with LTE planned for Kuwait and 3G and fixed services roll-out in Tunisia. In the coming years, we will strive to further excel in our markets with a focus on customer satisfaction and market leadership to provide even greater returns to our shareholders.

Strategy and Innovation

Our strategy for growth was through Customer Experience and Service Innovation. We focused on strengthening our Customer Experience by launching the Customer Experience Revolution Program, which helped us identify opportunities for further development in how we can better serve our customers. As a result, we developed several key initiatives that enhanced our customer touch points and service offerings.

Wataniya was the first telecom operator in Kuwait to launch a loyalty program, The Wataniya Rewards Program, which rewards customers for using our services. We have continued to enhance our program by adding compelling new partners like Jazeera Airways and Ikea furnishing store and increasing our redemption partners. This is helping us in securing higher Customer Life Time Value. Our efforts on The Wataniya Rewards were recognized by our industry peers, awarding us the accolade of 'Best Loyalty Program in the Middle East' by Gartner - Customer 360 (ME).

In addition to improving our top line performance, we also launched Project Horizon, our strategic initiative to drive operating efficiency by elevating our ways of working. Through Project Horizon, a multi-year program, we aim to improve our operating profit margin by optimizing productivity, build

our capabilities to compete more effectively and develop an organizational culture of business excellence.

Brand Recognition and Social Responsibility

We want our brand to reflect our commitment to our customers and our community. Wataniya has undertaken several key initiatives in this direction through the years. GiveKuwait 2012 was one of our key initiatives that empowered over 250 young entrepreneurs by giving them a chance to shine through one of the largest exhibitions of its kind in Kuwait to showcase their ideas. More than 10,000 visitors came to the event and GiveKuwait received the patronage of the Prime Minister, His Excellency Shaikh Jaber Al-Mubarak Al-Hamad Al-Sabah.

We continued to support our health care initiatives and our focus on the youth as part of our Corporate Social Responsibility programs to improve the lives of our community. We launched a Diabetes Awareness campaign and we raised funds for a new testing Breast Cancer center as part of our key activities. To support the youth, we participated in several events including Gulf Run, graduation ceremonies for several schools and universities, career fairs and summer internship programs.

Future Plans

At Wataniya, we aspire to become the leading telecom operator in the region through emphasis on Customer Experience. Although we made significant progress and embraced change in 2012, we believe we can further strengthen our foothold. In 2013, we will launch the next generation of high speed Internet (4G) that will enrich our customer's connected lifestyle. We will continue our GiveKuwait initiative to provide more opportunities for entrepreneurs and small businesses in Kuwait.

As we enter the New Year, we believe we are well-positioned to meet the ever changing needs and expectations of our customers and the expanding market opportunities. On behalf of the management I want to express my gratitude to all the Wataniya employees for their hard work and commitment. I would also like to thank our customers, suppliers and stake holders for their continued support. Expect more from us in 2013.

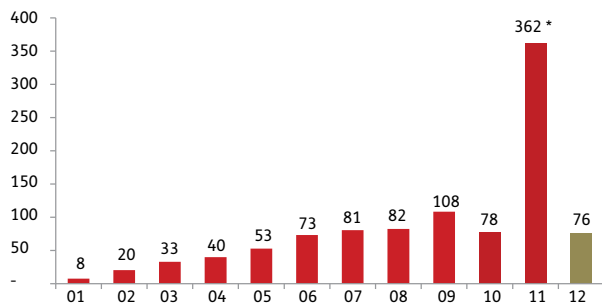
Dr. Bassam Hannoun
Chief Executive Officer



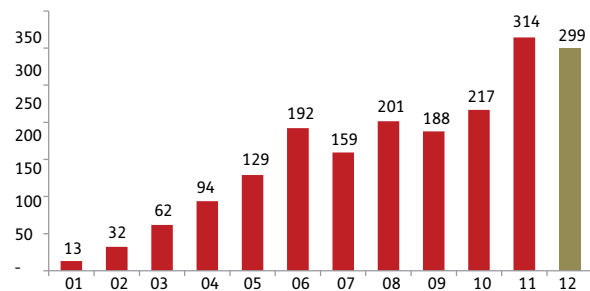


FINANCIAL HIGHLIGHTS

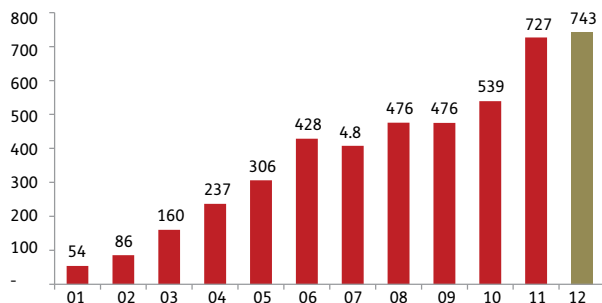
For the year ended 31 December, 2012



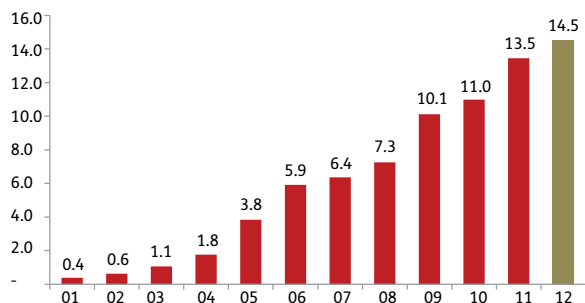
Net Profit (KD Millions)



EBITDA (KD Millions)



Revenue (KD Millions)



Proportional Subscribers (In Millions)

* In Q1 2011, A fair value gain (non-cash) of KD 265.3 million was recorded due to a revaluation of the existing held interest in Tunisiana following the increase in the shareholding from 50% to 75%.



FINANCIAL HIGHLIGHTS

For the year ended 31 December, 2012

		Year 2012 In Millions	Year 2011 In Millions
KUWAIT Wataniya Telecom	Total Subscribers	2.0	2.0
	Revenue	220.8	243.6
	EBITDA	84.4	111.1
	% EBITDA	38%	46%
	Net Profit to Wataniya	46.4	328.1
TUNISIA Tunisiana	Total Subscribers	7.2	6.6
	Revenue	201.9	210.0
	EBITDA	108.0	118.8
	% EBITDA	53%	57%
	Net Profit to Wataniya	35.2	39.6
ALGERIA Nedjma	Total Subscribers	9.1	8.5
	Revenue	266.9	223.7
	EBITDA	105.4	83.2
	% EBITDA	39%	37%
	Net Profit to Wataniya	19.6	10.3
SAUDI ARABIA Bravo*	Total Subscribers	0.2	0.2
	Revenue	18.2	19.3
	EBITDA	(1.1)	(1.5)
	% EBITDA	-6%	-8%
	Net Profit to Wataniya	1.3	(6.0)
MALDIVES Wataniya Telecom Maldives	Total Subscribers	0.2	0.1
	Revenue	11.2	9.4
	EBITDA	2.6	1.6
	% EBITDA	23%	17%
	Net Profit to Wataniya	(2.2)	(2.7)
PALESTINE Wataniya Telecom Palestine	Total Subscribers	0.6	0.5
	Revenue	23.5	20.6
	EBITDA	1.7	1.0
	% EBITDA	7%	5%
	Net Profit to Wataniya	(3.2)	(3.5)
Wataniya - Consolidated	Total Subscribers	19.2	17.8
	Revenue	742.5	726.6
	EBITDA	299.4	314.2
	% EBITDA	40%	43%
	Net Profit to Wataniya	75.5	362.1

Note 1: In Q1 2011, A fair value gain (non-cash) of KD 265.3 million was recorded due to a revaluation of the existing held interest in Tunisiana following the increase in the shareholding from 50% to 75%.

* **Note 2:** Other Investments - Bravo - Wataniya (NMTC) holds a 100 percent stake in the operations of Bravo. Bravo entered the Saudi Arabian market in 2005 as the country's first specialised push-to-talk (PTT) provider, offering PTT and cellular communication services to the business and government sectors.

A nighttime photograph of a city skyline. On the right, a tall, modern skyscraper with a unique, angular design is illuminated with blue and white lights. To its left, several other high-rise buildings are visible, some with warm yellow lights. In the foreground, a dark, flat area, possibly a beach or a road, is visible. A large, semi-transparent red circle is centered over the image, containing white text.

**Customer experience
is the foundation
of our success**



WATANIYA KUWAIT

Wataniya is the second largest mobile telecommunications operator in Kuwait, serving a significant share of Kuwait's mobile customers. Wataniya's success lies in its commitment to deliver innovative services and exceptional customer experience.

Wataniya Kuwait provides a wide range of communication and internet services to both individuals and corporate customers. The company offers a portfolio of secure wireless internet and mobile services along with business efficiency tools for corporate clients under the WPro brand. Wataniya has tailored offers and experiences to complement the needs of its diverse customer segments such as The W's Plan for our most valued customers, InTouch for foreign residents living in Kuwait and Xpress, the prepaid plan. In addition, Wataniya has introduced a range of value added services such as "Rent-a-Number", "SMS Bundles", "International Top-up service" and "Mobile Self Care App" that enable our customers to optimize their user experience.

Ownership

Qtel Group holds a 92.1 percent stake in Wataniya Telecom (NMTC) which is a listed equity company on the Kuwait Stock Exchange. NMTC is the legal entity owning shares in Wataniya Maldives, Bravo, Tunisiana, Nedjma and Wataniya Mobile Palestine.

Profitability and Growth

As a result of our collective efforts, we delivered total revenue of KD 220.8 million and net profit of KD 46.4 million in a backdrop of a slowing economy and an increasingly competitive market with downward pricing pressures. We have laid the foundation in 2012 with key investments to drive greater Customer Lifetime Value through our postpaid and data customer base, focusing on Customer Experience activities, in addition to driving efficiency in our business to generate greater return in the coming years.

Achievements

In 2012, Wataniya Kuwait achieved a historical milestone by crossing the 2 million customer mark despite increasing competition and a penetration rate of over 145% in Kuwait. We focused on three key areas to drive our top line performance:

- Strengthening our customer experience to attract and retain customers
- Driving postpaid plan adoption to secure higher Customer Lifetime Value
- Enhancing the network and internet services to provide our customers with compelling and reliable services

The collective efforts resulted in a 30% increase in postpaid customers in addition to growing our data on smartphone service (Net-on-Phone) customer base by 2.5 times.

Customer Experience was the key strategic initiative in 2012 to guide differentiation and lead the company to its success. As part of the Customer Experience Revolution Program, we have strengthened our customer service touch point and invested in technology platforms to better serve our customers. To extend our reach, we were the first mobile provider in Kuwait to utilize social media as a channel for our customers to interact with us. In addition, we have further enhanced our Customer Loyalty program by partnering with international brands such as IKEA and Jazeera Airways. As a result of our efforts, the Wataniya Rewards Program was awarded with the title of the "Best Loyalty Program in the Middle East for 2012" by Gartner-Customer 360 (ME).

We continue to invest in our network to provide a highly reliable and seamless service to our growing base of voice and internet customers. We now have one of the most advanced billing and charging systems in the Middle East which will allow us to efficiently provide new and compelling offerings to our postpaid and prepaid customers. This will support our commercial aspiration to deliver more value to our customers through innovative products and packages.

In addition to improving our top line performance, we also embarked on Project Horizon, a strategic initiative to drive operating efficiency by elevating our ways of working. We have developed key initiatives designed to improve the operational effectiveness of the organization by focusing on 3 key themes, namely; improving the efficiency of existing processes, improving productivity through technology enablement, and identifying and focusing on activities which are more impactful. This is an ongoing program that will help improve our operating profit margin, which we have already begun to execute.

The Year Ahead

We enter 2013 with optimism as Kuwait still has untapped growth opportunities in data and our differentiation and innovation strategy will become our key growth enabler. We will continue to invest and modernize our network which will allow us to efficiently deploy the latest fourth generation data offering (4G-LTE), enabling our customers to enjoy faster internet speed along with excellent quality of service. Our growing data customer base and our network assets will create opportunities to facilitate a smart-enabler platform for partners to develop and bring to market compelling localized services.

OpCo Executive Quote

"For us, 2013 is the year of Differentiation. We shall elevate and intensify our Customer Experience drive to fundamentally differentiate our service offerings and touch points. This will allow us to attract new customers and retain our current customers by delivering a higher service experience. Expect more in 2013."

A photograph of a large hall filled with rows of empty chairs. The chairs have dark upholstered seats and backs with a light-colored wooden frame. A large, semi-transparent red circle is overlaid in the center of the image, containing white text. The floor is a dark, textured carpet.

**Sustaining a
leadership position
through customer
service**



WATANIYA TUNISIA - TUNISIANA

Launched in 2002 as Tunisia's first privately owned telecommunications company, Tunisiana's arrival marked a step-change in the country's communications market. Since that time, Tunisiana has grown to become not only the country's number one mobile operator but also one of the country's most trusted and recognised brands. Each day, Tunisiana's truly national network delivers a range of prepaid and postpaid voice and data services to more than seven million individual and business customers right across this North African nation.

Ownership

The Qtel Group has a 92.1 percent stake in Wataniya (NMTC), which owns 75 percent of Tunisiana. In December, 2012, the Qtel Group acquired an additional 15 percent stake in Tunisiana, which gives the Qtel Group and its subsidiaries a 90 percent effective economic stake in Tunisiana.

Achievements

Last year saw Tunisiana continue to undergo its rapid and exciting evolution. Despite the dynamics around political change, Tunisiana continued to respond effectively to its customers' needs and laid the ground for important future developments. The launches last year of new technologies, customer experience focused initiatives and strategic partnerships have enabled Tunisiana to maintain its strong market position and, in some areas, even extend its leadership, notably in internet and broadband.

In May, Tunisiana acquired a ground-breaking license from the government of Tunisia to provide fixed line and 3G services. Only 3 months after this acquisition, 3G services were switched

on and accessible to an impressive 48% of the population: rising by the year-end to 71%. To maximize this broad reach and the technology's impressive download speeds, Tunisiana designed its 3G offering to include flexible tariffs allowing for daily, weekly and monthly usage. 2012 also saw the unveiling of Mobiflouss: a pioneering Mobile Money service, launched in partnership with the Tunisian Postal Service. The service which is attached to a prepaid wallet, provides subscribers with a simple and secure method through which to process payments from their mobile phones.

Tunisiana is committed to the continuous improvement of its customer services and experience. To that end, in August the company implemented the pilot phase of its Customer Experience Program: an initiative aimed at aligning services and offerings to the demands and needs of all Tunisians. Tunisiana also continued to recognise the important role it plays within the community. The 'Startup Factory Launch' program was inaugurated to assist budding entrepreneurs in the development phase of building new businesses, providing young Tunisians with access to mentors, training and vital funds.

The Year Ahead

Tunisiana continues to look to the future. The company has already set out ambitious plans to further extend broadband services to 70% of the population within the next five years. Alongside this, Tunisiana is working to take advantage of clear opportunities in fixed line services, with the launch of fixed line phone and internet services starting in the first half of 2013.

OpCo Executive Quote

This has been a truly exciting year for Tunisiana: the year in which we recommitted ourselves to high standards of customer service and the year in which Tunisiana saw its 3G service switched on. These innovations have enabled us to maintain our strong market position and we will continue to innovate in the year ahead. The task for us now is to continue our 3G rollout and deploy fixed services with a vision to become the leading global telecom operator, doing our part in helping lay the foundation for Tunisia's economic growth and the continued enhancements to our society."



**Differentiating
through service
innovation**



WATANIYA ALGERIA - NEDJMA

Branded as Nedjma, Wataniya Telecom Algeria commenced operations in 2004. Starting out life as Algeria's third mobile operator, today Nedjma commands second place in this populous and exciting North African mobile marketplace. As one of the most instantly recognisable brands in the country, Nedjma offers its subscribers value-for-money mobile voice, data and multimedia services delivered across a nationwide EDGE-ready network.

Ownership

The Qtel Group controls Wataniya (NMTC) owning a 92.1 percent stake. The Qtel Group, through its own entities and indirectly through NMTC, holds an 80 percent stake in the operations of Nedjma. This gives the Qtel Group a 74.4 percent effective economic stake in Nedjma.

Achievements

Central to Nedjma's strategy during this last year has been a concerted focus on customer acquisition, retention and satisfaction, delivered mainly via the release of new value added services designed to appeal to all segments of the subscriber base.

One important aspect of this initiative is mobile internet, which is still nascent in Algeria and often expensive to access. The launch of 'Internet Pack', providing affordable unlimited internet access, in addition to services such as a new 'postpaid rate plan' aimed specifically at young people. It is serving to drive the next wave of mobile voice and data usage in Algeria. These efforts are helping to lay a good ground ahead for the future introduction of 3G services in the country.

As a result of these service innovations, Nedjma's brand reputation has also continued to grow. It has been particularly bolstered this year by the implementation of a landmark advertising campaign designed to coincide with Algeria's 50th year of Independence. The initiative, based around the Algerian saying 'MAZAL WAKFIN' (still standing up), a phrase of great significance throughout the country, served as a clear demonstration of Nedjma's relevance to the community it serves.

In addition to this community responsibility, Nedjma recognizes that its first responsibility is to ensure that customers enjoy a positive experience of its services. To deliver on that goal, the company launched between May and December four important new features: Reverse Charge Function, 'Nedjmanet' Chat Function, Missed Call Notification Premium and a Call Filter Function. The company also broadened its existing 'Noudjoum' customer loyalty program designed to not only reward longstanding residential customers but corporate customers too, through benefits such as free airtime and incentives from Nedjma partners.

The Year Ahead

As the Algerian market steadily evolves from voice towards higher speed, more complex data services, Nedjma will seek to build on the work undertaken this year to position the company as an affordable mobile internet enabler. With the launch of 3G technology in Algeria moving closer to fruition, Nedjma is well placed to capture early adopter revenue, as well as retain and grow that revenue through accelerated loyalty programs and long-term customer benefits.

OpCo Executive Quote

"Nedjma has enjoyed yet more momentum this year through the implementation of an unprecedented number of new strategic initiatives. The whole Nedjma team has worked hard throughout the year to make sure that as a company we never fall short of providing our customers with the high quality service they have come to expect from us. Moreover, we believe we have positioned ourselves carefully in the marketplace for this coming year's most exciting market developments. This gives us continued confidence in our strategy and plans."



**Connecting the
nation seamlessly
with enhanced
services**



WATANIYA MALDIVES

From small beginnings in 2005, Wataniya is today able to offer mobile and data services to over 97% of the population of the Maldives. Supporting what is a vibrant economy centred on tourism, Wataniya provides a range of mobile services to the numerous international visitors and local inhabitants of this Indian Ocean nation, delivered across the country's first-ever 3G and HSDPA-ready network. Wataniya Maldives is pursuing a defined, long-term strategy focused on increasing network coverage, expanding network reach, and the ongoing nationwide roll-out of broadband services.

Ownership

The Qtel Group has a 92.1 percent stake in Wataniya (NMTC), which holds 100 percent of the operations of Wataniya in the Maldives. This gives the Qtel Group a 92.1 percent effective economic stake in Wataniya Maldives.

Achievements

2012 was a landmark year for Wataniya Maldives, with advances in subscriber growth and market share driven by a strong customer response to a new, cohesive product offering: Live Unlimited. Launched in August, the Live Unlimited portfolio of offerings has seen for the first time more than 100,000 local customers use the Wataniya network: an impressive achievement in such a geographically dispersed nation. More importantly however is that the usage

patterns of these customers have begun to change. This includes the creation of and participation in social networks and communities which have helped to increase revenue opportunities for the company.

Part of the success of these initiatives was driven by the ongoing investments in the Wataniya Maldives network. During the year, the company carried out an extensive 3G+ network upgrade to HSPA+, completed in late June, providing enriched network coverage for customers throughout the country. A further catalyst to growth continued to be the company's ongoing commitment to customer experience, demonstrated in the launch of an online customer care program and a widespread employee customer training initiative.

The Year Ahead

Wataniya Maldives has made significant progress this year, deepening its connection with both local and visitor user communities across the country. The company's key aim in 2013 is to maintain this outreach to both the local, expatriate and tourist segments of the Maldives while further developing its loyal, satisfied and wide reaching customer base throughout the country.

OpCo Executive Quote

"We look back with great pride on a year of fantastic achievements for Wataniya Maldives. Our constant drive for customer centricity, innovation and excellence has enabled us to secure strong market share growth and deepened customer loyalty. We remain confident that if we continue to channel our relentless passion and drive into ensuring our customers enjoy the best possible service and care, we will deliver further success in the year ahead."



**Driving growth
by harnessing
local ideas and
opportunities**



WATANIYA MOBILE PALESTINE

Wataniya is the second licensed mobile operator in Palestine as it was awarded its license in 2007. 2010 was Wataniya's first full year of commercial operations after the successful launch of services in the West Bank in November, 2009. Following the highly successful completion in January, 2011 of the company's initial public offering, Wataniya today is one of Palestine's largest public companies and already a significant player in the Palestinian mobile market with planned future expansion into Gaza. Currently through a range of services and products, the company offers a population in the West Bank of approximately 2.5 million people the opportunity to enjoy communication services based on network quality, reliability and choice.

Ownership

Qtel Group has a 92.1 percent stake in Wataniya (NMTC), following the initial public offering, now it holds a 48.5 percent stake in the operations of Wataniya Mobile Palestine. This gives Qtel Group a 44.7 percent effective economic stake in Wataniya Mobile Palestine.

Achievements

Wataniya Mobile Palestine has continued to thrive this year and the company has grown in stature and in strength. The Wataniya Mobile team worked hard to build upon its public status, strategically partnering with a number of important local businesses – not only to enable the launch of new services, but also to help make a positive contribution to Palestinian society. As a result, 2012 has seen Wataniya Mobile improve the capacity of its network, expand its service offering, and secure a reputation for being a responsible member of the community it serves.

During 2012, Wataniya successfully invigorated and expanded

its network provision and services through a range of exciting new initiatives. First, the company increased its core network hardware to improve reliability, while also upgrading the software supporting all of its network nodes. Second, a wholesale network security project was undertaken, which has not only improved the resilience of Wataniya Mobile's network, but has also reduced network operating costs. Customer care has also remained an intrinsic priority for the company, with the launch of both the 'Jamme'ha' customer loyalty reward program and an innovative E-Recharge channel: both of which have served to deepen Wataniya Mobile's connection with its customers.

The connection has been deepened further still as a result of the community initiatives launched by the company in 2012. These contributions include partnerships with Bank of Palestine to support university education in Palestine and a variety of initiatives to support local sports, particularly among young people. Additionally as a result of its support of more than 10 major cultural activities in Palestine, Wataniya Mobile was awarded the title "Sponsor of Culture" for the year 2012.

The Year Ahead

2013 will see Wataniya Mobile continue to advance toward its strategic goals. The company will seek new, exciting opportunities to raise the level and diversity of the services it provides, closely linked to customer needs, emerging technologies and market trends. With a particular opportunity to pursue growth through targeting specific customer segments, Wataniya Mobile will use the year ahead to further deepen its already strong bond with all cross sections of the Palestinian market and community.

OpCo Executive Quote

"In what has been a truly landmark year for Wataniya, we have taken great steps forward to enhance our financial and operational performance, without compromising on our important commitment to the community we serve. As a more recent member of the Wataniya Mobile Team, I am immensely excited by the prospects for our business, and look forward to rolling out new innovations in service and technology that will help consolidate our market position throughout Palestine."

A close-up photograph of a child's face in profile, blowing a large, iridescent bubble. The child is holding a yellow bubble wand. The background is a soft, out-of-focus green, suggesting foliage. A large, semi-transparent red circle is overlaid on the center of the image, containing white text.

**Giving back to
the community
we serve**



CREATING A BETTER TOMORROW

Wataniya's approach to Corporate Social Responsibility has been an ongoing commitment to contribute to economic growth while improving the quality of life of employees, stakeholders, local communities and society at large with awareness, opportunities and progressive initiatives.

Our journey in 2012 focused on sustainability and development initiatives that brought exposure and offered enhanced prospects to young entrepreneurs via GiveKuwait to healthcare programs such as Cancer Awareness and Diabetes Check-ups and educational supporting programs like "Thank you my Teacher". Several other programs were developed which are in line with Wataniya's progressive and dynamic approach.

Health for All

In today's world, stress and busy lifestyles have caused an upsurge in life threatening diseases like Cancer and Diabetes.

In order to help create awareness and aid in early detection, Wataniya celebrated Diabetes Day in collaboration with Dasman Diabetes Center. At an Open Day organized at the company's headquarters, employees were given free diabetes examination. It included blood test to measure sugar level, cholesterol level, blood pressure and weight. Participants were given the opportunity to receive direct guidance and medical advice to healthy nutrition programs. Through this, Wataniya highlighted Diabetes World Day, raising the urgency of changing people's lifestyles and eating habits which are considered as the main reasons of diabetes. Moreover, Wataniya participated in a campaign to support kids with diabetes called "Hawen Alaihom" which gave customers the opportunity to donate by SMS.

Breast Cancer is predominant in the Kuwaiti society, to fight it Wataniya collaborated with Hayatt, a part of Ruqayah Abdulwahab Alqatami Breast Cancer Foundation to launch the Breast Cancer Charity Drive. This was done to raise money for patients suffering from breast cancer and spread awareness. The drive coincided with Breast Cancer Awareness Month (October 2012) and included a charity dinner. All proceeds and donations went to "Hayatt".

Investing in the Future

Wataniya Telecom has announced its intensive preparation for launching Give Kuwait 3 campaign in the first quarter of 2013. The campaign has received remarkable success in its first and second edition, and it was recognized with an award from CommsMEA.

Wataniya's contribution to community events reflects its leading role in social responsibility. Through GiveKuwait, Wataniya aims at supporting the community by raising the level of awareness among the youth and revealing their inner creativity. The success of Give Kuwait 2 exceeded expectations and attracted the attention of observers and

participants. During 2012, GiveKuwait 2 was organized under the patronage of Kuwait's Prime Minister, His Highness Jaber Al Mubarak Al Hamad Al Sabah. It offered 250 new businesses a chance to showcase their creativity and skills. A wide variety of businesses were promoted ranging from car accessories to fashion, graphic design, food, accessories and photography to name a few. More than 10,000 daily visitors attended the exhibition and encouraged Kuwait's local talent. The exhibition was open to the public for 5 days.

The positive feedback that Wataniya received after the event has encouraged it to create an even bigger and more extensive event for 2013.

Besides GiveKuwait, Wataniya has been energetically involved in youth development activities, several high school and university graduation ceremonies were sponsored by Wataniya. Furthermore, Wataniya has always encouraged safe racing through its endorsement of Gulf Run and Road Rush. Talent, passion and creativity are qualities that Wataniya values and seeks to inculcate in the youth of Kuwait.

Benevolence and Encouragement

During the month of Ramadan, Wataniya distributed iftaar meals to the needy. Wataniya employees visited an orphanage and an elderly home with gifts to share joy with the underprivileged and the less fortunate citizens of Kuwait.

To celebrate Fehaid Al-Deehani's Olympic success, Wataniya gave free SMS to all its customers for a whole day.

Wataniya continues to sponsor the most renowned sport clubs in the country including Arabi Handball Club, Qadsiya Football Club and Kuwait Football Club.

Enhancing Experiences with Innovation

Excellence in Customer Experience has been Wataniya's prerogative throughout 2012. In order to offer its customers a seamless online experience, Wataniya set up 4G zones all around Kuwait where people could enjoy high speed internet for free and share their feedback about their experiences. This was done in a spirit to promote transparency therefore when 4G is launched in 2013 customers can subscribe to the service knowing fully well the benefits they will derive from it. Feedback from customers will also enable Wataniya to fine tune its service, making it more user friendly and customized.

At Wataniya, Corporate Social Responsibility is integral to the company's growth and development plans. In 2013, Wataniya will continue to enhance its CSR programs, making them more impactful, integrated and customer focused so that all members of society can benefit from Wataniya's wide array of social initiatives.



**NATIONAL MOBILE TELECOMMUNICATIONS COMPANY K.S.C.
AND SUBSIDIARIES**

Consolidated Financial Statements
and Independent Auditors' Report
for the Year Ended
31 December, 2012



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
National Mobile Telecommunications Company K.S.C.
Kuwait

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of National Mobile Telecommunications Company K.S.C. (the "Company") and its subsidiaries (the "Group"), which comprise of the consolidated statement of financial position as at 31 December, 2012, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, 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, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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



INDEPENDENT AUDITORS' REPORT (Continued)

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December, 2012, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

We further report that we have obtained the information and explanations that we required for the purpose of our audit and that the consolidated financial statements include the information required by the Kuwait Commercial Companies Law No. 25 of 2012, and the Company's Articles and Memorandum of Association. In our opinion, proper books of account have been kept by the Company, an inventory count was carried out in accordance with recognised procedures and the accounting information given in the board of directors' report agrees with the books of account. We have not become aware of any contravention, during the year ended 31 December, 2012, of the Kuwait Commercial Companies Law No. 25 of 2012 or of the Company's Articles and Memorandum of Association, that might have had a material effect on the Group's activities or on its consolidated financial position.

Safi A. Al-Mutawa
License No. 138 "A"
of KPMG Safi Al-Mutawa & Partners
Member firm of KPMG International

Khalid Ibrahim Al-Shatti
License No. 175 "A"
PricewaterHouseCoopers
(Al-Shatti and Co.)

PRICEWATERHOUSECOOPERS
Al-Shatti & Co.

Kuwait: 21 February 2013

د. ماضي عبد العزيز المتلوع
م. رخص تحت رقم (١٣٨) فئة ١



NATIONAL MOBILE TELECOMMUNICATIONS COMPANY K.S.C. AND SUBSIDIARIES CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December, 2012

	Note	2012 KD 000's	2011 KD 000's
Assets			
Non-current assets			
Property and equipment	4	524,513	484,593
Intangible assets and goodwill	5 & 6	629,435	647,577
Available for sale financial assets	7	9,223	10,994
Deferred tax assets relating to subsidiaries	8	2,394	11,255
Other non-current assets		738	3,706
		<u>1,166,303</u>	<u>1,158,125</u>
Current assets			
Inventories		14,459	14,047
Trade and other receivables	9	145,454	132,406
Bank balances and cash	10	151,761	118,355
		<u>311,674</u>	<u>264,808</u>
Total assets		<u><u>1,477,977</u></u>	<u><u>1,422,933</u></u>
EQUITY AND LIABILITIES			
EQUITY			
Share capital	11	50,403	50,403
Treasury shares	11	(3,598)	(3,598)
Reserves	11	155,456	166,473
Retained earnings		617,605	592,285
Equity attributable to shareholders of the Company		<u>819,866</u>	<u>805,563</u>
Non-controlling interests		139,296	110,007
Total equity		<u>959,162</u>	<u>915,570</u>
LIABILITIES			
Non-current liabilities			
Long term debt	12	58,989	97,881
Provision for staff indemnity		5,204	3,792
Other non-current liabilities		20,881	21,066
		<u>85,074</u>	<u>122,739</u>
Current liabilities			
Trade and other payables	13	350,407	325,613
Deferred income		29,713	32,053
Income tax payable		5,327	4,946
Long term debt	12	48,294	22,012
		<u>433,741</u>	<u>384,624</u>
Total liabilities		<u>518,815</u>	<u>507,363</u>
Total equity and liabilities		<u><u>1,477,977</u></u>	<u><u>1,422,933</u></u>


 Abdullah Bin Mohammed Bin Saud AlThani
 Chairman



The notes on pages 29 to 75 are an integral part of these consolidated financial statements.



NATIONAL MOBILE TELECOMMUNICATIONS COMPANY K.S.C. AND SUBSIDIARIES CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December, 2012

	Note	2012 KD 000's	2011 KD 000's
Revenue		742,521	726,605
Cost of revenue		(269,518)	(249,457)
		<u>473,003</u>	<u>477,148</u>
Network construction revenue		137	2,064
Network construction costs		(137)	(2,064)
		<u>-</u>	<u>-</u>
Gross profit		473,003	477,148
Administrative expenses		(132,519)	(121,000)
Selling and distribution costs		(55,421)	(57,914)
Finance costs - net	14	(4,769)	(8,067)
Depreciation and amortisation	4 & 5	(129,441)	(123,834)
Other income / (expenses)	15	205	(28,646)
Impairment loss on available for sale financial assets and intangible assets	5 & 7	(18,284)	(1,225)
Gain on previously held interest in a joint venture	16	-	277,835
Profit before Directors' remuneration, contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), National Labour Support Tax ("NLST"), Zakat and taxation.		132,774	414,297
Directors' remuneration		(521)	(581)
Provision for contribution to KFAS, NLST and Zakat	17	(3,329)	(3,095)
Profit before taxation		128,924	410,621
Taxation relating to subsidiaries	8	(39,106)	(40,818)
Profit for the year		89,818	369,803
Attributable to:			
Shareholders of the Company		75,505	362,125
Non-controlling interests		14,313	7,678
		<u>89,818</u>	<u>369,803</u>
Basic and diluted earnings per share attributable to shareholders of the Company (fils)	18	150.66	722.57

The notes on pages 29 to 75 are an integral part of these consolidated financial statements.



NATIONAL MOBILE TELECOMMUNICATIONS COMPANY K.S.C. AND SUBSIDIARIES CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December, 2012

	2012 KD 000's	2011 KD 000's
Profit for the year	89,818	369,803
Other comprehensive loss		
Change in fair value of available for sale financial assets	(1,856)	(1,631)
Net loss / (gain) on sale of available for sale financial assets transferred to the consolidated statement of income	31	(39)
Impairment loss on available for sale financial assets transferred to the consolidated statement of income (Note 7)	209	1,225
Foreign currency translation differences of foreign operations	(19,552)	(39,152)
Other comprehensive loss for the year	(21,168)	(39,597)
Total comprehensive income for the year	68,650	330,206
Attributable to:		
Shareholders of the Company	56,552	328,030
Non-controlling interests	12,098	2,176
	68,650	330,206

The notes on pages 29 to 75 are an integral part of these consolidated financial statements.



NATIONAL MOBILE TELECOMMUNICATIONS COMPANY K.S.C. AND SUBSIDIARIES CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December, 2012

	Reserves										Retained earnings	Equity attributable to shareholders of Company	Non-controlling interests	Total equity
	Share capital	Treasury shares	Share premium	Statutory reserve	General reserve	Gain on sale of treasury shares	Fair value reserve	Foreign currency translation reserve	Other reserves	Total reserves				
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Balance at 31 December 2010	50,403	(3,598)	66,634	32,200	60,535	6,914	2,490	(8,197)	3,412	163,988	291,798	502,591	37,604	540,195
Comprehensive income (loss)														
Profit for the year	-	-	-	-	-	-	-	-	-	-	362,125	362,125	7,678	369,803
Other comprehensive loss for the year	-	-	-	-	-	-	(445)	(33,650)	-	(34,095)	-	(34,095)	(5,502)	(39,597)
Total comprehensive (loss) / income for the year	-	-	-	-	-	-	(445)	(33,650)	-	(34,095)	362,125	328,030	2,176	330,206
Ownership change in a subsidiary (note 16)	-	-	-	-	-	-	-	-	-	-	-	-	70,227	70,227
Dividends (note 11)	-	-	-	-	-	-	-	-	-	-	(25,058)	(25,058)	-	(25,058)
Transfer to general reserve (note 11)	-	-	-	-	36,580	-	-	-	-	36,580	(36,580)	-	-	-
Balance at 31 December 2011	50,403	(3,598)	66,634	32,200	97,115	6,914	2,045	(41,847)	3,412	166,473	592,285	805,563	110,007	915,570
Comprehensive income (loss)														
Profit for the year	-	-	-	-	-	-	-	-	-	-	75,505	75,505	14,313	89,818
Other comprehensive loss for the year	-	-	-	-	-	-	(1,616)	(17,337)	-	(18,953)	-	(18,953)	(2,215)	(21,168)
Total comprehensive (loss) / income for the year	-	-	-	-	-	-	(1,616)	(17,337)	-	(18,953)	75,505	56,552	12,098	68,650
Ownership change in a subsidiary (note 16)	-	-	-	-	-	-	-	-	-	-	(17,191)	(17,191)	17,191	-
Dividends (note 11)	-	-	-	-	-	-	-	-	-	-	(25,058)	(25,058)	-	(25,058)
Transfer to general reserve (note 11)	-	-	-	-	7,936	-	-	-	-	7,936	(7,936)	-	-	-
Balance at 31 December 2012	<u>50,403</u>	<u>(3,598)</u>	<u>66,634</u>	<u>32,200</u>	<u>105,051</u>	<u>6,914</u>	<u>429</u>	<u>(59,184)</u>	<u>3,412</u>	<u>155,456</u>	<u>617,605</u>	<u>819,866</u>	<u>139,296</u>	<u>959,162</u>

The notes on pages 29 to 75 are an integral part of these consolidated financial statements.



NATIONAL MOBILE TELECOMMUNICATIONS COMPANY K.S.C. AND SUBSIDIARIES CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December, 2012

	Note	2012 KD 000's	2011 KD 000's
Cash flows from operating activities:			
Profit for the year		89,818	369,803
Adjustments for:			
Depreciation and amortisation	4 & 5	129,441	123,834
Dividend income	15	(75)	(68)
Finance income	14	(2,397)	(2,242)
Loss / (gain) on sale of available for sale financial assets		31	(39)
Impairment loss on available for sale financial assets and intangible assets	5 & 7	18,284	1,225
Allowance for doubtful debts	9	9,933	11,792
Gain on previously held interest in joint venture	16	-	(277,835)
Taxation relating to subsidiaries	8	39,106	40,818
Loss on disposal of property and equipment and intangibles		698	-
Finance costs	14	7,166	10,309
Provision for KFAS, NLST and Zakat	17	3,329	3,095
Provision for staff indemnity		1,850	1,535
		297,184	282,227
Changes in:			
- Trade and other receivables		(19,969)	(15,643)
- Inventories		(412)	(4,394)
- Trade and other payables		(11,140)	29,895
Cash generated from operating activities		265,663	292,085
Staff indemnity paid		(438)	(547)
Net cash generated from operating activities		265,225	291,538
Cash flows from investing activities:			
(Increase)/decrease in term deposits		(924)	19,954
Purchase of available for sale financial assets	7	(9,789)	(6,165)
Proceeds from sale of available for sale financial assets		9,704	6,429
Acquisition of a subsidiary, net of cash acquired	16	-	(186,202)
Purchase of property and equipment	4	(138,783)	(140,592)
Proceeds from disposal of property and equipment		13	998
Purchase of intangible assets	5	(49,834)	(71,268)
Dividend income received		75	68
Finance income received		2,353	2,372
Net cash used in investing activities		(187,185)	(374,406)
Cash flows from financing activities:			
Dividends paid		(24,842)	(24,807)
Finance costs paid		(7,166)	(10,309)
Net movement in term debts		(12,610)	(48,049)
Net movement in non-controlling interests		-	70,227
Net cash used in financing activities		(44,618)	(12,938)
Effect of foreign currency translation		(940)	(8,246)
Net increase / (decrease) in cash and cash equivalents		32,482	(104,052)
Cash and cash equivalents at 1 January		104,747	208,799
Cash and cash equivalents at 31 December	10	137,229	104,747

The notes on pages 29 to 75 are an integral part of these consolidated financial statements.



NATIONAL MOBILE TELECOMMUNICATIONS COMPANY K.S.C. AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December, 2012

1. REPORTING ENTITY

National Mobile Telecommunications Company K.S.C. ("the Company") is a Kuwaiti shareholding company incorporated by Amiri Decree on 10 October, 1997. The Company and its subsidiaries (together referred to as "the Group") are engaged in the provision of mobile telephone services in Kuwait under a licence from the Ministry of Communications, Kuwait and elsewhere in the Middle East and North Africa (MENA) region and Maldives. The Company is also permitted to invest surplus funds in shares and other securities and acquire interests in related businesses in Kuwait and similar businesses abroad. Its shares were listed on the Kuwait Stock Exchange in July 1999 and commercial operations began in December 1999. The Company is a subsidiary of Qatar Telecommunication Company Q.S.C. ("QTEL"), a Qatari Shareholding Company listed on the Qatar Stock Exchange.

The address of the Company's registered office is Wataniya Telecom Tower, Sharq Area, Plot 1/A, Ahmed Al-Jaber Street, Kuwait City, Kuwait.

These consolidated financial statements were approved for issue by the Board of Directors of the Company on 14 February, 2013 and are subject to the approval of the Annual General Assembly of the shareholders.

As at 31 December, 2012, total number of employees of the Company is 1,082 (2011: 966).

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies have been applied consistently by the Group and are consistent with those used in the previous year.

a) Basis of preparation

These consolidated financial statements have been prepared on the historical cost basis, except for the measurement at fair value of "available for sale financial assets".

These consolidated financial statements are presented in Kuwaiti Dinars ("KD"), which is the Company's functional and presentation currency, rounded off to the nearest thousand.

The preparation of consolidated financial statements in conformity with International Financial Reporting Standards ("IFRS") requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Changes in assumptions may have a significant impact on the consolidated financial statements in the period the assumptions changed. The management believes that the underlying assumptions are appropriate. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

b) Statement of compliance

The consolidated financial statements have been prepared in accordance with the IFRS promulgated by the International Accounting Standards Board ("IASB"), interpretations issued by the International Financial Reporting Committee of the IASB and the requirements of the Kuwait Companies Law No. 25 of 2012, the Company's articles and memorandum of association and the Ministerial Order No. 18 of 1990.

On 29 November, Kuwait Companies Law was issued by Decree Law No. 25 of 2012 ("the Law"). The



NATIONAL MOBILE TELECOMMUNICATIONS COMPANY K.S.C. AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December, 2012

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Statement of compliance (Continued)

Law came into effect from the date it was published in Kuwait's Official Gazette. The Company is currently in the process of ensuring compliance with the provisions of the law and has six months of its effective date until 29 May, 2013, in accordance with the executive regulations. The Company's management is of the view that application of the provisions of this law has no material impact on the Group's activities or its consolidated financial position.

c) Standards and interpretations not yet effective

Following standards and interpretations have been issued but are not yet effective and have not yet been adopted by the Group:

IFRS 9 Financial Instruments

The standard, which will be effective for annual periods beginning on or after 1 January, 2015, specifies how an entity should classify and measure its financial assets. It requires all financial assets to be classified entirely based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortized cost or fair value.

These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of IAS 39. They apply a consistent approach to classifying financial assets and replace the numerous categories of financial assets in IAS 39, each of which had its own classification criteria. They also result in one impairment method, replacing the numerous impairment methods in IAS 39 that arise from the different classification categories.

IFRS 10 Consolidated Financial Statements

The new standard identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements. It introduces a single consolidation model that identifies control as the basis for consolidation for all types of entities, where control is based on whether an investor has power over the investee, exposure/rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the returns. This standard is effective for annual periods beginning on or after 1 January, 2013.

IFRS 12 Disclosure of Interests in Other Entities

The new standard combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. It requires extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. IFRS 12 is effective for annual periods beginning on or after 1 January, 2013.

IFRS 13 Fair Value Measurement

The new standard defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when other IFRSs require



NATIONAL MOBILE TELECOMMUNICATIONS COMPANY K.S.C. AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December, 2012

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Standards and interpretations not yet effective (Continued)

or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRS or address how to present changes in fair value. The new requirements are effective for annual periods beginning on or after 1 January, 2013.

IAS 1- Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment became effective for annual periods beginning on or after 1 July, 2012, and will therefore be applied in the Group's first annual report after becoming effective.

IAS 28 Investments in Associates and Joint Ventures

As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates has been renamed as IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard is effective for annual periods beginning on or after 1 January, 2013.

IAS 32 Offsetting Financial Assets and Financial Liabilities

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems which apply gross settlement mechanisms that are not simultaneous.

These amendments are effective for annual periods beginning on or after 1 January, 2014.

IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities

These amendments require an entity to disclose information about rights to set-off and related arrangements. The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments are effective for annual periods beginning on or after 1 January, 2013.

The directors anticipate that the adoption of these standards and interpretations will have no significant financial impact on the consolidated financial statements of the Group in the period of initial application.

d) Basis of consolidation

These consolidated financial statements include the financial statements of the Company and its subsidiaries (Note 16).



NATIONAL MOBILE TELECOMMUNICATIONS COMPANY K.S.C. AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December, 2012

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Basis of consolidation (Continued)

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

Loss of control

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in consolidated statement of income. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted or as an available for sale financial asset depending on the level of influence retained.

Jointly controlled entities

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of the assets, or an impairment loss.

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies, etc.

The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued



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2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Basis of consolidation (Continued)

by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the consolidated statement of income.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognised in the consolidated statement of income.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated statement of income.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in the consolidated statement of income or in the consolidated statement of comprehensive income.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

Acquisitions of non-controlling interests

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.



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For the year ended 31 December, 2012

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Foreign currency

Foreign currency transactions

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate prevailing at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year and the amortised cost in foreign currency translated at the exchange rate prevailing at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in consolidated statement of income, except for the differences which are recognised in consolidated statement of comprehensive income arising on the retranslation of available-for-sale equity investments (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to the consolidated statement of income).

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Kuwaiti Dinar at exchange rates prevailing at the reporting date. Income and expenses of foreign operations are translated to Kuwaiti Dinar at exchange rates prevailing at the dates of the transactions.

Foreign currency differences are recognised in the consolidated statement of comprehensive income and presented in the foreign currency translation reserve in the consolidated statement of changes in equity. However, if the foreign operation is a non-wholly owned subsidiary, then the relevant portion of the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the foreign currency translation reserve related to that foreign operation is reclassified to the consolidated statement of income as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in a joint venture that includes a foreign operation while retaining joint control, the relevant proportion of the cumulative amount is reclassified to the consolidated statement of income.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither



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2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Foreign currency (Continued)

planned nor likely in the foreseeable future, foreign currency gains and losses arising from such item are considered to form part of a net investment in the foreign operation and are recognised in the consolidated statement of comprehensive income, and presented in foreign currency translation reserve in the consolidated statement of changes in equity.

f) Financial instruments

Non-derivative financial assets

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group classifies non-derivative financial assets into the following categories:

- Loans and receivables; and
- Available for sale financial assets

i) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise of cash and cash equivalents, trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise of cash balances and deposits with original maturities of three months or less from the date of placement less bank overdrafts. The call deposits are subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments.

Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of other categories of financial assets. Available for sale financial assets are recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses are recognised in the consolidated statement of comprehensive income and presented in the fair value reserve in the consolidated statement of changes in equity. When an investment is derecognised, the gain or loss accumulated in the consolidated statement of changes



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For the year ended 31 December, 2012

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Financial instruments (Continued)

in equity is reclassified to the consolidated statement of income.

Available for sale financial assets comprise of equity securities and debt securities.

ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially at the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise of trade and other payables, term debts and other non-current liabilities.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less from the financial position date (or in the normal operating cycle of the business if longer); otherwise, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

g) Inventories

Inventories are stated at the lower of purchase cost and net realisable value using the weighted average method after making allowance for any slow moving and obsolete items. Purchase cost includes the purchase price, import duties, transportation, handling and other direct costs except for borrowing costs. Net realisable value represents the estimated selling price less all estimated selling costs.



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For the year ended 31 December, 2012

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes the purchase price and directly associated costs of bringing the asset to a working condition for its intended use.

Depreciation is calculated based on the estimated useful lives of the applicable assets (Note 4) on a straight-line basis commencing when the assets are ready for their intended use.

Property and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

The estimated useful lives, residual values and depreciation methods are reviewed at each reporting date, with the effect of any changes in estimate accounted for on prospective basis.

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repair and maintenance are expensed as incurred.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the consolidated statement of income.

i) Leases

Leased assets

Leases in terms of which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognised in the Group's statement of financial position. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Lease payments

Payments made under operating leases are recognised in the consolidated statement of income on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant rate of interest on the remaining balance of the liability.



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2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Leases (Continued)

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. This will be the case if the following two criteria are met:

- The fulfilment of the arrangement is dependent on the use of a specific asset or assets; and
- The arrangement contains a right to use the asset(s).

At inception or on reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Group's incremental borrowing rate.

j) Intangible assets

Identifiable non-monetary assets without physical substance acquired in connection with the business and from which future benefits are expected to flow are treated as intangible assets. Intangible assets consist of GSM license fees paid by the subsidiaries, brand name, customer relationships, concession arrangements and goodwill arising on the acquisition of subsidiaries. Intangible assets with definite lives are carried at cost less accumulated amortisation and any accumulated impairment losses.

The GSM license fee, brand name, customer relationships and concession intangible assets are being amortised on a straight-line basis over their useful lives. The estimated useful lives and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Goodwill is not amortised, but is reviewed for impairment at least annually. Any impairment loss is recognised immediately in the consolidated statement of income and is not subsequently reversed. On disposal of a subsidiary, the attributable amount of Goodwill is included in the determination of the profit or loss on disposal.

Amortization is calculated based on the estimated useful lives of the applicable intangible assets on a straight-line basis (Note 5).

k) Service concession arrangements

The Group accounts for service concession arrangements where it is an operator in accordance with IFRIC 12 "Service concession arrangements". Infrastructure within the scope of this Interpretation is not recognised as property and equipment of the Group as the contractual service arrangement does not convey the right to control the use of the public service infrastructure to the Group. Accordingly, the Group recognises such assets as "concession intangible assets". The Group recognises these intangible assets at cost in accordance with IAS 38. These intangible assets are amortised over the period in which it is expected to be available for use by the Group. The Group recognises contract revenue and costs in accordance with IAS 11, Construction Contracts. The costs of each activity, namely construction, operation and maintenance are recognised as expenses by reference to the



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2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Service concession arrangements (Continued)

stage of completion of the related activity. Contract revenue, if any, i.e. the fair value of the amount due from the grantor for the activity undertaken, is recognised at the same time. The amount due from the grantor meets the definition of a receivable in IAS 39 Financial Instruments: Recognition and Measurement. The receivable is measured initially at fair value and is subsequently measured at amortised cost.

The Group accounts for revenue and costs relating to the services in accordance with IAS 18 as described in the accounting policy for revenue recognition. Borrowing costs attributable to the arrangement are recognised as an expense in the period in which they are incurred, unless the Group has a contractual right to receive an intangible asset (a right to charge user of the public service). If the Group has a contractual right to receive an intangible asset, borrowing costs attributable to the arrangement are capitalised during the construction phase of the arrangement.

l) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Provision for site restoration is assessed at each reporting date as per the Group policy.

m) Impairment

i) *Non-derivative financial assets*

A financial asset not classified as at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in available for sale equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Financial assets measured at amortised cost

The Group considers evidence of impairment for financial assets measured at amortised cost (loans



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For the year ended 31 December, 2012

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Impairment (Continued)

and receivables) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in the consolidated statement of income and reflected in an allowance account against loans and receivables.

Interest on the impaired asset continues to be recognised. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the consolidated statement of income.

Available for sale financial assets

Impairment losses on available for sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity to the consolidated statement of income. The cumulative loss that is reclassified from the consolidated statement of changes in equity to the consolidated statement of income is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in the consolidated statement of income. Changes in cumulative impairment losses attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available for sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in the consolidated statement of income. However, any subsequent recovery in the fair value of an impaired available for sale equity security is recognised in the consolidated statement of comprehensive income.

ii) Non-financial assets

The carrying amounts of the Group's non-financial assets other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or Cash-Generating Unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to the present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets are grouped



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For the year ended 31 December, 2012

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Impairment (Continued)

together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups at CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognised in the consolidated statement of income. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

n) Term debt

Term debt is recognised initially at fair value, net of transaction costs incurred. Term debt is subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of income over the period of the debt using the effective interest method.

o) Provision for staff indemnity

The provision for staff indemnity is payable on completion of employment. The provision is calculated in accordance with applicable labour law based on employees' salaries and accumulated periods of service or on the basis of employment contracts, where such contracts provide extra benefits. With respect to its Kuwaiti employees, the Group makes contributions to Public Institution for Social Security calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

p) Treasury shares

Treasury shares consist of the company's own shares that have been issued, subsequently reacquired by the Group and not yet reissued or cancelled. 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 account in the consolidated statement of changes in equity. When treasury shares are reissued, gains are credited to a separate account in the consolidated statement of changes in equity, which is not distributable.

Any realised 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 to reserves. Gains realised 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.



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For the year ended 31 December, 2012

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q) Revenue recognition

Revenue represents the fair value of the consideration received or receivable for communication services and equipment sales net of discounts and sales tax. Revenue from rendering of services and sale of equipment is recognised when it is probable that the economic benefits associated with the transaction shall flow to the Group and the amount of revenue and the associated costs can be reliably measured.

The Group principally obtains revenue from providing telecommunication services comprising access charges, airtime usage, messaging, interconnect fee, data services and infrastructure provision, connection fees, equipment sales and other related services.

The specific revenue recognition criteria applied to significant elements of revenue is set out below:

Revenue from rendering of services

Revenue from access charges, airtime usage and messaging by contract customers is recognised as services are performed with unbilled revenue resulting from services already provided accrued at the end of each period and unearned revenue from services to be provided in future periods deferred.

Revenue arising from separable installation and connection services are recognised when it is earned. Subscription fee is recognised as revenue as the services are provided.

Interconnection, roaming and postpaid revenue

Revenue from interconnection and roaming services provided to other telecom operators, as well as postpaid services provided to subscribers are generally billed on a monthly basis and are recognised based on actual usage, applying contractual rates, net of estimated discounts.

Sales of prepaid cards

Sale of prepaid cards is recognised as revenue based on the actual utilisation of the prepaid cards sold. Sales relating to unutilised prepaid cards are accounted for as deferred income. Deferred income related to unused prepaid cards is recognised as revenue when utilised by the customer or upon termination of the customer relationship.

Sales of equipment

Revenue from sales of peripheral and other equipment is recognised when the significant risks and rewards of ownership are transferred to the buyer which is normally when the equipment is delivered and accepted by the customer.

Multiple element arrangements

Arrangements involving the delivery of bundled products and services are assessed to determine whether it is necessary to identify separate deliverables that should be recognised individually. Revenue related to the bundled contract is allocated to the different deliverables identified, based on their relative fair values. The Group generally determines the fair value of individual elements based on prices at which the deliverable is regularly sold on a stand alone basis, after considering discounts where appropriate.



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For the year ended 31 December, 2012

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q) Revenue recognition (Continued)

Other income

Other income represents income generated by the Group that arises from activities outside of the provision for communication services and equipment sales. Key components of other income are:

- Interest income
Interest income is recognised on an accrual basis using effective interest rate method.
- Dividend income
Dividend income is recognised when the Group's right to receive dividend is established.

r) Customer loyalty program

The Company has implemented a customer loyalty program, whereby the subscribers may earn loyalty points that are redeemable in the form of discounts against the purchase price of handsets or credits for free service usage. The Company records the loyalty program in accordance with IFRIC 13 since the inception of the program, and therefore maintains a deferred revenue balance for the fair value of loyalty points earned and not yet redeemed.

Deferred revenue is released to revenue when it is no longer considered probable that the loyalty points will be redeemed.

s) Taxation

Certain subsidiaries are subject to taxes on income in various foreign jurisdictions. Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the financial position date.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements of the relevant subsidiaries and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.



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For the year ended 31 December, 2012

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s) Taxation (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the financial position date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

t) Zakat, KFAS and NLST

Zakat, contribution to Kuwait Foundation for the Advancement of Sciences (KFAS) and National Labour Support Tax (NLST) represent levies/taxes imposed on the Company at the flat percentage of net profits attributable to the Company less permitted deductions under the prevalent respective fiscal regulations of the State of Kuwait. Under prevalent taxation/levy regulations, no carry forward of losses is permitted and there are no significant differences between the tax/levy bases of assets and liabilities and their carrying amount for financial reporting purposes.

Tax/statutory levy	Rate
Contribution to KFAS	1.0% of net profit less permitted deductions
NLST	2.5% of net profit less permitted deductions
Zakat	1.0% of net profit less permitted deductions

u) Finance costs

Finance costs representing interest expense on interest-bearing financial liabilities are calculated on an accrual basis and are recognised in the consolidated statement of income in the period in which they are incurred.

v) Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the consolidated statement of financial position, but are disclosed when an inflow of economic benefits are probable.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.



NATIONAL MOBILE TELECOMMUNICATIONS COMPANY K.S.C. AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December, 2012

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Impairment of inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices. As at the financial position date, gross inventory was KD 15,066 thousand (2011 : KD 14,378 thousand) and provision for obsolete inventory items was KD 607 thousand (2011: KD 331 thousand).

Impairment of receivables

The impairment charge reflects estimates of losses arising from the failure or inability of the parties concerned to make the required payments. The charge is based on the ageing of the party accounts, the customer's credit worthiness and the historic write-off experience.

At the date of financial position, gross trade and billing and other receivables were KD 141,047 thousand (2011: KD 122,624 thousand), and the allowance for doubtful debts was KD 39,912 thousand (2011: KD 30,293 thousand). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the consolidated statement of income.

Classification of investments

On acquisition of an investment, the Group decides whether it should be classified as "financial assets at fair value through profit or loss" or "available for sale". The Group follows the guidance of IAS 39 on classifying its investments.

Impairment of investments

The Group treats available for sale financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is "significant" or "prolonged" requires judgement. In addition, the Group also evaluates among other factors, normal volatility in the share price for quoted investments and the future cash flows and discount factors for unquoted investments. During the year, the Group has recorded an impairment loss on value of available for sale financial assets amounting to KD 209 thousand (2011: KD 1,225 thousand) (Note 7).



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For the year ended 31 December, 2012

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fair value of unquoted equity investments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The Group has used discounted cash flow analysis for various available for sale financial assets that are not traded in active markets.

Impairment of non-financial assets and useful lives

The Group's management tests annually whether non-financial assets have suffered impairment in accordance with the accounting policies stated in Note 2. The recoverable amount of an asset is determined based on value-in-use method. This method uses estimated cash flow projections over the estimated useful life of the asset discounted using market rates.

The Group's management determines the useful lives and the related depreciation and amortisation charge.

The depreciation and amortisation charge for the year will change significantly if actual life is different from the estimated useful life of the asset.

Deferred tax

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues 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 current and deferred income tax assets and liabilities in the period in which such determination is made.

Where the actual final outcome (on the judgement areas) of expected cash flows to differ by 10% from management's estimates, the Group would need to increase the income tax liability by KD 3,044 thousand and the deferred tax liability by KD 866 thousand if unfavourable; or decrease the income tax liability by KD 3,044 thousand and the deferred tax liability by KD 866 thousand if favourable.



NATIONAL MOBILE TELECOMMUNICATIONS COMPANY K.S.C. AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4. PROPERTY AND EQUIPMENT

	Network equipment KD 000's	Network infrastructure KD 000's	Office & computer equipment KD 000's	Lease hold land, furniture, fixtures and others KD 000's	Capital work-in progress KD 000's	Total KD 000's
Cost						
Balance at 1 January 2011	569,125	54,004	48,261	20,818	37,017	729,225
Change in ownership and reclassification	81,918	2,818	(21,864)	1,420	7,950	72,242
Transfers	(163,206)	137,650	165	991	13,917	(10,483)
Additions	49,823	27,717	5,393	4,245	40,749	127,927
Disposals	(672)	(517)	(329)	(1,216)	(13)	(2,747)
Currency translation effects	(12,262)	(4,984)	(2,920)	(545)	(1,744)	(22,455)
Balance at 31 December 2011	524,726	216,688	28,706	25,713	97,876	893,709
Transfers	31,920	1,012	1,170	411	(33,177)	1,336
Additions	55,216	23,071	4,092	3,175	53,229	138,783
Disposals	(5,960)	(450)	(71)	(428)	(18)	(6,927)
Currency translation effects	(6,446)	(4,414)	(510)	(392)	(1,593)	(13,355)
Balance at 31 December 2012	599,456	235,907	33,387	28,479	116,317	1,013,546
Accumulated depreciation and impairment						
Balance at 1 January 2011	238,105	25,564	32,188	13,542	-	309,399
Change in ownership and reclassification	46,835	1,041	(13,844)	668	-	34,700
Transfers	(48,478)	38,779	(261)	877	-	(9,083)
Charge for the year	61,929	19,162	3,657	3,135	-	87,883
Related to disposals	(320)	(172)	(325)	(932)	-	(1,749)
Currency translation effects	(7,864)	(2,262)	(1,484)	(424)	-	(12,034)
Balance at 31 December 2011	290,207	82,112	19,931	16,866	-	409,116
Transfers	(8)	8	(19)	19	-	-
Charge for the year	63,115	21,339	4,744	3,055	-	92,253
Related to disposals	(5,462)	(357)	(57)	(370)	-	(6,246)
Currency translation effects	(3,519)	(1,918)	(373)	(280)	-	(6,090)
Balance at 31 December 2012	344,333	101,184	24,226	19,290	-	489,033
Carrying amounts:						
At 1 January 2011	331,020	28,440	16,073	7,276	37,017	419,826
At 31 December 2011	234,519	134,576	8,775	8,847	97,876	484,593
At 31 December 2012	255,123	134,723	9,161	9,189	116,317	524,513
Annual depreciation rates	12.5%- 16.67%	5% - 15%	33.33%	12.5%		



NATIONAL MOBILE TELECOMMUNICATIONS COMPANY K.S.C. AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4. PROPERTY AND EQUIPMENT (CONTINUED)

Property and equipment of the subsidiaries; Wataniya Telecom Algeria S.P.A. (WTA) and Wataniya Palestine Mobile Telecom Limited (WPT) totalling to KD 253,425 thousand (2011: KD 245,906 thousand including Wataniya Telecom Maldives (WTM)) are under registered mortgage to secure certain bank loans (Note 12).

Certain assets classified under leasehold land, furniture, fixtures and others amounting to KD 4,277 thousand (2011: KD 4,465 thousand) were acquired under finance lease agreements for which the current portion of the respective obligations amounting to KD 695 thousand (2011: KD 703 thousand) is included under trade and other payables and the non-current portion from 1 to 5 years amounting KD 3,582 thousand (2011: KD 3,762 thousand) is included under non-current liabilities.



NATIONAL MOBILE TELECOMMUNICATIONS COMPANY K.S.C. AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December, 2012

5. INTANGIBLE ASSETS AND GOODWILL

	Goodwill KD 000's	Concession intangible assets KD 000's	License and other intangible assets KD 000's	Brand names KD 000's	Total KD 000's
Cost					
Balance at 1 January 2011	-	56,663	152,428	-	209,091
Change in ownership and reclassification	-	-	96,300	-	96,300
Transfers	-	2,506	7,977	-	10,483
Additions	145	2,064	11,165	-	13,374
Acquisition of subsidiary	*313,869	-	145,285	14,947	474,101
Currency translation effects	(16,564)	(683)	(9,477)	-	(26,724)
Balance at 31 December 2011	297,450	60,550	403,678	14,947	776,625
Transfers	-	-	(1,336)	-	(1,336)
Disposals	-	(81)	(103)	-	(184)
Additions	-	137	49,697	-	49,834
Currency translation effects	(6,271)	599	(7,157)	(315)	(13,144)
Balance at 31 December 2012	291,179	61,205	444,779	14,632	811,795
Accumulated amortisation and impairment					
Balance at 1 January 2011	-	18,895	7,133	-	26,028
Change in ownership and reclassification	-	-	55,840	-	55,840
Transfers	-	-	9,083	-	9,083
Acquisition of a subsidiary	-	-	8,432	-	8,432
Charge for the year	-	5,715	27,599	2,637	35,951
Currency translation effects	-	(175)	(5,965)	(146)	(6,286)
Balance at 31 December 2011	-	24,435	102,122	2,491	129,048
Related to disposals	-	(44)	(110)	-	(154)
Charge for the year	-	6,228	28,547	2,413	37,188
Provision for impairment	-	18,075	-	-	18,075
Currency translation effects	-	284	(2,054)	(27)	(1,797)
Balance at 31 December 2012	-	48,978	128,505	4,877	182,360
Carrying amounts					
At 1 January 2011	-	37,768	145,295	-	183,063
At 31 December 2011	297,450	36,115	301,556	12,456	647,577
At 31 December 2012	291,179	12,227	316,274	9,755	629,435
Amortisation rate	-	6.67%	4% to 30%	16.67%	

* Goodwill pertained to the acquisition stated in Note 16.



NATIONAL MOBILE TELECOMMUNICATIONS COMPANY K.S.C. AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December, 2012

5. INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

Goodwill's recoverable amount was based on 10 years discounted cash flow projections assuming a pre-tax discount rate of 10.6% per annum.

During the year, the Group recognised an impairment loss amounting to KD 18,075 thousand in respect of intangible assets as described in Note 6 in one of the subsidiaries. These intangible assets are identified as separate Cash Generating Unit (CGU). Based on the current market conditions and adverse operational factors affecting the CGU, the management believes that there are objective evidences of impairment in value of the intangible assets.

6. BUILD-OPERATE-TRANSFER AGREEMENT

In 2002, PTC has signed a Build-Operate-Transfer ("BOT") agreement with Saudi Telecom Company ("STC") to offer digital radio network services based on IDEN technology ("the Project") to the public sector and the corporate sector in the Kingdom of Saudi Arabia ("KSA"). The services offered include call services, data services, control & monitoring services and other optional services. The key features of the BOT agreement are:

- a) The BOT agreement is for a concession period of 15 years from 2005 to 2020 subject to termination as discussed in (d) below and renewal in accordance with the terms of the agreement.
- b) PTC will be responsible for the Project (including the completion of each Project phase), building and maintaining the network during the term of the BOT agreement. PTC is liable to pay performance penalties to STC in the event of any failure by STC to comply with specified Network Performance Requirements.
- c) The prices to be charged from users by PTC are subject to regulation by STC.
- d) At the end of the agreement period, PTC shall transfer the network to STC at fair market value based on an independent valuation. The network shall be transferred in a condition that enables it to be used for at least the next 5 years.
- e) PTC shall pay STC revenue fees (which are calculated at 20% of PTC's revenues, excluding revenues earned from government customers), site rental payments, equipment commission fees and link licence fees during the term of the BOT agreement. The fees can be revised by STC if the telecommunications market in KSA is deregulated such that STC is obliged to provide services, rights, access or licenses of a comparable type or nature to third parties. In such event, the revised payments shall reflect the market rate for services, rights, access or licenses of a comparable type and nature (and in assessing such market rate the amounts previously paid by PTC shall not be taken into account).
- f) The agreement may be terminated by STC if PTC fails to perform its obligations or if PTC is declared bankrupt or insolvent or goes into liquidation (except for the purposes of amalgamation or reconstruction approved in advance by STC). The agreement may be terminated by PTC if STC fails to perform its obligations or if STC is dissolved or goes into liquidation.
- g) The agreement may be modified in writing signed by the duly authorised representatives of STC and PTC.



NATIONAL MOBILE TELECOMMUNICATIONS COMPANY K.S.C. AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December, 2012

6. BUILD-OPERATE-TRANSFER AGREEMENT (CONTINUED)

The assets under BOT agreement are shown separately as “concession intangible assets” (Note 5). Each item of the concession intangible asset is amortised over the period from the date of its addition to 2020 (as the BOT agreement expires in 2020).

In the opinion of management, PTC does not have any contractual obligations to fulfill as a condition of its licence:

- i) *To maintain the infrastructure to a specified level of serviceability, or*
- ii) *To restore the infrastructure to a specified condition before it is handed over to STC at the end of the BOT arrangement. The future network enhancements will be able to sustain the network on transferring to STC as mentioned in (d) above.*

7. AVAILABLE FOR SALE FINANCIAL ASSETS

	2012 KD 000's	2011 KD 000's
Listed equity securities	2,144	2,129
Unlisted equity securities	7,079	8,865
	<u>9,223</u>	<u>10,994</u>

Movement in available for sale financial assets is as follows:

	2012 KD 000's	2011 KD 000's
Balance at beginning of the year	10,994	12,889
Additions	9,789	6,165
Disposals	(9,735)	(6,390)
Impairment loss on value of financial assets	(209)	(1,225)
Net unrealised loss	(1,616)	(445)
Balance at end of the year	<u>9,223</u>	<u>10,994</u>

At 31 December, 2012, unlisted equity investments with a net amount of KD 2,021 thousand (2011: KD 2,021 thousand) are carried at cost less impairment due to the non-availability of quoted market prices or other reliable measures of their fair value.

At 31 December, 2012, available for sale financial assets amounting to KD 9,183 thousand (2011: KD 10,930 thousand) and KD 40 thousand (2011: KD 64 thousand) are denominated in Kuwaiti Dinars and US dollars respectively.



NATIONAL MOBILE TELECOMMUNICATIONS COMPANY K.S.C. AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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8. TAXATION RELATING TO SUBSIDIARIES

The income tax represents amounts recognised by subsidiary companies.

The major components of the income tax expense are as follows:

	2012 KD 000's	2011 KD 000's
Current tax		
Current income tax charge	30,441	30,961
Deferred tax		
Relating to origination and reversal of temporary differences	8,665	9,857
Income tax included in the consolidated statement of income	39,106	40,818

The Company is not subject to income tax in the state of Kuwait. The effective tax rate applicable to the taxable subsidiary companies is 35% (2011: 32.85%). For the purpose of determining the taxable results for the year, the accounting profit of the subsidiaries is adjusted for tax purposes. Adjustments for tax purposes included items relating to both income and expense. The adjustments are based on the current understanding of the existing laws, regulations and practices of each subsidiaries jurisdiction. In view of the operations of the Group being subject to various tax jurisdictions and regulations, it is not practical to provide a detailed reconciliation between accounting and taxable profits together with the details of the effective tax rates. As a result, the reconciliation includes only the identifiable major reconciling items.

The reconciliation between tax expense and the product of accounting profit multiplied by the Group's effective tax rate is as follows:

	2012 KD 000's	2011 KD 000's
Accounting consolidated profit before tax	132,774	414,297
Company and its subsidiaries that are not subject to corporate income tax	(55,560)	(329,691)
Accounting profit of subsidiaries that are subject to corporate income tax	77,214	84,606
Add:		
Allowances, accruals and other temporary differences	740	1,050
Expenses and income that are not subject to corporate tax	2,072	9,771
Add / (deduct):		
Unutilised tax gains / (losses) brought forward	6,949	(2,009)
Taxable profit of subsidiaries that are subject to corporate income tax	86,975	93,418
Current income tax charge at the effective income tax rate of 35% (2011: 32.85%)	30,441	30,687
Prior year adjustments	-	274
Current income tax charge	30,441	30,961



NATIONAL MOBILE TELECOMMUNICATIONS COMPANY K.S.C. AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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8. TAXATION RELATING TO SUBSIDIARIES (CONTINUED)

Deferred tax

The deferred tax assets of KD 2,394 thousand as at 31 December, 2012 (31 December, 2011: KD 11,255 thousand) are recognised on account of accumulated tax losses incurred by the subsidiaries, Wataniya Telecom Algeria S.P.A. (WTA) and Tunisiana S.A., which are expected to be deductible against taxable profits in the foreseeable future.

Movement in deferred tax assets during the year:

	2012 KD 000's	2011 KD 000's
Opening balance	11,255	19,681
Effect of change in ownership (Note 16)	-	1,785
Charged to the consolidated statement of income	(8,665)	(9,857)
Foreign exchange differences	(196)	(354)
Closing balance	<u>2,394</u>	<u>11,255</u>



NATIONAL MOBILE TELECOMMUNICATIONS COMPANY K.S.C. AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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9. TRADE AND OTHER RECEIVABLES

	2012 KD 000's	2011 KD 000's
Trade and billing receivables	125,498	109,963
Unbilled revenue	6,122	8,524
Advances and prepayments	37,538	30,936
Interest receivable	659	615
Other receivables	15,549	12,661
	<u>185,366</u>	<u>162,699</u>
Less: allowance for doubtful debts	<u>(39,912)</u>	<u>(30,293)</u>
	<u>145,454</u>	<u>132,406</u>

Advances and prepayments include advance payments to suppliers amounting to KD 31,814 thousand (2011: KD 16,070 thousand).

Movement in the allowance for doubtful debts is as follows:

	2012 KD 000's	2011 KD 000's
Balance at beginning of the year	30,293	20,162
Charge for the year (included under selling and distribution costs)	9,933	11,792
Amounts written off as uncollectible	(73)	(1,661)
Amounts recovered during the year (included under selling and distribution costs)	(241)	-
Balance at end of the year	<u>39,912</u>	<u>30,293</u>



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9. TRADE AND OTHER RECEIVABLES (CONTINUED)

Aging of past due but not impaired

	2012 KD 000's	2011 KD 000's
31 – 60 days	14,398	6,306
61 – 90 days	2,393	1,048
91 – 120 days	1,715	751
More than 120 days	9,389	4,112
Total	27,895	12,217

Aging of past due and impaired

	2012 KD 000's	2011 KD 000's
31 – 60 days	9,052	24,883
61 – 90 days	6,079	11,078
91 – 120 days	6,706	4,922
More than 120 days	51,457	28,316
	73,294	69,199
Allowance for doubtful debts	(39,912)	(30,293)
Total	33,382	38,906



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10. BANK BALANCES AND CASH

	2012 KD 000's	2011 KD 000's
Cash and bank balances	94,217	59,163
Deposits	57,544	59,192
Bank balances and cash in the consolidated statement of financial position	151,761	118,355
Deposits with original maturities of three months or more	(14,532)	(13,608)
Cash and cash equivalents in the consolidated statement of cash flows	137,229	104,747

The effective interest rate on interest-earning deposits ranged from 0.5% to 6.68% (2011: 0.5% to 2.9%) per annum. Cash and bank balances include KD 85 thousand (2011: KD 111 thousand) held as part of a managed portfolio.

Included in cash and bank balances is an amount of KD 13,620 thousand (2011: KD 13,608 thousand) restricted in accordance with subsidiary's syndicated loan agreement (refer to Note 12).

11. EQUITY

a) Share capital

The authorised, issued and fully paid up share capital as at 31 December, 2012 consists of 504,033 thousand shares (31 December, 2011: 504,033 thousand shares) of 100 fils each.

b) Treasury shares

	2012	2011
Number of shares (000's)	2,871	2,871
Percentage of issued shares	0.57%	0.57%
Cost (KD 000's)	3,598	3,598
Market value (KD 000's)	6,718	5,569

c) Statutory reserve

In accordance with the Kuwait Companies Law and the Company's Articles of Association, 10% of profit for the year attributable to shareholders of the Company before KFAS, NLST, Zakat and Directors' remuneration is required to be transferred to a statutory reserve until the reserve reaches a minimum of 50% of the paid up share capital. This reserve is not available for distribution except for the amount in excess of 50% of share capital or payment of a dividend of 5% of paid up share capital in years when retained earnings are not sufficient for the payment of such dividends.

The Company has discontinued further transfers to statutory reserve as it has exceeded 50% of the authorised, issued and fully paid up share capital.



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11. EQUITY (CONTINUED)

d) General reserve

In accordance with the Company's Articles of Association, 10% of profit for the year attributable to shareholders of the Company before KFAS, NLST, Zakat and Directors' remuneration is required to be transferred to the general reserve until the shareholders decide to discontinue the transfer to the general reserve.

During the current year, an amount of KD 7,936 thousand has been transferred to general reserve (2011: KD 36,580 thousand).

e) Proposed dividends

The Board of Directors proposed a cash dividend of 125 fils per share for the year ended 31 December 2012 (2011: 50 fils per share). This proposal is subject to the approval of the shareholders in the Annual General Assembly and has not been accounted for in these consolidated financial statements.

The Annual General Assembly of the Company held on 21 March, 2012 approved the annual consolidated financial statements of the Group for the year ended 31 December, 2011 and the payment of cash dividend of 50 fils per share for the year ended 31 December, 2011 (2010: cash dividend of 50 fils per share) to the Company's shareholders existing as at 21 March, 2012.



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12. LONG TERM DEBT

	Current		Non-current	
	2012	2011	2012	2011
	KD 000's	KD 000's	KD 000's	KD 000's
Due to local banks	30,124	7,728	28,169	21,088
Due to foreign banks	18,170	14,284	30,820	63,527
Due to Qtel	-	-	-	13,266
	<u>48,294</u>	<u>22,012</u>	<u>58,989</u>	<u>97,881</u>

The details of long term debts are as follows:

Description	2012 KD 000's	2011 KD 000's
a) The loans bear interest rates of Algerian Repo rate plus 1.3% to 3.4% per annum and LIBOR plus 1.25% to 4.15% per annum (2011: Algerian Repo rate plus 1.3% to 3.4% per annum and LIBOR plus 1.10% to 4.15% per annum). The repayment term is made in instalments varying over a period from December, 2005 up to March, 2015. These loans are supported by third party guarantees and secured by pledges on WTA's assets and shares. In addition, WTA is subject to various obligations and financial covenants over the terms of those debts.	64,203	86,353
b) The loans bear interest rates of 6 months LIBOR plus 3.5% per annum. The repayment term is over a period of 5 years in instalments starting from November 2008. These loans were secured by the pledge of WTM shares held by Wataniya International FZ – L.L.C. (WTI) and mortgage cover over core network assets, these loans were fully paid as at 31 December, 2012.	-	1,665
c) The loans bear annual interest rates ranging from LIBOR plus 5% to 5.85% per annum (2011: LIBOR plus 5.31% to 6.34% per annum) and are repayable in semi annual instalments commencing 15 January, 2011 and ending 15 January, 2016. These loans are secured by WPT's assets.	23,080	18,609
d) Long term loan obtained from Qatar Telecom Q.S.C. ("QTEL"). This loan carried an interest rate of 3.25% and was paid in full during the last quarter of year 2012.	-	13,266
e) The loan bears annual interest rate of 1% per annum over the Central Bank of Kuwait discount rate and will mature on 15 December, 2013.	20,000	-
	<u>107,283</u>	<u>119,893</u>



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13. TRADE AND OTHER PAYABLES

	2012 KD 000's	2011 KD 000's
Accruals	173,410	161,352
Trade payables	72,084	63,984
Amounts due to related parties (note 19)	30,200	23,439
Other tax payable	16,163	16,166
Staff payable	8,664	13,056
Dividends payable	3,422	3,206
Other payables	46,464	44,410
	<u>350,407</u>	<u>325,613</u>

The foreign currency exposure relating to trade and other payables balances amounted to the equivalent of KD 3,993 thousand as at 31 December, 2012 (31 December, 2011: KD 4,965 thousand).

Included in other payables is an amount of KD 28,576 thousand (2011: KD 27,326 thousand) due to STC which comprises amounts due for the usage of network which is net of costs incurred to setup and install the network equipment in STC's facilities as per the BOT agreement (Note 6).

The Group has sound financial risk management policies in place to ensure that all payables are paid within the specified credit time frame (Note 23).

14. FINANCE COSTS – NET

	2012 KD 000's	2011 KD 000's
Finance income	2,397	2,242
Finance costs	(7,166)	(10,309)
	<u>(4,769)</u>	<u>(8,067)</u>

15. OTHER INCOME / (EXPENSES)

	2012 KD 000's	2011 KD 000's
Dividend income	75	68
Exchange loss	(3,586)	(5,151)
Other operating income (expenses)	3,747	(23,602)
(Loss) / gain on sale of available for sale financial assets	(31)	39
	<u>205</u>	<u>(28,646)</u>



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16. SUBSIDIARIES

Significant subsidiaries of the Company are as follows:

Name of subsidiaries	Country of operation	Voting capital held 2012	Voting capital held 2011
Wataniya Telecom Algeria S.P.A. (WTA)	Algeria	71%	71%
Wataniya International FZ – L.L.C. (WTI)	U.A.E	100%	100%
Wataniya Telecom Maldives (WTM) (subsidiary of WTI)	Maldives	100%	100%
WARF Telecom International Private Limited (WARF) (subsidiary of WTM)	Maldives	65%	65%
Public Telecommunication Company Ltd. (PTC) (subsidiary of WTI)*	Saudi Arabia	100%	55.61%
Wataniya Palestine Mobile Telecom Limited (WPT) (subsidiary of WTI)	Palestine	48.45%	48.45%
Al-Bahar United Company W.L.L.	Kuwait	99%	99%
Tunisiana S.A. **	Tunisa	75%	75%
Carthage Consortium Ltd **	Malta	100%	100%
Qtel Tunisia Holding Company Ltd **	Malta	100%	100%

Acquisition of subsidiaries

* During the year, the Group completed the acquisition of additional interest of 44.39% in Public Telecommunication Company Ltd (“PTC”) which resulted in an increase in effective ownership from 55.61% to 100%. The legal proceedings and formalities have been completed on 18 March, 2012. As a result of this transaction, the Group recognised a (decrease)/increase in retained earnings and non-controlling interests amounting to KD 17,191 thousand respectively.

** In prior year, the Group fully acquired (and obtained control over) the following entities:

- Carthage Consortium Company Limited incorporated in Malta and engaged in providing services ranging from acting as agents, consultants, importers and exporters of various industrial products; and
- Qtel Tunisia Holding Limited incorporated in Malta and engaged in buying, selling of movable and immovable properties and managing funds realised from those properties.

The above acquired entities own 10% and 15% interests in Tunisiana S.A. (formerly “Orascom Telecom Tunisie”) respectively. As a result of the above, the Group’s ownership and voting interests in Tunisiana S.A, previously treated as a joint venture and accounted for under the proportionate consolidation method, increased from 50% to 75% and consequently, Tunisiana S.A. is fully consolidated within the Group’s consolidated financial statements for the year ended 31 December, 2012, starting from the date control was obtained.

In addition, the Group re-measured its previously held interests in Tunisiana S.A. (formerly “Orascom Telecom Tunisie”) at fair value and recognised a revaluation gain of KD 277,835 thousand in the consolidated statement of income. The revaluation of previously held interest was based on the price that was paid for the additional controlling interests acquired during the year, adjusted for control premium.



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17. PROVISION FOR CONTRIBUTION TO KFAS, NLST AND ZAKAT

	2012 KD 000's	2011 KD 000's
KFAS	(413)	(603)
NLST	(1,453)	(1,691)
Zakat	(1,463)	(801)
	<u>(3,329)</u>	<u>(3,095)</u>

18. BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

Earnings per share is computed by dividing the profit for the year attributable to shareholders of the Company by the weighted average number of shares outstanding during the year less treasury shares as follows:

	2012	2011
Profit for the year attributable to shareholders of the Company (KD 000's)	<u>75,505</u>	<u>362,125</u>
Number of shares outstanding		
Weighted average number of paid up shares (000's)	504,033	504,033
Weighted average number of treasury shares (000's)	(2,871)	(2,871)
Weighted average number of outstanding shares (000's)	<u>501,162</u>	<u>501,162</u>
Basic and diluted earnings per share attributable to shareholders of the Company (fils)	<u>150.66</u>	<u>722.57</u>



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19. RELATED PARTY TRANSACTIONS

Related parties represent major shareholders, directors and key management personnel of the Group and QTEL and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management. Transactions between the Company and its subsidiaries, which are related parties to the Company, have been eliminated on consolidation and are not disclosed in this note. Transactions with related parties are as follows:

	As at 31 December	
	2012 KD 000's	2011 KD 000's
a) Balances included in the consolidated statement of financial position		
Payables to Qtel	24	13,298
Payable to Qtel Group L.L.C.	30,176	23,439
	Year ended 31 December	
	2012 KD 000's	2011 KD 000's
b) Transactions included in the consolidated statement of income		
Management fees due to Qtel Group L.L.C.	14,859	15,575
Other expenses paid to Qtel	190	2,004
Other expenses paid to Qtel Group L.L.C.	1,527	1,026
c) Compensation of key management personnel		
Short term benefits	1,428	1,605
Termination benefits	522	572
Transactions included in the consolidated statement of income	1,950	2,177

During the year, the Group has entered into transactions with related parties on substantially the same terms as those with other parties on an arm's length basis.



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20. OPERATING SEGMENTS

Operating segments were identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to its performance.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 2. Segment profit represents the profit earned by each segment without investment revenue, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and assessment of segment performance.

For the purpose of monitoring performance and allocating resources between segments:

- Goodwill is allocated to each reportable segment as applicable. There are no assets used jointly by any reportable segment.
- There are no liabilities for which any segment is jointly liable.

Although certain segments do not meet the quantitative thresholds required by IFRS 8, management has concluded that these segments should be reported, as they are closely monitored as a potential growth region and are expected to materially contribute to Group revenue in the future.

The reportable operating segments derive their revenue primarily from telecommunications services.

		Outside Kuwait				
	Inside Kuwait KD 000's	Tunisia KD 000's	Algeria KD 000's	Others KD 000's	Un- allocated KD 000's	Total KD 000's
31 December 2012						
Segment revenues	220,824	201,941	266,889	52,867	-	742,521
Network construction revenue	-	-	-	137	-	137
Segment results	46,525	74,953	43,623	(4,877)	(4,396)	155,828
Profit / (loss)	46,357	46,724	27,583	(26,450)	(4,396)	89,818
Segment assets	206,847	301,274	380,983	146,641	430,615	1,466,360
Investments and other assets	9,223	2,394	-	-	-	11,617
Total assets	216,070	303,668	380,983	146,641	430,615	1,477,977
Segment liabilities	115,217	96,876	97,405	96,829	-	406,327
Debt and other obligations	23,457	-	64,203	24,828	-	112,488
Total liabilities	138,674	96,876	161,608	121,657	-	518,815
<i>Other information</i>						
Impairment loss on available for sale financial assets and intangibles	209	-	-	18,075	-	18,284
Purchases of property and equipment	22,383	45,222	63,560	7,618	-	138,783
Purchases of intangible assets	367	40,832	7,479	1,156	-	49,834
Depreciation of property and equipment	25,575	23,102	36,247	7,329	-	92,253
Amortisation of intangible assets	200	10,196	12,233	10,163	4,396	37,188
Provision for staff indemnity	1,304	-	-	546	-	1,850



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20 SEGMENTAL INFORMATION (CONTINUED)

	Inside Kuwait KD 000's	Outside Kuwait			Un- allocated KD 000's	Total KD 000's
		Tunisia KD 000's	Algeria KD 000's	Others KD 000's		
31 December 2011						
Segment revenues	243,623	209,959	223,715	49,308	-	726,605
Network construction revenue	-	-	-	2,064	-	2,064
Segment results	330,399	82,994	31,236	(16,332)	(4,815)	423,482
Profit / (loss)	328,099	52,747	14,450	(20,678)	(4,815)	369,803
Segment assets	195,696	202,384	344,231	168,523	489,850	1,400,684
Investments and other assets	10,994	2,562	8,693	-	-	22,249
Total assets	206,690	204,946	352,924	168,523	489,850	1,422,933
Segment liabilities	127,175	86,090	84,258	86,155	-	383,678
Debt and other obligations	15,718	-	86,353	21,614	-	123,685
Total liabilities	142,893	86,090	170,611	107,769	-	507,363

Other information

Impairment loss on available for sale financial assets	1,225	-	-	-	-	1,225
Purchases of property and equipment	32,991	37,976	48,287	8,673	-	127,927
Purchases of intangible assets	-	1,364	9,383	2,627	-	13,374
Depreciation of property and equipment	24,848	25,292	31,462	6,281	-	87,883
Amortisation of intangible assets	137	9,981	11,743	9,275	4,815	35,951
Provision for staff indemnity	1,067	-	-	468	-	1,535

21. PRELIMINARY TAX NOTIFICATION

In 2012, Tunisiana S.A. was subjected to a tax inspection covering the years from 2008 to 2011. Tunisiana is appealing a major part of the preliminary notification for which the management believes that the company is compliant with Tunisian legislation and has sufficient grounds for appeal. Based on this, management is of the view that adequate provision has been made in its financials to cover any such adjustments.



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22. COMMITMENTS AND CONTINGENT LIABILITIES

	2012 KD 000's	2011 KD 000's
a) Capital commitments		
For the acquisition of property and equipment	109,563	51,105
For the acquisition of Palestinian Mobile license	44,895	43,869
	<u>154,458</u>	<u>94,974</u>
b) Operating lease commitments		
The Group has a number of operating leases over properties for the erection of communication towers, office facilities and warehouses. The lease expenditure charged to the consolidated statement of income during the year is disclosed under cost of revenue. The leases typically run for a period ranging from 1 to 5 years, with an option to renew the lease after that date.		
Minimum operating lease commitments under these leases are as follows:		
	2012 KD 000's	2011 KD 000's
Not later than one year	7,213	6,219
Later than one year but not later than five years	24,285	21,814
	<u>31,498</u>	<u>28,033</u>
c) Contingent liabilities		
Letters of guarantee	<u>4,366</u>	<u>2,676</u>

The Ministry of Communications initiated unjust enrichment proceedings against Wataniya under Article 262 of the Kuwaiti Civil Code, claiming unlawful use of the Ministry's network infrastructure since 1999. Management believes that Wataniya has strong grounds to challenge these allegations and the proceedings are currently pending before the Kuwaiti Court of Appeal, with the next hearing scheduled on 12 March, 2013.



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23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Strategy in using financial instruments

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and equity price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by a central treasury department (group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates financial risks in close co-operation with the Group's operating units. The Board of Directors provide written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of non-derivative financial instrument, and investment of excess liquidity.

Market risk

Market risk is the risk that changes in market prices, such as foreign currency exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and equity prices.

i) Foreign currency exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Euro, Tunisian Dinar, Algerian Dinar and Saudi Riyal. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group had the following significant net exposures denominated in foreign currencies:

	2012 KD 000's Equivalent	2011 KD 000's Equivalent
US Dollar	9,268	13,233
Euro	(18,951)	(27,123)
Tunisian Dinar	637,408	625,269
Algerian Dinar	283,578	268,667
Saudi Riyal	8,546	12,235

Foreign currency sensitivity analysis

The Group is maintaining exposure mainly to the US Dollar, Euro, Tunisian Dinar, Algerian Dinar and Saudi Riyal. The following table details the Group's sensitivity to a 10% increase in the KD against the other



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23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Market risk (Continued)

currencies (as a result of a change in the foreign currency) at the year end due to the assumed change in market rates, with all other variance held constant. A 10% decrease in the KD against these currencies would have the opposite effect. A positive number indicates increase in profit for the year before KFAS, NLST, Zakat and Directors' remunerations / equity and a negative number indicates decrease in profit for the year before KFAS, NLST, Zakat and Directors' remuneration / equity.

	2012		2011	
	Effect on profit KD 000's	Effect on equity KD 000's	Effect on profit KD 000's	Effect on equity KD 000's
US Dollar	1,019	927	1,456	1,323
Euro	2,085	1,895	2,984	2,712
Tunisian Dinar	70,115	63,741	68,780	62,527
Algerian Dinar	31,194	28,358	29,553	26,867
Saudi Riyal	940	855	1,346	1,224

ii. Interest rate risk management

Interest rate risk is the risk arising from possible changes in investments that may affect future profitability of the Group.

The Group's interest rate risk arises from term borrowings which are detailed in Note 12. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates which is detailed in Note 10.

The following table illustrates the sensitivity of the profit for the year before KFAS, NLST, Zakat and Directors' remuneration as well as equity to a reasonably possible change in interest rates of 1% (2011: 1%) with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Group's financial instruments held at each financial position date. A positive number below indicates an increase in profit / equity and a negative number indicates a decrease in profit before KFAS, NLST, Zakat and Directors' remunerations / equity.

	Increase	2012		2011	
		Effect on profit KD 000's	Effect on equity KD 000's	Effect on profit KD 000's	Effect on equity KD 000's
KD	+1	(44)	(44)	(31)	(31)
US Dollar	+1	(496)	(496)	(653)	(653)
Euro	+1	(147)	(147)	(160)	(160)
Tunisian Dinar	+1	208	208	99	99
Algerian Dinar	+1	2	2	(51)	(51)



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23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Market risk (Continued)

Sensitivity to interest rate movements will be on a symmetric basis.

iii. Equity price risk

Equity price risk is the risk that the fair values of equities will fluctuate as a result of changes in the level of equity indices or the value of individual share prices. Equity price risk arises from the change in fair values of listed equity investments. The Group manages the risk through diversification of investments in terms of industry concentration. The effect of equity price risk on profit for the year of the Group is not significant as it has no investments classified as financial assets at fair value through profit or loss, except for effect of impairment on value of financial assets (if any). The effect on equity (as a result of a change in the fair value of equity investments held as available for sale financial assets) at the year end due to an assumed 15% change in market indices, with all other variables held constant, is as follows:

Market index	% change in equity price	2012 Effect on equity KD 000's	2011 Effect on equity KD 000's
Kuwait stock exchange	±15	±541	±635

Credit risk management

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group's exposure is continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Trade and billing receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of trade receivables.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	2012 KD 000's	2011 KD 000's
Bank balances	149,882	116,265
Trade and other receivables	107,916	101,470
	257,798	217,735



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For the year ended 31 December, 2012

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED) Credit risk management (Continued)

The maximum exposure to credit risk for financial assets at the reporting date by geographic region was:

	Carrying amount	
	2012 KD 000's	2011 KD 000's
Kuwait	81,711	67,177
Tunisia	89,751	80,144
Algeria	45,411	37,487
Maldives	6,268	5,188
Saudi Arabia	11,508	9,429
Palestine	23,149	18,310
	257,798	217,735

The Group's credit risk bearing assets can be analysed by the industry sector as follows:

	2012 KD 000's	2011 KD 000's
Banks and other financial institutions	149,882	116,265
Others	107,916	101,470
Total	257,798	217,735

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates.

The average credit period is 30 days. No interest is charged on the overdue trade and billing receivables.

The Group has fully provided for all receivables due for a period greater than 365 days as a result of historical experience. Trade and billing receivables between 30 days and 365 days are provided for based on estimated irrecoverable amounts determined by reference to past default experience.

As of 31 December, 2012, trade and other receivables of KD 46,639 thousand (2011: KD 50,347 thousand) were fully performing.

Included in the Group's trade and billing receivables balances are debtors with a carrying amount of



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23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Credit risk management (Continued)

KD 27,895 thousand (2011: KD 12,217 thousand) which are past due at the reporting date for which the Group has not provided for as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

The table below shows the credit risk exposure by credit quality of financial assets that are neither past due nor impaired by class, grade and status.

	Rated		Unrated	
	A2	High grade	Standard grade	Total
31 December 2012				
Bank balances	139,286	10,596	-	149,882
Trade and other receivables	-	33,580	13,059	46,639
Total	<u>139,286</u>	<u>44,176</u>	<u>13,059</u>	<u>196,521</u>
	Rated		Unrated	
	A2	High grade	Standard grade	Total
31 December 2011				
Bank balances	108,196	8,069	-	116,265
Trade and other receivables	-	35,212	15,135	50,347
Total	<u>108,196</u>	<u>43,281</u>	<u>15,135</u>	<u>166,612</u>

All the above financial assets are classified as “loans and receivables”.

Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group finance department. Group treasury department monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans,



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23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Liquidity risk management (Continued)

compliance with internal financial position ratio targets and external regulatory or legal requirements.

Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Group treasury. Group treasury invests surplus cash in interest bearing current accounts and time deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above mentioned forecasts.

At the reporting date, the Group deposits of KD 43,924 thousand (2011: KD 45,584 thousand) and other liquid assets of KD 269,895 thousand (2011: KD 208,240 thousand) that are expected to readily generate cash inflows for managing liquidity risk.

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities.

At 31 December, 2012

	Less than 1 year KD 000's	Between 1 and 2 years KD 000's	Between 2 and 5 years KD 000's	Over 5 years KD 000's	Total KD 000's	Weighted average effective interest rate %
Financial liabilities						
Trade and other payables	385,447	-	-	-	385,447	
Long term debt	49,567	47,174	21,526	-	118,267	10.2%
Other non-current liabilities	-	2,477	18,404	-	20,881	
	<u>435,014</u>	<u>49,651</u>	<u>39,930</u>	<u>-</u>	<u>524,595</u>	
Commitments and contingencies						
Acquisition of property and equipment	37,258	55,412	16,893	-	109,563	
Acquisition of Palestinian mobile license	-	-	-	44,895	44,895	
Operating leases	7,213	5,828	18,457	-	31,498	
Letters of guarantee	3,954	385	27	-	4,366	
	<u>48,425</u>	<u>61,625</u>	<u>35,377</u>	<u>44,895</u>	<u>190,322</u>	



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23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Liquidity risk management (Continued)

At 31 December, 2011

	Less than 1 year KD 000's	Between 1 and 2 years KD 000's	Between 2 and 5 years KD 000's	Over 5 years KD 000's	Total KD 000's	Weighted average effective interest rate %
Financial liabilities						
Trade and other payables	349,314	-	-	-	349,314	
Long term debt	41,909	31,605	53,287	693	127,494	8.60%
Other non-current liabilities	752	22,935	3,010	-	26,697	7.4%
	<u>391,975</u>	<u>54,540</u>	<u>56,297</u>	<u>693</u>	<u>503,505</u>	
Commitments and contingencies						
Acquisition of property and equipment	34,901	8,671	7,533	-	51,105	
Acquisition of Palestinian mobile license	-	-	-	43,869	43,869	
Operating leases	5,321	5,222	17,490	-	28,033	
Letters of guarantee	2,137	539	-	-	2,676	
	<u>42,359</u>	<u>14,432</u>	<u>25,023</u>	<u>43,869</u>	<u>125,683</u>	

24. OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal processes, human error, systems failure or from external events. The Group has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk. The Group's management ensures compliance with policies and procedures and monitors operational risk as part of overall risk management.



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25. FAIR VALUE OF FINANCIAL INSTRUMENTS

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair value of financial instruments traded in active markets (such as trading and available for sale securities) is based on quoted market prices at the financial position date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each financial position date.

	2012 KD 000's Fair value	2012 KD 000's At amortised cost	2011 KD 000's Fair value	2011 KD 000's At amortised cost
Financial assets				
Bank balances and cash	-	151,761	-	118,355
Trade and other receivables	-	107,917	-	105,176
Available for sale financial assets	7,202	2,021	8,973	2,021
	<u>7,202</u>	<u>261,699</u>	<u>8,973</u>	<u>225,552</u>
Financial liabilities				
Trade and other payables	-	385,447	-	349,314
Long term debts	-	107,283	-	119,893
Other non-current liabilities	-	20,881	-	21,066
	<u>-</u>	<u>513,611</u>	<u>-</u>	<u>490,273</u>

Fair value measurements recognised in the consolidated statement of financial position

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).



NATIONAL MOBILE TELECOMMUNICATIONS COMPANY K.S.C. AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December, 2012

25. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

	2012			
	Level 1 KD 000's	Level 2 KD 000's	Level 3 KD 000's	Total KD 000's
<i>Available for sale financial assets</i>				
Listed equity securities	2,144	-	-	2,144
Unlisted equity securities	-	-	5,058	5,058
	2,144	-	5,058	7,202

	2011			
	Level 1 KD 000's	Level 2 KD 000's	Level 3 KD 000's	Total KD 000's
<i>Available for sale financial assets</i>				
Listed equity securities	2,129	-	-	2,129
Unlisted equity securities	-	-	6,844	6,844
	2,129	-	6,844	8,973

There were no transfers between levels during the years ended 31 December, 2012 and 31 December, 2011.

Valuation techniques and assumptions for the purpose of measuring fair value

a) Listed securities

All listed equity securities are publicly traded on a recognised stock exchange. Fair value has been determined by referring to their quoted bid prices at the reporting date.

b) Unlisted securities

Unlisted securities are measured at fair value estimated using various models, which includes some assumptions that are not supportable by observable market prices or rates.



NATIONAL MOBILE TELECOMMUNICATIONS COMPANY K.S.C. AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December, 2012

25. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Reconciliation of Level 3 fair value measurements of financial assets

	Available for sale		
	Unlisted equity securities 2012 KD 000's	Unlisted debt securities 2012 KD 000's	Total 2012 KD 000's
Opening balance	6,844	-	6,844
Total gains or losses in the consolidated statement of comprehensive income	(1,786)	-	(1,786)
Sale	-	-	-
Closing balance	<u>5,058</u>	<u>-</u>	<u>5,058</u>

	Available for sale		
	Unlisted equity securities 2011 KD 000's	Unlisted debt securities 2011 KD 000's	Total 2011 KD 000's
Opening balance	7,002	50	7,052
Total gains or losses in the consolidated statement of comprehensive income	(158)	-	(158)
Sale	-	(50)	(50)
Closing balance	<u>6,844</u>	<u>-</u>	<u>6,844</u>

There are no transfers out of level 3 during the years ended 31 December, 2012 and 31 December, 2011.



BOARD OF DIRECTORS



Sheikh Abdulla Bin Mohammad Bin Saud Al Thani
Chairman



Mr. Ali Shareef Al Emadi
Vice Chairman



Dr. Nasser Marafih
Board Member



Mr. Fahad Othman Al Saeed
Board Member



Sheikh Mohammad Bin Abdulla Al AbdulRahman Al Thani
Board Member



Dr. Mahmoud Ahmed Mahmoud *
Board Member (KIA)



Mr. Saleh Al Sagoubi *
Board Member (KIA)



* Active Members until 18 October, 2012



EXECUTIVE MANAGEMENT



Dr. Bassam Hannoun
Chief Executive Officer



Eng. Abdul Aziz Fakhroo
Deputy Chief Executive Officer



Peter Kuncewicz
Chief Finance Officer



Saleh Al-Houti
Chief Regulatory Officer



Hisham Siblini
Chief Technology Officer



Dr. Yousuf Al-Sellili
Chief Human Resources
& Admin Services Officer (Acting)/
Head of Legal



Fouad Al-Awadhi
Chief Audit Executive



Luis Leon
Chief Strategy Officer





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