

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

**Condensed Consolidated Interim Financial Information (Unaudited)
31 March 2015**

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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 Company) and its subsidiaries (together called "the Group") as at 31 March 2015 and the related condensed consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the three 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.

Basis of Qualified Conclusion

As disclosed in note 2 to the condensed consolidated interim financial information, the Group has excluded the effects reported therein, of applying International Accounting Standard (IAS) 29: Financial Reporting in Hyperinflationary Economies, that we believe should have been recorded in these condensed consolidated interim financial information with respect to its subsidiaries in Sudan, to conform with that standard.

Qualified Conclusion

Based on our review, with the exception of the matter described in the preceding paragraph, 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.

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

INDEPENDENT AUDITORS' REVIEW REPORT TO THE BOARD OF DIRECTORS (Continued)

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 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, and its Executive Regulations or of the Company's Memorandum of Incorporation and Articles of Association during the three month period ended 31 March 2015 that might have had a material effect on the business of the Company or on its financial position.



**Bader A. Al-Wazzan
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Kuwait
12 May 2015

Condensed Consolidated Statement of Financial Position as at 31 March 2015 (Unaudited)

	Note	Unaudited 31 March 2015	Audited 31 December 2014	Unaudited 31 March 2014
Assets				
Current assets				
Cash and bank balances	3	317,947	343,570	349,050
Trade and other receivables		392,044	358,377	353,027
Inventories		26,564	16,836	25,873
Investment securities at fair value through profit or loss		1,609	1,941	1,835
		<u>738,164</u>	<u>720,724</u>	<u>729,785</u>
Non-current assets				
Investment securities available for sale		34,189	37,717	42,947
Investments in associates and joint ventures	4	236,758	238,977	255,625
Dues from associates		334,241	309,298	284,953
Other assets		23,246	22,772	19,442
Property and equipment		887,258	852,590	733,882
Intangible assets and goodwill		1,191,999	1,094,985	988,926
		<u>2,707,691</u>	<u>2,556,339</u>	<u>2,325,775</u>
		<u>3,445,855</u>	<u>3,277,063</u>	<u>3,055,560</u>
Liabilities and Equity				
Current liabilities				
Trade and other payables		724,966	656,064	569,571
Due to banks	5	140,950	171,616	201,429
		<u>865,916</u>	<u>827,680</u>	<u>771,000</u>
Non-current liabilities				
Due to banks	5	816,086	616,645	626,792
Other non-current liabilities		63,442	38,769	36,644
		<u>879,528</u>	<u>655,414</u>	<u>663,436</u>
Equity				
Attributable to the Company's shareholders				
Share capital	6	432,706	432,706	432,637
Share premium		1,707,164	1,707,164	1,707,104
Treasury shares	8	(567,834)	(567,834)	(567,834)
Legal reserve		216,353	216,353	216,134
Foreign currency translation reserve		(658,739)	(677,007)	(688,526)
Treasury shares reserve		1,967	1,967	1,967
Investment fair valuation reserve		(1,680)	1,205	354
Hedge reserve		(2,805)	(1,931)	(1,471)
Retained earnings		397,970	512,780	375,659
		<u>1,525,102</u>	<u>1,625,403</u>	<u>1,476,024</u>
Non-controlling interests		175,309	168,566	145,100
Total equity		<u>1,700,411</u>	<u>1,793,969</u>	<u>1,621,124</u>
Total Liabilities and Equity		<u>3,445,855</u>	<u>3,277,063</u>	<u>3,055,560</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 12 May 2015.


Bader Nasser Al-Kharafi
Vice Chairman


M. Scott Gegenheimer
Chief Executive Officer

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

Condensed Consolidated Statement of Profit or Loss – three months ended 31 March 2015 (Unaudited)

	Note	Three months ended 31 March	
		2015	2014
		KD'000	
Revenue		278,941	311,131
Cost of sales		(74,022)	(84,216)
Gross profit		204,919	226,915
Operating and administrative expenses		(86,922)	(90,935)
Depreciation and amortization		(52,027)	(45,867)
Provision for impairment – trade and other receivables		(875)	(3,804)
Operating profit		65,095	86,309
Interest income		2,567	4,722
Investment income	9	(305)	2,471
Share of results of associates and joint ventures	4	(7,677)	(8,491)
Other expense		(1,286)	(743)
Finance costs		(6,231)	(6,535)
Loss on currency revaluation		(2,042)	(7,450)
Board of Directors' remuneration		(86)	(108)
Contribution to Kuwait Foundation for Advancement of Sciences		(226)	(375)
National Labour Support Tax and Zakat		(1,590)	(1,695)
Profit for the period before income tax		48,219	68,105
Income tax expenses		(4,123)	(6,284)
Profit for the period		44,096	61,821
Attributable to:			
Shareholders of the Company		41,114	55,914
Non-controlling interests		2,982	5,907
		44,096	61,821
Earnings per share	10		
Basic – Fils		11	14

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 –
three months ended 31 March 2015 (Unaudited)**

	Three months ended 31 March	
	2015	2014
	KD'000	
Profit for the period	44,096	61,821
Other comprehensive income		
<i>Other comprehensive income transferred or reclassifiable to condensed consolidated statement of profit or loss in subsequent periods:</i>		
Exchange differences on translating foreign operations	22,754	(4,270)
Net unrealised (loss)/gains on available for sale investments	(2,885)	465
Net realised gains transferred to condensed consolidated statement of income on available for sale investments (net of impairment losses)	-	(2,556)
Cash flow hedges	(874)	(307)
	<u>18,995</u>	<u>(6,668)</u>
Total comprehensive income for the period	<u>63,091</u>	<u>55,153</u>
Total comprehensive income attributable to:		
Shareholders of the Company	55,623	49,706
Non-controlling interests	7,468	5,447
	<u>63,091</u>	<u>55,153</u>

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 Changes in Equity – three months ended 31 March 2015 (Unaudited)

	Equity attributable to Company's shareholders								Non-controlling interests	Total		
	Share capital	Share premium	Treasury shares	Legal reserve	Foreign currency translation reserve	Treasury shares reserve	Investment fair valuation reserve	Share based compensation reserve			Hedge reserve	Retained earnings
Balance at 1 January 2015	432,706	1,707,164	(567,834)	216,353	(677,007)	1,967	1,205	-	(1,931)	512,780	168,566	1,793,969
Cash dividends (2014)	-	-	-	-	-	-	-	-	-	(156,053)	(1,814)	(157,867)
Effect of dilution of ownership interest	-	-	-	-	-	-	-	-	-	129	106	235
On acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	983	983
Total comprehensive income for the period	-	-	-	-	18,268	-	(2,885)	-	(874)	41,114	7,468	63,091
Balance at 31 March 2015	432,706	1,707,164	(567,834)	216,353	(658,739)	1,967	(1,680)	-	(2,805)	397,970	175,309	1,700,411
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
Exercise of share options	369	325	-	-	-	-	-	-	-	-	-	694
Cash dividends (2013)	-	-	-	-	-	-	-	-	-	(195,033)	(2,892)	(197,925)
Transfer to retained earnings	-	-	-	-	-	-	-	(5,482)	-	5,482	-	-
Total comprehensive income for the period	-	-	-	-	(3,810)	-	(2,091)	-	(307)	55,914	5,447	55,153
Balance at 31 March 2014	432,637	1,707,104	(567,834)	216,134	(688,526)	1,967	354	-	(1,471)	375,659	145,100	1,621,124

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

Condensed Consolidated Statement of Cash Flows – three months ended 31 March 2015 (Unaudited)

	Three months ended 31 March	
	2015	2014
	KD'000	
Cash flows from operating activities		
Profit for the period before income tax	48,219	68,105
Adjustments for:		
Depreciation and amortization	52,027	45,867
Interest income	(2,567)	(4,722)
Investment income	305	(2,471)
Share of results of associates and joint ventures	7,677	8,491
Finance costs	6,231	6,535
Loss on currency revaluation	2,042	7,450
Operating profit before working capital changes	113,934	129,255
Increase in trade and other receivables	(46,309)	(10,047)
Increase in inventories	(9,258)	(11,334)
Increase in trade and other payables	69,487	5,777
Cash generated from operations	127,854	113,651
Paid to Kuwait Foundation for Advancement of Sciences	(700)	(3,949)
Income tax paid	(4,195)	(3,902)
<i>Net cash from operating activities</i>	<u>122,959</u>	<u>105,800</u>
Cash flows from investing activities		
Deposits maturing after three months and bank balances blocked (Note 3)	(2,854)	(3,466)
Purchase of investments	(105)	-
Net cash outflow on acquisition of a subsidiary	(1,798)	-
Proceeds from sale of investments	40	3,823
Acquisition of property and equipment (net)	(42,571)	(26,361)
Acquisition of intangible assets	(90,962)	(10,712)
Interest received	3,024	2,714
<i>Net cash used in investing activities</i>	<u>(135,226)</u>	<u>(34,002)</u>
Cash flows from financing activities		
Proceeds from bank borrowings	209,063	237,107
Repayment of bank borrowings	(64,302)	(162,518)
Loan to an associate	(9,645)	(9,610)
Capital contribution including share premium – employees stock option	-	694
Dividends paid to Company's shareholders	(148,802)	(185,446)
Dividends paid to minority shareholders of subsidiaries	(1,641)	(1,163)
Finance costs paid	(7,956)	(3,829)
<i>Net cash used in financing activities</i>	<u>(23,283)</u>	<u>(124,765)</u>
Net decrease in cash and cash equivalents	(35,550)	(52,967)
Effect of foreign currency translation	7,073	(691)
Cash and cash equivalents at beginning of period	221,021	282,687
Cash and cash equivalents at end of period (Note 3)	<u>192,544</u>	<u>229,029</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 Company) is a Kuwaiti shareholding company incorporated in 1983 in accordance with the Law of Commercial Companies of 1960. Its shares are traded on the Kuwait Stock Exchange. The registered office of the Company is at P. O. Box 22244, 13083 Safat, State of Kuwait.

The Company and its subsidiaries (the Group) along with associates provide mobile telecommunication services in Kuwait and 8 other countries (31 December 2014 - Kuwait and 8 other countries; 31 March 2014 - 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 2014. Amendments to IFRSs, which are effective for annual accounting period starting from 1 January 2015, did not have any material impact on the accounting policies, financial position or performance of the Group.

The Group notes that the economy of the Republic of Sudan, where the Group has subsidiaries may be hyperinflationary based on the general price index showing the cumulative three-year rate of inflation exceeding 100%. However, the Group did not adopt and apply International Accounting Standard; IAS 29: Financial Reporting in Hyperinflationary Economies, from the beginning of the current year, as it was noted that IAS 29 explicitly states that it does not establish an absolute rate at which hyperinflation is deemed to arise and that it is a matter of judgment when restatement of financial statements in accordance with this Standard becomes necessary. It also clearly states that:

Hyperinflation is indicated by characteristics of the economic environment of a country, which include, but are not limited to, the following:

- a) the general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power;
- b) the general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency;
- c) sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short;
- d) interest rates, wages and prices are linked to a price index; and
- e) the cumulative inflation rate over three years is approaching, or exceeds, 100%.

Except for item e) above, none of the other characteristics indicate hyperinflation in Sudan. Furthermore, the Group has obtained information to show that, earlier this year, a committee representing the Council of Ministers of the Republic of Sudan, also concluded that apart from the three year cumulative rate of inflation, all of the other characteristics mentioned in IAS 29 for a country to be deemed to be hyperinflationary, do not exist and, accordingly, their recommendation is to not apply IAS 29.

Notes to the Condensed Consolidated Interim Financial Information - 31 March 2015 (Unaudited)

The Group also took account of the financial performance of its subsidiary in Sudan, Zain Sudan during the last three financial years, which shows that the three year cumulative cost growth rate of 60% and revenue growth rate of 39% were both significantly below 100%. In addition, the Group noted that in the International Monetary Fund Sudan country report of December 2014 the cumulative three year inflation rate outlook for Sudan in 2016 is around 57% and thus applying IAS 29 now may entail going in and out of hyperinflation within a short period of time. Based on the above matters, the Group is of the opinion that there is no definitive basis to apply IAS 29 at this time and will review it on an ongoing basis.

Had IAS 29 been applied, and the opening retained earnings as at 1 January 2015 been restated, it would have been higher by approximately KD 266 million; the net profit for the current quarter lower by KD 8.2 million (mainly due to higher depreciation and amortisation); and non-monetary assets comprising of Zain Sudan's Property and Equipment, Intangible assets and Capital WIP higher by KD 258 million as at 31 March 2015. This would then require the Group to test the restated carrying value of its investment in Zain Sudan as at 31 March 2015 and the related goodwill of KD 181 million for impairment losses, if any, to be recognized in the statement of profit or loss for the three month period ended 31 March 2015. The Group notes that, even if this results in goodwill being determined as fully impaired, the net overall impact on the Group's consolidated statement of financial position is that the Group's net equity and the above non-monetary assets related to Zain Sudan as of 31 March 2015, would both be higher by KD 77 million. There is no material effect on the Group's EBITDA for the three month ended 31 March 2015.

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 2015, 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 2014.

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 impacted the Group's operations, though not significantly. While noting the general uncertainty on this matter, the Group currently, does not expect that it could materially affect the Group's operations in the foreseeable future.

Zain South Sudan

Zain South Sudan is consolidated based on management accounts for the period.

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.

Notes to the Condensed Consolidated Interim Financial Information - 31 March 2015 (Unaudited)

3. Cash and bank balances

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

	<u>Unaudited</u> 31 March 2015	<u>Audited</u> 31 December 2014	<u>Unaudited</u> 31 March 2014
	<u>KD '000</u>		
Cash on hand and at banks	243,516	225,175	215,612
Short-term deposits with banks	73,922	117,899	132,933
Government certificates of deposits held by subsidiaries	509	496	505
	<u>317,947</u>	<u>343,570</u>	<u>349,050</u>
Less:			
Bank balances blocked (refer Note 13)	(124,884)	(121,583)	(116,732)
Cash at bank under lien	(10)	(470)	(2,784)
Government certificates of deposits held by subsidiaries	(509)	(496)	(505)
	<u>192,544</u>	<u>221,021</u>	<u>229,029</u>

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:

	<u>Unaudited</u> 31 March 2015	<u>Audited</u> 31 December 2014	<u>Unaudited</u> 31 March 2014
	<u>KD '000</u>		
Current assets	340,606	303,289	273,776
Non-current assets	1,750,039	1,714,217	1,698,404
Current liabilities	334,017	304,008	298,770
Non-current liabilities	1,341,742	1,287,304	1,191,229
Net asset of SMTC	414,886	426,194	482,181
Revenue	133,762	485,778	115,933
Loss	(20,200)	(96,206)	(23,929)
Total comprehensive income	(2,359)	(2,071)	(830)
Proportion of Group's ownership interest in SMTC	37.045%	37.045%	37.045%
Group's share of SMTC's net assets	153,695	157,884	178,625
Goodwill	12,314	11,994	11,531
Carrying amount of Group' interest in SMTC	<u>166,009</u>	<u>169,878</u>	<u>190,156</u>

As at 31 March 2015 the fair value of the Group's investment in SMTC, being its quoted market share price on the Saudi Stock Exchange, was KD 186,548,000 (31 December 2014 – KD 201,303,000; 31 March 2014: KD 310,597,000).

Notes to the Condensed Consolidated Interim Financial Information - 31 March 2015 (Unaudited)

SMTC's independent auditor's modified review report dated 21 April 2015, has, without qualifying their conclusion, drawn attention to:

- its loss for the period, accumulated losses, approval of a new business plan by its board of directors and to its management's meeting with the financing banks to reach a final understanding on the requirements of the financing agreement, including the covenants applicable beyond 31 March 2015;
- its share capital restructuring by extinguishing the accumulated deficit as of 30 September 2014 through capital reduction process;
- a claim of SAR 2.2 billion (KD 176.220 million) plus penalties raised by Etihad Etisalat Company (Mobily) against it, arising on the service agreement entered into by the parties in May 2008 and that this is under arbitration since 20 December 2014; and whose ultimate outcome and the resultant effect, if any, on its accounts cannot be reliably determined at this stage.

4.2 Interest in a joint venture

This represents Group's interest in the joint venture, Zain Al Ajial S.A. which owns 31% of the equity shares and voting rights of Wana Corporate, (a Moroccan joint stock company which is specialized in the telecom sector in that country). The Group's share of (loss)/profit for the period in the joint venture amounting to (KD 194,000) (31 March 2014 - KD 374,000) 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. Due to banks

During the period, the Company:

- drew down US\$ 60 million (KD 17.562 million) from the US\$ 800 million revolving credit facility that was availed in April 2013. As of 31 March 2015 US\$ 390 million (KD 117.195 million) (31 December 2014 - KD 96.591 million) (31 March 2014 - KD 107.778 million) was outstanding on this facility.
- drew down US\$ 480 million (KD 140.744 million) from the US\$ 800 million revolving credit facility that was availed in February 2014. As of 31 March 2015 US\$ 780 million (KD 234.390 million) (31 December 2014 - KD 105.372 million) (31 March 2014 - KD 224.880 million) was outstanding on this facility.
- drew down US\$ 100.983 million (KD 29.635 million) from other existing facilities.

The Company also repaid loans amounting to KD 55.976 million during the period. This includes:

- US\$ 60 million (KD 17.562 million) from the US\$ 800 million revolving credit facility availed in February 2014.
- fully repaid the US\$ 120 million (KD 35.496 million) term loan that was availed in August 2012. Balance outstanding on this facility as of 31 December 2014 was KD 35.124 million.

The above facilities carry a floating interest rate of a fixed margin over three or six month London Inter-Bank Offer Rate (LIBOR) or over Central Bank Discount rate.

6. Share capital

The authorized share capital as of 31 March 2015 is 4,327,058,909 shares (31 December 2014 - 4,327,058,909; 31 March 2014 - 4,327,058,909) of 100 fils each.

The issued and fully paid up share capital as of 31 March 2015 consists of 4,327,058,909 shares of 100 fils each (31 December 2014 - 4,327,058,909 shares of 100 fils each; 31 March 2014 - 4,326,374,365 shares of 100 fils each).

Notes to the Condensed Consolidated Interim Financial Information - 31 March 2015 (Unaudited)

7. Dividend

The annual general meeting of shareholders for the year ended 31 December 2014 held on 24 February 2015 (31 December 2013 - 20 February 2014) approved distribution of cash dividends of 40 fils (31 December 2013 - 50 fils) per share amounting to KD 156,053,000 (31 December 2013 - KD 195,033,000) to be paid to the registered shareholders as of the date of annual general meeting.

8. Treasury shares

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

	Unaudited 31 March 2015	Audited 31 December 2014	Unaudited 31 March 2014
Number of shares	425,711,648	425,711,648	425,711,648
Percentage of issued shares	9.84%	9.84%	9.84%
Market value (KD '000)	202,213	225,627	285,227
Cost (KD '000)	567,834	567,834	567,834

9. Investment income

	Three months ended 31 March (Unaudited)	
	2015	2014
	KD'000	
Loss from investment securities "at fair value through profit or loss"	(324)	(95)
Realised gain from investment securities 'available for sale'	19	2,566
	(305)	2,471

10. 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 31 March (Unaudited)	
	2015	2014
	KD'000	
Profit for the period attributable to shareholders	41,114	55,914
	Shares	Shares
Weighted average number of shares in issue outstanding during the period	3,901,347,261	3,900,662,717
	Fils	Fils
Earnings per share – Basic	11	14

11. Segmental information

The Company and its subsidiaries operate in a single business segment, telecommunications and related services in Kuwait and other countries. 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 - 31 March 2015 (Unaudited)

	31 March 2015					Total KD '000
	Kuwait	Jordan	Sudan	Iraq	Others	
Segment revenues	81,942	32,533	52,054	89,949	22,463	278,941
Net profit before interest and tax	26,198	8,523	12,947	13,321	(3,884)	57,105
Interest income	-	265	862	52	707	1,886
Finance costs	-	(471)	-	(2,924)	(685)	(4,080)
Income tax expense	-	(1,907)	(1,047)	(425)	(629)	(4,008)
Net profit after interest and tax	26,198	6,410	12,762	10,024	(4,491)	50,903
Unallocated items:						
Investment income						(305)
Share of results of associates and joint ventures						(7,677)
Others						1,175
Profit for the period						44,096
Segment assets	265,967	319,600	501,182	1,218,519	252,167	2,557,435
Unallocated items:						
Investment securities at fair value through profit or loss						1,609
Investment securities available for sale						34,189
Investment in associates and joint ventures						236,758
Dues from associates						334,241
Others						281,623
Consolidated assets						3,445,855
Segment liabilities	99,953	164,578	66,092	256,423	200,119	787,165
Due to banks	308	-	-	166,729	19,363	186,400
Unallocated items:	100,261	164,578	66,092	423,152	219,482	973,565
Due to banks						770,636
Others						1,243
Consolidated liabilities						1,745,444
Net consolidated assets						1,700,411
Capital expenditure during the period	19,045	5,009	17,249	81,847	4,422	127,572
Unallocated						152
Total capital expenditure incurred during the period						127,724
Depreciation and amortization	12,721	5,242	5,777	16,522	11,441	51,703
Unallocated						324
Total depreciation and amortization						52,027

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	31 March 2014					Total KD '000
	Kuwait	Jordan	Sudan	Iraq	Others	
Segment revenues	88,250	31,492	45,018	121,815	24,556	311,131
Net profit before interest and tax	27,499	9,322	8,939	29,261	3,734	78,755
Interest income	1	352	515	86	37	991
Finance costs	-	-	-	(3,990)	(2,263)	(6,253)
Income tax expense	-	(2,205)	(926)	(3,304)	301	(6,134)
Net profit after interest and tax	27,500	7,469	8,528	22,053	1,809	67,359
<i>Unallocated items:</i>						
Investment income						2,471
Share of results of associates and joint ventures						(8,491)
Others						482
Profit for the period						61,821
Segment assets	245,121	231,379	450,801	1,040,018	218,763	2,186,082
<i>Unallocated items:</i>						
Investment securities at fair value through profit or loss						1,835
Investment securities available for sale						42,947
Investment in associates and joint ventures						255,625
Dues from associates						284,953
Others						284,118
Consolidated assets						3,055,560
Segment liabilities	92,604	80,054	51,217	179,844	180,891	584,610
Due to banks	-	-	-	174,907	18,768	193,675
<i>Unallocated items:</i>						
Due to banks				354,751	199,659	778,285
Others						634,546
Consolidated liabilities						21,605
Net consolidated assets						1,434,436
Capital expenditure during the period						39,100
Unallocated						13
Total capital expenditure incurred during the period	10,687	1,885	3,054	17,443	6,031	39,113
Depreciation and amortization						44,070
Unallocated						1,797
Total depreciation and amortization	14,190	4,386	5,278	13,043	7,173	45,867

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12. Related party transactions

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

Transactions

	Three months ended 31 March (Unaudited)	
	2015	2014
	KD'000	
Management fee (included in other income)	950	843
Interest income on loans to associates	3,738	3,180

Key management compensation

	Three months ended 31 March (Unaudited)	
	2015	2014
	KD'000	
Salaries and other short term employee benefits	2,087	1,970
Post-employment benefits	687	677

13. Commitments and contingencies

	Unaudited	Audited	Unaudited
	31 March 2015	31 December 2014	31 March 2014
	KD '000		
Capital expenditure	115,395	209,723	92,097
Capital expenditure - share of an associate	75,330	83,909	10,011
Uncalled share capital of investee companies	167	162	156
Letters of credit	2,670	1,459	7,882
Letters of guarantee	474,540	470,381	466,025

The above include guarantees amounting to KD 423.776 million (31 December 2014 - KD 420.853 million; 31 March 2014 - KD 411.923 million) relating to loans and other vendor financing availed by SMTC.

The Company is a guarantor for credit facilities amounting to KD 10.506 million (31 December 2014 - KD 10.233 million; 31 March 2014 - KD 9.849 million) granted to a founding shareholder in SMTC. The Company believes that the collaterals provided by the founding shareholder to the bank, covers the credit facilities.

The Iraq income tax authority, the General Commission for Taxes (the "Tax Authority"), has raised claims for additional income taxes of US\$ 109 million (KD 32.755 million) for Atheer's operations up to fiscal year 2008. 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. The Group has paid 25% of the amount demanded for 2008 in order to comply with taxation laws and to protect its rights for appealing. In December 2014, the Tax Authority raised additional claim for income tax for the fiscal year 2009 amounting to US\$ 34 million (KD 10.217 million) and for the fiscal year 2010 amounting to US\$ 34 million (KD 10.217 million). The Group has challenged these demands in accordance with the procedures of Income tax law by, among other things, depositing 25% of the amount. 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 good.

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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 78.731 million) (US\$ 100 million as a fine, and US\$ 162 million as the CMC's portion of the revenue share) (31 December 2014 - US\$ 262 million, 31 March 2014 - 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.

On the penalty of US\$ 100 million, the hearing panel has conducted a number of hearings and in February 2015, issued a decision that the CMC acted properly and that US\$ 100 million is required to be paid by the Group. The Group has appealed against this order to the CMC Appellate Panel and a decision is pending. As for the US\$ 162 million portion of the demand, the CMC issued a letter to the Group on 18 November 2014 demanding the payment of this penalty. Atheer filed an appeal with the Appellate Panel of CMC on the basis that this matter was already decided by the Appellate Panel. The Appellate Panel issued a decision on 07 April 2015 indicating that it had previously decided that the revenue shares relating to the number ranges had already been paid and that the CMC did not present any new evidence or follow the procedures set out in the previous Appellate Panel decisions on this matter.

Furthermore in 2009, based on a decision of a Cabinet Committee, the CMC levied a penalty of US\$ 18 Million (KD 5.409 million) (31 December 2014 - US\$ 18 million, 31 March 2014 - 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 Committee 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 penalty, which would be returned if the Atheer is not deemed liable for the penalty. In January 2015, the Court of Cassation issued a decision that the CMC had no right to issue such a penalty as the Cabinet Committee did not have the jurisdiction to issue penalties against the telecom companies and the CMC did not independently issue such a penalty. The Cabinet office subsequently appealed to the full Court of Cassation to review and correct its previous decision. The full Court of Cassation rejected this appeal on 23 February 2015, and therefore the matter was finally decided in favour of the Group as there are no further avenues for appeal.

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 has raised claims for additional corporate income taxes of US\$ 89 million (KD 26.745 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 18.030 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 good.

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 56.194 million) arising on sale of Iraqna to Atheer and instructed the various banks in Iraq to freeze 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.

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 accounts. 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 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. In February 2013, Iraq's Ministry of Finance issued an order to limit the amount frozen to the extent of claim of US\$ 187 million (KD 56.194 million) and to release the balance amounts. However, the banks continue to freeze the balance of US\$ 415.589 million (KD 124.884 million). The tax authorities commenced enforcement proceedings to force the banks holding the amounts to pay such amounts to the tax authorities. Atheer filed a suit and obtained a judgment dated 28 August 2014 from the Court of First Instance halting any such enforcement proceedings. In September 2014, the lawyers of Atheer gave personal guarantee amounting to US\$ 19 million (KD 5.709 million) which was counter guaranteed by Atheer. In March 2015, the Court of Appeals affirmed the Court of First Instance's decision to freeze the enforcement proceedings.

Furthermore, in February 2015, a law was passed by the Iraqi parliament, which allowed civil courts to hear cases relating to taxation. Accordingly, on 9 March 2015, Atheer filed a claim against the tax authorities in the Court of First Instance in Baghdad based on this law. Atheer requested the Court to lift the attachments on its bank accounts. The case is still being considered. On the advice of the attorneys, the Group expects a favourable outcome on this and does not consider that these matters could have an adverse impact on the Group's business or its operations in Iraq.

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 claimed US \$ 4.5 billion (KD 1.352 billion) from Atheer and made a combined claim of US \$ 1 billion 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 applied 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 on 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, 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 the amounts already deposited in the said account; amounting to only one-month's revenues of US\$ 17 million (KD 5.109 million), attributed to the former Iraqna subscribers) 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 to the Court of Appeals.

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In November 2014, the Court of Appeals for Al-Risafa issued a decision against Atheer for an amount of US\$ 2.4 billion. However, Atheer filed an appeal before the Court of Cassation and on 14 December 2014 the Court of Cassation issued a favorable decision dismissing the telecom operator's claim on the basis that Atheer was following the regulations imposed by CMC and the stipulations of the interim telecommunication license, as well as the requirements imposed by the tender rules for the permanent license. The Court of Cassation then remanded the matter to the Court of Appeals for Al-Risafa to amend its decision in a manner consistent with the decision of the Court of Cassation. In January 2015, the Court of Appeals issued a new decision in favour of Atheer, which is consistent with the decision of the Court of Cassation. This decision of the Court of Appeals was not appealed to the Court of Cassation by the telecom operator within the required time frame and therefore, the telecom operator has lost its legal standing to submit a new filing. However, the Court of Appeals' decision indicated that the telecom operator could perhaps make a claim in the CMC Hearing and Appellate panels. Accordingly, Atheer filed a claim with the Court of Cassation seeking a ruling that the civil courts have jurisdiction over the matter. In March 2015, the Court of Cassation confirmed its decision indicating that jurisdiction resides with the civil courts and that this matter was adjudicated in favour of Atheer. On the basis of the above and the advice of its attorneys, the Group is of the opinion that there is no reason to believe that these matters could have an adverse impact on the Group's business or its operations in Iraq.

In October 2014, Atheer received a claim of US\$ 85 million (KD 25.542 million) from the CMC as spectrum usage fees from August 2007 to 31 December 2013. Atheer appealed the assessment on the basis of (i) the fact that the assessment is not based on any appropriate announced formulae and (ii) the fact that it is against Iraqi law to issue assessments on a retroactive basis. In December 2014, the Appeal Board of the CMC issued a decision in favour of Atheer, dismissing the decision to impose the fees and instructing the CMC Director General to address the issue of the spectrum fees in a manner consistent with its decision. The Board also instructed the CMC to refrain from imposing such fees retroactively. The Appeal Board's decision is final and not subject to appeal by the CMC.

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 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.

14. Financial instruments

14.1 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 31 March 2015	Audited 31 December 2014	Unaudited 31 March 2014
	KD'000		
Loans and receivables:			
Cash and bank balances	317,947	343,570	349,050
Trade and other receivables	392,044	358,377	353,027
Due from associates	334,241	309,298	284,953
Other assets	12,033	11,732	11,311
Investment securities - at fair value through profit or loss	1,609	1,941	1,835
Investment securities -available for sale	34,189	37,717	42,947

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

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14.2 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.

31 March 2015

	Level 1	Level 2	Level 3	Total
				KD'000
Financial assets at fair value:				
Investments at fair value through profit or loss	1,609	-	-	1,609
Available for sale investments	24,170	6,537	-	30,707
Total assets	25,779	6,537	-	32,316

31 December 2014

	Level 1	Level 2	Level 3	Total
				KD'000
Financial assets at fair value:				
Investments at fair value through profit or loss	1,941	-	-	1,941
Available for sale investments	27,018	6,635	-	33,653
Total assets	28,959	6,635	-	35,594

31 March 2014

	Level 1	Level 2	Level 3	Total
				KD'000
Financial assets at fair value:				
Investments at fair value through profit or loss	1,835	-	-	1,835
Available for sale investments	27,419	7,780	-	35,199
Total assets	29,254	7,780	-	37,034

Measurement at fair value

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

15. Derivative financial instruments

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

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

At 31 March 2015:

	Notional amounts by term to maturity					
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3 -12 months	Over 1 year
						KD '000
<i>Derivatives held for hedging:</i>						
<i>Cash flow hedges</i>						
Profit rate swaps - share of an associate	-	(2,805)	128,051	-	-	128,051
<i>Derivatives held for trading:</i>						
Fx forwards	-	-	-	-	-	-
	-	(2,805)	128,051	-	-	128,051

At 31 December 2014:

	Notional amounts by term to maturity					
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3 -12 months	Over 1 year
						KD '000
<i>Derivatives held for hedging:</i>						
<i>Cash flow hedges</i>						
Profit rate swaps - share of an associate	-	(1,931)	124,694	-	-	124,694
<i>Derivatives held for trading:</i>						
Fx forwards	-	(1,752)	73,175	73,175	-	-
	-	(3,683)	197,869	73,175	-	124,694

At 31 March 2014:

	Notional amounts by term to maturity					
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3 -12 months	Over 1 year
						KD '000
<i>Derivatives held for hedging:</i>						
<i>Cash flow hedges</i>						
Profit rate swaps - share of an associate	-	(1,471)	119,898	-	-	119,898
<i>Derivatives held for trading:</i>						
Fx forwards	-	-	-	-	-	-
	-	(1,471)	119,898	-	-	119,898