

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

**Condensed Consolidated Interim Financial Information (Unaudited)
30 September 2014**

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

INDEPENDENT AUDITORS' REVIEW REPORT TO THE BOARD OF DIRECTORS

Report on Review of Condensed Consolidated Interim Financial Information

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Mobile Telecommunications Company K.S.C.P (the Parent Company) and its subsidiaries (together called "the Group") as at 30 September 2014 and the related condensed consolidated statements of profit or loss, profit or loss and other comprehensive income for three-month and nine-month periods then ended and the related condensed consolidated statements of changes in equity and cash flows for the nine-month period then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 - Interim Financial Reporting. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 – Interim Financial Reporting.

Report on Other Legal and Regulatory Requirements

Furthermore, based on our review, the condensed consolidated interim financial information is in agreement with the books of account of the Parent Company. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Companies Law No. 25 of 2012 as amended, or of the Parent Company's Memorandum and Articles of Association during the nine-month period ended 30 September 2014 that might have had a material effect on the business of the Group or on its financial position.


Bader A. Al-Wazzan
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Kuwait
3 November 2014


Dr. Saud Hamad Al-Humaidi
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Member of Baker Tilly International

Condensed Consolidated Statement of Financial Position as at 30 September 2014 (Unaudited)

	Note	Unaudited 30 September 2014	Audited 31 December 2013	Unaudited 30 September 2013
KD '000				
Assets				
Current assets				
Cash and bank balances	3	307,972	399,242	349,261
Trade and other receivables		394,521	350,300	337,241
Inventories		13,234	14,922	15,052
Investment securities- at fair value through profit or loss		2,163	1,930	2,014
		<u>717,890</u>	<u>766,394</u>	<u>703,568</u>
Non-current assets				
Investment securities – available for sale		44,001	46,363	46,539
Investments in associates and joint ventures	4	243,121	265,197	277,641
Due from associates		309,287	271,952	266,442
Other assets		21,355	18,726	17,777
Property and equipment		779,265	734,641	725,001
Intangible assets	5	1,068,528	993,667	1,002,958
		<u>2,465,557</u>	<u>2,330,546</u>	<u>2,336,358</u>
Total Assets		<u>3,183,447</u>	<u>3,096,940</u>	<u>3,039,926</u>
Liabilities and Equity				
Current liabilities				
Trade and other payables		572,538	542,566	537,312
Due to banks	6	287,674	198,402	239,140
		<u>860,212</u>	<u>740,968</u>	<u>776,452</u>
Non-current liabilities				
Due to banks	6	524,672	557,319	506,025
Other non-current liabilities		37,818	35,451	34,468
		<u>562,490</u>	<u>592,770</u>	<u>540,493</u>
Equity				
Attributable to the Parent Company's shareholders				
Share capital	7	432,706	432,268	432,149
Share premium		1,707,104	1,706,779	1,706,674
Treasury shares	9	(567,834)	(567,834)	(567,834)
Legal reserve		216,134	216,134	215,764
Foreign currency translation reserve		(669,081)	(684,716)	(669,160)
Treasury shares reserve		1,967	1,967	1,967
Investment fair valuation reserve		4,083	2,445	2,492
Share based compensation reserve		-	5,482	4,558
Hedge reserve		(1,287)	(1,164)	-
Retained earnings		479,729	509,296	460,948
		<u>1,603,521</u>	<u>1,620,657</u>	<u>1,587,558</u>
Non-controlling interests		157,224	142,545	135,423
Total equity		<u>1,760,745</u>	<u>1,763,202</u>	<u>1,722,981</u>
Total Liabilities and Equity		<u>3,183,447</u>	<u>3,096,940</u>	<u>3,039,926</u>

The accompanying notes are an integral part of this condensed consolidated interim financial information.

This condensed consolidated interim financial information was approved and authorized for issue by the Board of Directors on 3 November 2014.


Asaad Ahmed Al Banwan
Chairman


M. Scott Gegenheimer
Chief Executive Officer

Condensed Consolidated Statement of Profit or Loss – nine months ended 30 September 2014 (Unaudited)

	Note	Three months ended 30 September		Nine months ended 30 September	
		2014	2013	2014	2013
		KD'000		KD'000	
Revenue		294,459	312,747	921,397	924,687
Cost of sales		(81,326)	(90,054)	(256,938)	(262,939)
Gross profit		213,133	222,693	664,459	661,748
Operating and administrative expenses		(87,321)	(86,693)	(267,052)	(257,670)
Depreciation and amortization		(40,971)	(47,641)	(129,088)	(143,758)
Provision for impairment – trade and other receivables		(2,451)	(2,094)	(8,548)	(5,011)
Operating profit		82,390	86,265	259,771	255,309
Interest income		5,912	4,528	15,542	13,334
Investment income	10	(448)	(162)	1,748	2,062
Share of results of associates and joint ventures		(9,005)	(9,930)	(25,426)	(25,147)
Other income/(expense)		598	1,032	2,682	(8,309)
Finance costs		(6,750)	(6,518)	(20,402)	(17,518)
Loss from currency revaluation		(14,885)	(6,090)	(31,431)	(15,253)
Board of Directors' remuneration		(108)	(108)	(323)	(323)
Contribution to Kuwait Foundation for Advancement of Sciences		(347)	(548)	(1,124)	(1,709)
National Labour Support Tax and Zakat		(1,686)	(1,913)	(5,159)	(5,302)
Profit for the period before income tax		55,671	66,556	195,878	197,144
Income tax expenses		(4,967)	(6,723)	(18,017)	(11,633)
Profit for the period		50,704	59,833	177,861	185,511
Attributable to:					
Shareholders of the Parent Company		46,255	52,974	160,955	165,623
Non-controlling interests		4,449	6,859	16,906	19,888
		50,704	59,833	177,861	185,511
Earnings per share	11				
Basic – Fils		12	14	41	43
Diluted – Fils		12	14	41	43

The accompanying notes are an integral part of this condensed consolidated interim financial information.

Mobile Telecommunications Company K.S.C.P
Kuwait

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income -
nine months ended 30 September 2014 (Unaudited)

	Three months ended		Nine months ended	
	30 September		30 September	
	2014	2013	2014	2013
	KD'000		KD'000	
Profit for the period	50,704	59,833	177,861	185,511
Other comprehensive income				
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Exchange differences on translating foreign operations	22,422	(26,815)	18,787	25,409
Net unrealised gains on available for sale investments	1,934	1,354	1,654	3,702
Net realised loss/(gains) transferred to consolidated statement of profit or loss on available for sale investments (net of impairment losses)	1,975	-	(16)	(223)
Cash flow hedges	825	-	(123)	-
	<u>27,156</u>	<u>(25,461)</u>	<u>20,302</u>	<u>28,888</u>
Total comprehensive income for the period	<u>77,860</u>	<u>34,372</u>	<u>198,163</u>	<u>214,399</u>
Total comprehensive income attributable to:				
Shareholders of the Parent Company	69,740	28,945	178,105	194,126
Non-controlling interests	8,120	5,427	20,058	20,273
	<u>77,860</u>	<u>34,372</u>	<u>198,163</u>	<u>214,399</u>

The accompanying notes are an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Statement of Changes in Equity – nine months ended 30 September 2014 (Unaudited)

	Equity attributable to Parent Company's shareholders										Non-controlling interests	Total	
	Share capital	Share premium	Treasury shares	Legal reserve	Foreign currency translation reserve	Treasury shares reserve	Equity issue transaction costs	Investment fair valuation reserve	Share based compensation reserve	Hedge reserve			Retained earnings
Balance at 1 January 2014	432,268	1,706,779	(567,834)	216,134	(684,716)	1,967	-	2,445	5,482	(1,164)	509,296	142,545	1,763,202
Purchase of non-controlling interest	-	-	-	-	-	-	-	-	-	-	(971)	(2,751)	(3,722)
Exercise of share options	438	325	-	-	-	-	-	-	-	-	-	-	763
Cash dividends (2013)	-	-	-	-	-	-	-	-	-	-	(195,033)	(2,628)	(197,661)
Transfer to retained earnings	-	-	-	-	-	-	-	-	(5,482)	-	5,482	-	-
Share based compensative	-	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	15,635	-	-	1,638	-	(123)	160,955	20,058	198,163
Balance at 30 September 2014	432,706	1,707,104	(567,834)	216,134	(669,081)	1,967	-	4,083	-	(1,287)	479,729	157,224	1,760,745
Balance at 1 January 2013	431,527	1,705,387	(567,834)	215,764	(694,184)	1,967	-	(987)	8,808	-	490,189	120,117	1,710,754
Exercise of share options	622	1,287	-	-	-	-	-	-	(108)	-	-	-	1,801
Equity issue transaction costs	-	-	-	-	-	-	(5,271)	-	-	-	-	(1,665)	(6,936)
Cash dividends (2012)	-	-	-	-	-	-	-	-	-	-	(194,789)	(3,302)	(198,091)
Transfer to retained earnings	-	-	-	-	-	-	5,271	-	(5,196)	-	(75)	-	-
Share based compensative	-	-	-	-	-	-	-	-	1,054	-	-	-	1,054
Total comprehensive income for the period	-	-	-	-	25,024	-	-	3,479	-	-	165,623	20,273	214,399
Balance at 30 September 2013	432,149	1,706,674	(567,834)	215,764	(669,160)	1,967	-	2,492	4,558	-	460,948	135,423	1,722,981

The accompanying notes are an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Statement of Cash Flows –nine months ended 30 September 2014 (Unaudited)

	Nine months ended 30 September	
	2014	2013
	<u>KD'000</u>	
Cash flows from operating activities		
Profit for the period before income tax	195,878	197,144
Adjustments for:		
Depreciation and amortization	129,088	143,758
Interest income	(15,542)	(13,334)
Investment income	(1,748)	(2,062)
Share of results of associates and joint ventures	25,426	25,147
Finance costs	20,402	17,518
Loss from currency revaluation	31,431	15,253
Operating profit before working capital changes	<u>384,935</u>	<u>383,424</u>
Increase in trade and other receivables	(50,254)	(23,108)
Decrease/(increase) in inventories	1,485	(3,371)
(Decrease)/increase in trade and other payables	(9,483)	8,053
Cash generated from operations	<u>326,683</u>	<u>364,998</u>
Paid to Kuwait Foundation for Advancement of Sciences	(3,949)	(5,058)
National Labour Support Tax and Zakat paid	(3,807)	(4,646)
Income tax paid	(13,022)	(12,367)
<i>Net cash from operating activities</i>	<u>305,905</u>	<u>342,927</u>
Cash flows from investing activities		
Deposits maturing after three months and bank balances blocked (note 3)	(16,171)	(3,278)
Investments in a subsidiary	(3,513)	-
Purchase of investments	(750)	(545)
Proceeds from sale of investments	4,879	6,332
Acquisition of property and equipment (net)	(110,946)	(113,646)
Acquisition of intangible assets	(105,753)	(38,730)
Interest received	6,312	4,141
Dividend received	608	539
<i>Net cash used in investing activities</i>	<u>(225,334)</u>	<u>(145,187)</u>
Cash flows from financing activities		
Proceeds from bank borrowings	368,329	555,074
Repayment of bank borrowings	(328,033)	(463,316)
Loans to an associate	(20,445)	(22,866)
Capital contribution including share premium – employees stock option	763	1,801
Dividends paid to Parent Company's shareholders	(194,602)	(193,000)
Dividends paid to minority shareholders of subsidiaries	(2,647)	(3,302)
Finance costs paid	(14,855)	(30,819)
<i>Net cash used in financing activities</i>	<u>(191,490)</u>	<u>(156,428)</u>
Net (decrease)/increase in cash and cash equivalents	(110,919)	41,312
Effect of foreign currency translation	3,478	2,062
Cash and cash equivalents at beginning of period	<u>282,687</u>	<u>188,921</u>
Cash and cash equivalents at end of period (note 3)	<u>175,246</u>	<u>232,295</u>

The accompanying notes are an integral part of this condensed consolidated interim financial information.

1. Incorporation and activities

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

The Parent Company and its subsidiaries (the Group) along with associates provide mobile telecommunication services in Kuwait and 8 other countries (31 December 2013 and 30 September 2013 - Kuwait and 8 other countries) under licenses from the Governments of the countries in which they operate; purchase, deliver, install, manage and maintain mobile telephone and paging systems; and invest surplus funds in investment securities.

2. Basis of preparation

This condensed consolidated interim financial information is prepared in accordance with IAS 34: Interim Financial Reporting. The accounting policies used in the preparation of the condensed consolidated interim financial information are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2013. Amendments to IFRSs which are effective for annual accounting period starting from 1 January 2014 did not have any material impact on the accounting policies, financial position or performance of the Group.

In March 2014, indications have emerged that the economy of the Republic of Sudan, where one of the Group's subsidiary operates may have become hyperinflationary. Under International Accounting Standard 29: Financial Reporting in Hyperinflationary Economies (IAS 29) an entity applies the Standard from the beginning of the reporting period in which it identifies the existence of hyperinflation. According to the data published by Sudan Central Bureau of Statistics, the three year cumulative inflation rate at the end of 2012 was 98% and based on World Economic Outlook report the three year cumulative inflation rate is projected to be 106% by the end of 2013. Entities operating in the Republic of Sudan (Sudan) are expected to monitor the reported inflation data to determine the appropriate time to consider its economy to be hyperinflationary and thereby apply IAS 29. However, as at the end of the current reporting period, due to lack of reliable and official information relating to inflation data, Group management is not in a position to determine if the Sudan economy has become hyperinflationary. Group management is constantly monitoring the situation and will apply IAS 29 when it obtains reliable and official information regarding the inflation rates and re-measurement indices.

This condensed consolidated interim financial information does not contain all of the information and disclosures required for complete financial statements prepared in accordance with International Financial Reporting Standards. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Results for the interim period are not necessarily indicative of the results that may be expected for the year ending 31 December 2014, including the impact of the matter stated above regarding application of IAS 29. For further information, refer to the audited consolidated financial statements and notes thereto for the year ended 31 December 2013.

Al Khatem/Atheer

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

The unrest in Iraq since June 2014 has, to date, had a limited impact on the Group's operations there. While noting the general uncertainty on this matter, the Group currently, does not expect that it could, materially affect the Group's operation there in the foreseeable future.

Notes to the Condensed Consolidated Interim Financial Information - 30 September 2014 (Unaudited)

Zain Bahrain

During the second quarter, the Group increased its shareholding in Zain Bahrain to 63% by acquiring additional shares from non-controlling interest holders. The difference between the consideration paid and the carrying value of the shares acquired is recorded in equity.

Zain Bahrain made an initial public offering (IPO) of its shares in Bahrain during September 2014 to fulfil the terms of its telecom license agreement. The IPO was for 48 million new ordinary shares of par value of BD 0.100 per share at an offer price of BHD 0.190 per share and was fully subscribed to by 30 September 2014. The allotment was completed in the first week of October 2014. The process of its listing on the Bahrain Stock Exchange is in progress.

Zain South Sudan

The financial information of Zain South Sudan has been consolidated based on management information.

Change in accounting estimate

During the period, the Group reviewed the estimated useful life of certain assets and revised their estimated useful lives as follows:

	<u>Revised estimated useful life Years</u>
Buildings and leasehold improvements	8 – 50
Cellular and other equipment	3 – 20
Furniture and fixtures	5

This change in accounting estimate resulted in a lower depreciation charge of KD 6.955 million and KD 16.636 million for three and nine months period ended 30 September 2014 respectively. The impact of this change for the year ending 31 December 2014 will be a lower depreciation charge of approximately KD 21.774 million.

Financial support to associate and group companies

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

3. Cash and bank balances

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

	<u>Unaudited</u>	<u>Audited</u>	<u>Unaudited</u>
	<u>30 September</u>	<u>31 December</u>	<u>30 September</u>
	<u>2014</u>	<u>2013</u>	<u>2013</u>
	<u>KD '000</u>		
Cash on hand and at banks	203,701	242,983	249,210
Short-term deposits with banks	103,763	155,753	99,524
Government certificates of deposits held by subsidiaries	508	506	527
	<u>307,972</u>	<u>399,242</u>	<u>349,261</u>
Bank balances blocked (refer note 14)	(117,465)	(112,068)	(111,785)
Cash at bank under lien	(8,144)	(3,981)	(4,654)
Government certificates of deposits held by subsidiaries	(508)	(506)	(527)
Deposits with maturities exceeding three months	(6,609)	-	-
	<u>175,246</u>	<u>282,687</u>	<u>232,295</u>

Notes to the Condensed Consolidated Interim Financial Information - 30 September 2014 (Unaudited)

4. Investments in associates and joint ventures

4.1) Investments in associates

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

	Unaudited 30 September 2014	Audited 31 December 2013	Unaudited 30 September 2013
	KD '000		
Current assets	293,172	249,599	270,367
Non-current assets	1,699,802	1,726,419	1,740,176
Current liabilities	296,997	288,105	305,965
Non-current liabilities	1,251,146	1,178,986	1,158,421
Net asset of SMTC	444,831	508,927	546,157
Revenue	351,342	491,151	375,930
Loss	(72,500)	(124,723)	(89,926)
Total comprehensive income for the period	(268)	(3,142)	-
Proportion of Group's ownership interest in SMTC	37.045%	37.045%	37.045%
Group's share of SMTC's net assets	164,788	188,533	202,324
Goodwill	11,806	11,569	11,556
Carrying amount of Group' interest in SMTC	176,594	200,102	213,880

As at 30 September 2014 the fair value of the Group's investment in SMTC, being its quoted market share price on the Saudi Stock Exchange, was KD 327.578 million (31 December 2013 – KD 280.204 million; 30 September 2013: KD 285.849 million).

SMTC's independent auditor in their review report dated 27 October 2014 has, without qualifying their opinion drawn attention to its net loss and accumulated deficit; to its performance being below its approved business plan as of the third quarter of 2014; to a breach of a loan covenant that does not constitute an event of default under the Murabaha Financing agreement; to its management's meeting with financing banks subsequent to the balance sheet date to discuss these matters and to agree on a plan to address them, including review of the existing financial and commercial business plans and to its management's belief that the above matters are temporary in nature and that it will be successful in meeting its obligations in the normal course of operations.

4.2) Interest in a joint venture

This represents Group's interest in the joint venture, Zain Al Ajial SA Morocco which owns 31% of the equity shares and voting rights of Wana Corporate, (a Moroccan joint stock company in the telecom sector in that country). The Group's share of profit for the period in the joint venture amounting to KD 1.432 million (30 September 2013 - KD 8.166 million) has been recognized in the condensed consolidated statement of profit or loss. The carrying value of this joint venture and its results for the period are determined by Group management using the equity method based on management information provided by Wana Corporate.

5. Intangible assets

In May 2014, Zain Jordan was awarded the 3G and 4G telecom licenses by the Telecommunication Regulatory Commission of the Kingdom of Jordan for a total consideration amounting to KD 79 million.

Notes to the Condensed Consolidated Interim Financial Information - 30 September 2014 (Unaudited)

6. Due to banks

During the period, the Parent Company:

- availed new long term loans amounting KD 306.666 million and short term loans amounting to KD 47.496 million. This includes US\$ 800 million (KD 224.880 million) long term revolving loan facility maturing in February 2019. As of 30 September 2014 US\$ 550 million (KD 158.455 million) was outstanding on this facility.
- drew down US\$ 45.599 million (KD 12.860 million) from loans outstanding as of year end. This includes US\$ 31.400 million (KD 8.864 million) drawn down from the US\$ 400 million long term loan that was availed in December 2013. As of 30 September 2014, US\$ 95.897 million (KD 27.627 million) (31 December 2013 - KD 18.207 million) was outstanding on this facility.

Parent Company also repaid loans amounting to KD 322.204 million during the period. This includes:

- US\$ 420 million (KD 118.062 million) from the US\$ 800 million revolving credit facility availed in April 2013. As of 30 September 2014 US\$ 380 million (KD 109.478 million) (31 December 2013 - KD 225.840 million; 30 September 2013 – KD 225.600 million) was outstanding on this facility.
- US\$ 140 million (KD 39.522 million) paid to fully settle the US\$ 1.3 billion revolving credit facility that was availed in March 2011.
- US\$ 160 million (KD 45.024 million) to fully settle the long term loan availed in March 2012.

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

7. Share capital

The authorized share capital as of 30 September 2014 is 4,327,058,909 shares (31 December 2013 – 4,327,058,909; 30 September 2013 - 4,327,058,909) of 100 fils each.

The issued and fully paid up share capital as of 30 September 2014 consists of 4,327,058,909 shares of 100 fils each (31 December 2013 – 4,322,684,279 shares of 100 fils each; 30 September 2013 - 4,321,488,917 shares of 100 fils each).

8. Dividend

The annual general meeting of shareholders for the year ended 31 December 2013 held on 20 February 2014 (2012 -7 April 2013) approved distribution of cash dividends of 50 fils (2012 - 50 fils) per share amounting to KD 195,033,000 (2012 - KD 194,789,000) to be paid to the registered shareholders as of the date of annual general meeting.

9. Treasury shares

These shares were acquired based on an authorization granted to the Board of Directors by the shareholders in accordance with the applicable regulations and are carried at cost. Reserves equivalent to the cost of treasury shares held are not distributable.

	Unaudited 30 September 2014	Audited 31 December 2013	Unaudited 30 September 2013
Number of shares	425,711,648	425,711,648	425,711,648
Percentage of issued shares	9.84%	9.85%	9.85%
Market value (KD '000)	280,970	293,741	306,512
Cost (KD '000)	567,834	567,834	567,834

Notes to the Condensed Consolidated Interim Financial Information - 30 September 2014 (Unaudited)

10. Investment income

	Three months ended		Nine months ended	
	30 September (Unaudited)		30 September (Unaudited)	
	2014	2013	2014	2013
	KD'000		KD'000	
Gain/(loss) from investment securities "at fair value through profit or loss"	446	(136)	213	(194)
Realised gain/(loss) from investment securities 'available for sale'	626	(31)	3,159	1,354
Impairment loss on available for sale investments	(1,975)	-	(2,540)	-
Dividend income	455	5	916	902
	(448)	(162)	1,748	2,062

11. Earnings per share

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

	Three months ended		Nine months ended	
	30 September (Unaudited)		30 September (Unaudited)	
	2014	2013	2014	2013
	KD'000		KD'000	
Profit for the period attributable to shareholders	46,255	52,974	160,955	165,623
	Shares	Shares	Shares	Shares
Weighted average number of shares in issue	3,901,347,261	3,895,777,269	3,901,347,261	3,895,777,269
Effect of dilution	-	3,265,214	-	3,719,392
Weighted average number of shares in issue outstanding during the period adjusted for the effect of dilution	3,901,347,261	3,899,042,483	3,901,347,261	3,899,496,661
	Fils	Fils	Fils	Fils
Earnings per share – Basic	12	14	41	43
Earnings per share – Diluted	12	14	41	43

12. Segmental information

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

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

Notes to the Condensed Consolidated Interim Financial Information - 30 September 2014 (Unaudited)

	30 September 2014					Total KD '000
	Kuwait	Jordan	Sudan	Iraq	Others	
Segment revenues	264,062	99,700	140,489	351,023	66,123	921,397
Net profit before interest and tax	81,697	31,231	24,308	82,430	3,104	222,770
Interest income	2	826	1,091	200	124	2,243
Finance costs (with intragroup charges)	-	(396)	-	(11,090)	(6,742)	(18,228)
Income tax expense	-	(7,094)	(3,931)	(8,373)	1,721	(17,677)
Net profit after interest and tax	81,699	24,567	21,468	63,167	(1,793)	189,108
Unallocated items:						
Investment income						1,748
Share of results of associates and joint ventures						(25,426)
Others						12,431
Profit for the period						177,861
Segment assets	228,607	323,146	484,095	1,082,001	224,101	2,341,950
Unallocated items:						
Investment securities- at fair value through profit or loss						2,163
Investment securities-available for sale						44,001
Investment in associates and joint ventures						243,121
Dues from associates						309,287
Others						242,925
Consolidated assets						3,183,447
Segment liabilities	82,945	152,824	62,564	169,023	187,302	654,658
Due to banks	-	-	6,961	169,460	19,187	195,608
Unallocated items:						
Due to banks						850,266
Others						616,738
Consolidated liabilities						(44,302)
Net consolidated assets						1,422,702
Capital expenditure during the period	30,511	90,585	33,421	45,559	31,197	231,273
Unallocated						6,386
Total capital expenditure incurred during the period						237,659
Depreciation and amortization	38,572	12,439	17,253	38,393	21,337	127,994
Unallocated						1,094
Total depreciation and amortization						129,088
Net increase/decrease in cash flows of subsidiaries with significant non-controlling interests (Al Khatem, Iraq and Zain Bahrain in Others)	-	-	-	(20,493)	(91)	

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	30 September 2013					Total KD '000
	Kuwait	Jordan	Sudan	Iraq	Others	
Segment revenues	251,572	106,803	133,292	367,184	65,836	924,687
Net profit before interest and tax	78,990	32,852	24,869	87,892	1,417	226,020
Interest income	35	731	1,672	393	68	2,899
Finance costs (with intragroup charges)	-	(99)	-	(12,939)	(5,194)	(18,232)
Income tax expense	-	(7,709)	(3,339)	(1,377)	1,318	(11,107)
Net profit after interest and tax	79,025	25,775	23,202	73,969	(2,391)	199,580
<i>Unallocated items:</i>						
Investment income						2,062
Share of results of associates and joint ventures						(25,147)
Others						9,016
Profit for the period						185,511
Segment assets	243,261	253,016	452,357	1,027,777	214,108	2,190,519
<i>Unallocated items:</i>						
Investment securities- at fair value through profit or loss						2,014
Investment securities- available for sale						46,539
Investment in associates and joint ventures						277,641
Dues from associates						266,442
Others						256,771
Consolidated assets						3,039,926
Segment liabilities	82,661	83,680	48,660	203,945	176,732	595,678
Due to banks	-	-	-	184,687	10,881	195,568
<i>Unallocated items:</i>						
Due to banks	82,661	83,680	48,660	388,632	187,613	791,246
Others						549,597
Consolidated liabilities						(23,898)
Net consolidated assets						1,316,945
Capital expenditure during the period	22,681	25,112	18,012	58,091	17,407	141,303
Unallocated						32
Total capital expenditure incurred during the period						141,335
Depreciation and amortization	36,640	13,779	18,403	49,735	21,659	140,216
Unallocated						3,542
Total depreciation and amortization						143,758
Net increase/decrease in cash flows of subsidiaries with significant non-controlling interests (Al Khateem, Iraq and Zain Bahrain in Others)	-	-	-	(4,357)	565	

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13. Related party transactions

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

Transactions

	Three months ended 30 September (Unaudited)		Nine months ended 30 September (Unaudited)	
	2014	2013	2014	2013
	KD'000		KD'000	
Management fee (included in Other income)	848	866	2,540	2,740
Interest income on loans to an associate	3,498	3,033	9,967	8,502

Key management compensation

	Three months ended 30 September (Unaudited)		Nine months ended 30 September (Unaudited)	
	2014	2013	2014	2013
	KD'000		KD'000	
Salaries and other short term employee benefits	1,849	1,666	5,837	5,198
Post-employment benefits	246	212	1,235	1,053
Share based compensation	-	76	-	228

14. Commitments and contingencies

	Unaudited	Audited	Unaudited
	30 September 2014	31 December 2013	30 September 2013
	KD '000		
Capital expenditure	102,969	81,384	83,212
Capital expenditure - share of an associate	30,040	7,683	7,193
Uncalled share capital of investee companies	160	157	157
Letters of credit	6,525	9,575	17,670
Letters of guarantee	458,536	465,009	458,125

The above include guarantees/letters of credit amounting to US\$ 1.436 billion (KD 413.992 million) (31 December 2013 - KD 421.129 million; 30 September 2013 - KD 421.493 million) relating to loans and other vendor financing availed by SMTC.

The Parent Company is a guarantor for credit facilities of US\$ 35 million (KD 10 million) (31 December 2013 - KD 10 million; 30 September 2013 - KD 10 million) granted to a founding shareholder in SMTC. The Parent Company believes that the collaterals provided by the founding shareholder to the bank, covers the credit facilities.

In June 2012, the Iraq income tax authority, the General Commission for Taxes (the "Tax Authority"), has raised claims for additional income taxes of US\$ 65 million (KD 19 million) for Atheer's operations upto fiscal year 2007. The Group has reviewed these claims and has filed an appeal denying liability for these additional tax claims on the basis that they are arbitrary, and contrary to the applicable Iraqi tax law. Based on the appeal filed by Atheer, the Ministry of Finance has instructed the Tax Authority to re-open the assessment of the aforementioned tax years. In December 2013, the Tax Authority also raised claim for income tax for the fiscal year 2008 amounting to US\$ 44 million (KD 13 million). Atheer filed an appeal against this by paying, under protest, 25% of the amount demanded, in order to comply with taxation laws and to protect its right to appeal. On the basis of the report of the attorneys, the Group believes that its chances of resolving these outstanding claims in its favour are reasonably high.

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On 6 March 2011, the Iraqi Telecom Regulatory Authority, the Communication and Media Commission (CMC) claimed a total amount of US\$ 262 million (KD 75 million) (US\$ 100 million as a fine, and US\$ 162 million as the CMC's portion of the revenue share) (31 December 2013 - US\$ 262 million; 30 September 2013 – US\$ 262 million) from Atheer citing non-compliance with certain license terms. In response to the appeal made by Atheer, the Board of Appeals of the CMC issued an order dated 30 January 2012, which annulled the above claim and asked the CMC to review it again and determine the amounts that should be paid by Atheer. In March 2012, the CMC again demanded payment of US\$ 262 million. Atheer has appealed against this demand by citing the CMC's Board of Appeals order dated 30 January 2012 for cancellation of the penalty charged and its re-assessment. The panel which is reviewing this case has been recently re-constituted. The hearing panel has conducted a number of hearings and has not yet reached a decision on these matters. On the basis of the report of the attorneys, the Group is confident that the decision of hearing panel would be consistent with the previous decisions of the Board of Appeals of CMC. Furthermore, CMC also levied a penalty of US\$ 18 Million (KD 5 million) (31 December 2013 - US\$ 18 million; 30 September 2013 – US\$ 18 million) citing breach of network quality covenants. Atheer filed an appeal with the Court of Cassation which issued a decision that the cabinet did not have the authority to impose such penalties, especially prior to assessing the real damages. In April 2014, CMC demanded the payment of this penalty and Atheer paid US\$ 18 million as a prepayment of potential penalties, which would be returned if Atheer is not deemed liable for the penalty. The matter has been remanded to the Court of Appeals which is still to hear the case. The Group believes that it has complied with the license terms and the network quality covenants and that it has strong meritorious defenses against these claims. On the basis of the report of the attorneys, the Group believes that its chances of resolving these outstanding claims in its favour are reasonably high.

In 2007, Atheer acquired Iraqna Company for Mobile Phone Services Limited (Iraqna) from Orascom Telecom Iraq Corp. Limited (the Seller). Under the terms of the Share Purchase Agreement (SPA), the Seller is responsible for all income tax payable by Iraqna upto the Closing Date of the SPA. In May 2012, the Tax Authority raised claims for additional corporate income taxes of US\$ 89 million (KD 26 million) for Iraqna upto 2007. Atheer has reviewed these claims and has filed appeals denying liability for these claims on the basis that they are arbitrary and contrary to the applicable Iraqi tax law. Atheer also has a contingent asset in the form of a right, under the SPA to make claims against the Seller for Iraqna tax claims upto US\$ 60 million (KD 17 million). Based on the appeal filed by Atheer, the Ministry of Finance has instructed the Tax Authority to re-open the assessment of the aforementioned tax years. On the basis of the report of the attorneys, the Group believes that its chances of resolving these outstanding claims in its favour are reasonably high.

In December 2011, the Tax Authority has also claimed from Atheer the capital gains taxes payable by the Seller amounting to US\$ 187 million (KD 54 million) arising on sale of Iraqna to Atheer and instructed the various banks in Iraq to block Atheer's bank balances with them to the extent of an equivalent amount. Atheer filed legal action in Iraqi courts requesting an order preventing the Tax Authority from continuing to block Atheer's bank accounts or claim the amount of the capital gains tax from Atheer. In February 2013, Iraq's Ministry of Finance issued an order to limit the amount blocked to the extent of claim of US\$ 187 million (KD 54 million) and to release the balance amounts. On 13 November 2012, the Court of First Instance of Rusafah, passed a decision in favour of Atheer canceling the capital gains tax claim and to release the freeze on Atheer's bank account. The Tax Authority appealed against this decision in the Court of Appeals, and the Court of Appeals issued an order on 9 December 2012 affirming the Court of First Instance of Rusafah's decision and ordered the Tax Authority to release the freeze on Atheer's bank accounts and to claim the capital gains tax from the Seller and not from Atheer or Iraqna. In January 2013, the Tax Authority filed an appeal against this order with the Court of Cassation of Iraq. The Court of Cassation ruled that the lower courts do not have the jurisdiction to hear tax related matters. Accordingly, the Court of Appeals reversed its earlier ruling. Atheer has filed a new appeal in the Court of Cassation against the ruling of Court of Appeals. However, the Court of Cassation has ruled that the civil judicial system does not have the jurisdiction to address this matter which is to be handled by the tax authorities. The tax authorities commenced enforcement proceedings to force the banks holding the amounts to pay such amounts to the tax authorities. The Group filed a suit and obtained a judgment dated 28 August 2014 from the Court of Appeals halting any such enforcement proceedings. Simultaneously, the Group filed a case with the Court of First Instance stipulating that the tax authorities do not have exclusive jurisdiction to hear this case which is pending at that court. On the basis of the report of the attorneys, the Group believes that its chances of resolving these outstanding claims in its favour are reasonably high.

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In August 2013, a telecom operator in Iraq filed a claim against CMC as the first defendant and Atheer as the second defendant in the Court of First Instance, alleging that certain actions by the CMC and Atheer in 2007, deprived the telecom operator from acquiring the business of Iraqna, which ended up being acquired by Atheer. The telecom operator has claimed US \$ 4.5 billion (KD 1.3 billion) from Atheer and a combined claim of US \$ 1.0 billion (KD 288 million) from CMC and Atheer. The telecom operator's claim focuses on alleged lost revenues attributed to the subscribers of Iraqna that were migrated to Atheer's network after the acquisition. In conjunction with the claim, the telecom operator made an application to the Court of First Instance in a separate case, for the appointment of an administrator to manage and collect revenues that are attributed to such Iraqna subscribers pending the outcome of the original claim. In January 2014, the court issued a decision appointing an administrator to collect and manage the disputed revenues on a monthly basis and hold such revenues in custody with an Iraqi bank pending the final outcome of the case. On 9 July 2014, the Court of First Instance issued a decision in the case dismissing the case on the basis that the plaintiff did not appropriately submit its case. In particular, and as it related to the claim against Atheer, the court indicated that the plaintiff violated the laws of civil procedure. On 13 July 2014, and in light of its earlier decision dismissing the claim, the Court of First Instance issued a decision ceasing the measures related to the appointment of the court appointed administrator, indicating that Atheer need not deposit on an ongoing basis the monthly revenues in the relevant bank account. The court further indicated that, with respect to the amounts already deposited in the said account (which amount to only one-month's revenues of US\$ 17 million (KD 5 million) attributed to the former Iraqna subscribers), such moneys will remain in the said account until all stages of appeal have been exhausted. When the Court of First Instance dismissed the case on procedural grounds, the telecom operator appealed the case with the Court of Appeals. The Court formally requested certain clarifications from the lawyer of CMC which CMC is to provide. Atheer has also been given the opportunity to provide a response on the report. Having obtained the prior written approval of CMC prior to concluding the acquisition of Iraqna, Atheer believes that it followed the rules and acted strictly in accordance with the directions of CMC in the Iraqna acquisition. On the basis of the report of the attorneys, the Group believes that its chances of resolving these outstanding claims in its favour are reasonably high.

In September 2014, Atheer received a claim of US\$ 85 million (KD 24 million) from CMC as spectrum usage fees from August 2007 to 31 December 2013. Atheer has filed an objection with the CMC appellate panel stating that it is arbitrary and without legal basis as the order has not specified the basis of the fees or other details of the computation. Till date no response has been received from the CMC but the Group expects a favorable ruling to its appeal.

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

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

Notes to the Condensed Consolidated Interim Financial Information - 30 September 2014 (Unaudited)

15. Financial instruments

15.1 Categories of financial assets and liabilities

The carrying amounts of the Group's financial assets and liabilities as stated in the condensed consolidated statement of financial position are categorized as follows:

	Unaudited 30 September 2014	Audited 31 December 2013	Unaudited 30 September 2013
	KD'000		
Loans and receivables:			
Cash and bank balances	307,972	399,242	349,261
Trade and other receivables	394,521	350,300	337,241
Due from associates	309,287	271,952	266,442
Other assets	11,559	11,357	11,356
Investment securities - at fair value through profit or loss	2,163	1,930	2,014
Investment securities -available for sale	44,001	46,363	46,539

All financial liabilities are categorized as 'other than at fair value through profit or loss'.

15.2 Fair value hierarchy for financial instruments measured at fair value

The following table presents the financial assets which are measured at fair value in the condensed consolidated statement of financial position in accordance with the fair value hierarchy.

This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

Level 1 : Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 : 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 : Inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

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

30 September 2014 (Unaudited)

	Level 1	Level 2	Level 3	Total
	KD'000			
Financial assets at fair value:				
Investments at fair value through profit or loss	2,163	-	-	2,163
Available for sale investments	30,254	13,747	-	44,001
Total assets	32,417	13,747	-	46,164

31 December 2013 (Audited)

	Level 1	Level 2	Level 3	Total
	KD'000			
Financial assets at fair value:				
Investments at fair value through profit or loss	1,930	-	-	1,930
Available for sale investments	27,104	19,259	-	46,363
Total assets	29,034	19,259	-	48,293

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30 September 2013 (Unaudited)

	Level 1	Level 2	Level 3	Total
				KD'000
Financial assets at fair value:				
Investments at fair value through profit or loss	2,014	-	-	2,014
Available for sale investments	27,096	19,443	-	46,539
Total assets	29,110	19,443	-	48,553

Measurement at fair value

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous year.

16. Derivative financial instruments

The table below shows the positive and negative fair values (based on level 2 inputs) of derivative financial instruments, together with the notional amounts analyzed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of either market or credit risk.

At 30 September 2014 (Unaudited)	Notional amounts by term to maturity					Over 1 year
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3 -12 months	
						KD '000
<i>Derivatives held for hedging:</i>						
<i>Cash flow hedges</i>						
Profit rate swaps - share of an associate	-	(1,287)	122,776	-	-	122,776
<i>Derivatives held for trading:</i>						
Fx forwards	-	(884)	57,620	-	57,620	-

At 31 December 2013 (Audited)	Notional amounts by term to maturity					Over 1 year
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3 -12 months	
						KD '000
<i>Derivatives held for hedging:</i>						
<i>Cash flow hedges</i>						
Profit rate swaps - share of an associate	-	(1,164)	120,378	-	-	120,378

At 30 September 2013 (Unaudited)	Notional amounts by term to maturity					Over 1 year
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3 -12 months	
						KD '000
<i>Derivatives held for hedging:</i>						
<i>Cash flow hedges</i>	-	-	-	-	-	-