

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

**Condensed Consolidated Interim Financial Information (Unaudited)
30 September 2010**

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Mobile Telecommunications Company K.S.C. **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. (the Parent Company) and its subsidiaries (together called "the Group") as at 30 September 2010 and the related condensed consolidated statements of income and comprehensive income for three months and nine months period then ended and the related condensed consolidated statements of changes in equity and cash flows for the nine months 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

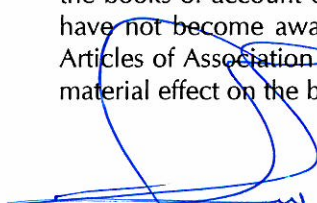
We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial 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

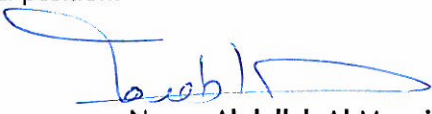
Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 – Interim Financial Reporting.

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 Commercial Companies' Law of 1960, as amended, or of the Articles of Association of the Parent Company during the period ended 30 September 2010 that might have had a material effect on the business of the Group or on its financial position.



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Condensed Consolidated Statement of Financial Position as at 30 September 2010 (Unaudited)

	Note	Unaudited 30 September 2010	Audited 31 December 2009	Unaudited 30 September 2009 (Restated) KD '000
Assets				
Current assets				
Cash and bank balances	4	635,136	267,175	306,710
Trade and other receivables		521,393	405,434	451,448
Loan to an associate		-	-	57,280
Inventories		13,369	32,554	30,269
Investments - at fair value through profit or loss		7,685	7,464	10,584
		<u>1,177,583</u>	<u>712,627</u>	<u>856,291</u>
Non-current assets				
Deferred tax assets		303	134,049	112,405
Investments – available-for-sale		97,805	98,492	107,139
Investment in associates		126,054	165,771	178,383
Interest in a jointly controlled entity		39,156	44,063	48,276
Loan to associates		183,774	141,996	82,665
Property and equipment		776,416	2,151,768	2,136,802
Intangible assets		1,352,138	2,245,453	2,277,479
Other financial assets		-	2,539	2,590
		<u>2,575,646</u>	<u>4,984,131</u>	<u>4,945,739</u>
Total Assets		<u>3,753,229</u>	<u>5,696,758</u>	<u>5,802,030</u>
Liabilities and Equity				
Current liabilities				
Trade and other payables	5	587,900	939,944	1,134,157
Due to banks		182,326	536,472	448,263
		<u>770,226</u>	<u>1,476,416</u>	<u>1,582,420</u>
Non-current liabilities				
Due to banks		107,525	1,615,994	1,640,768
Deferred tax liabilities		-	38,704	33,455
Other non-current liabilities		150,309	87,166	90,039
		<u>257,834</u>	<u>1,741,864</u>	<u>1,764,262</u>
Equity				
Attributable to the Parent Company's shareholders				
Share capital	6	429,246	428,285	428,059
Share premium		1,697,785	1,691,105	1,690,772
Treasury shares	8	(567,834)	(567,834)	(567,834)
Legal reserve		147,989	147,989	127,788
Voluntary reserve		-	63,091	63,091
Foreign currency translation reserve		(69,077)	(21,174)	(47,762)
Treasury shares reserve		1,967	1,967	1,967
Equity issue transaction cost of associate		(1,798)	(1,814)	(1,812)
Investment fair valuation reserve		2,660	(7,719)	5,949
Share based compensation reserve		6,735	18,361	23,949
Hedge reserve		(3,758)	(49,298)	(53,645)
Retained earnings		989,221	593,643	600,117
		<u>2,633,136</u>	<u>2,296,602</u>	<u>2,270,639</u>
Non-controlling interests		92,033	181,876	184,709
Total equity		<u>2,725,169</u>	<u>2,478,478</u>	<u>2,455,348</u>
Total Liabilities and Equity		<u>3,753,229</u>	<u>5,696,758</u>	<u>5,802,030</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 13 October 2010.

Asaad Ahmed Al Banwan
Chairman

Nabeel Bin Salamah
Chief Executive Officer

Condensed Consolidated Statement of Income – periods ended 30 September 2010 (Unaudited)

	Note	Three months ended 30 September		Nine months ended 30 September	
		2010	2009 (Restated)	2010	2009 (Restated)
		KD'000		KD'000	
Continuing operations					
Revenue		337,243	318,377	1,009,816	932,606
Cost of sales		(89,092)	(84,662)	(267,434)	(239,600)
Gross profit		<u>248,151</u>	<u>233,715</u>	<u>742,382</u>	<u>693,006</u>
Distribution, marketing & operating expenses		(62,111)	(58,456)	(198,829)	(156,508)
General and administrative expenses		(23,507)	(31,301)	(91,595)	(77,563)
Depreciation and amortization		(43,577)	(37,820)	(123,987)	(111,025)
Provision for doubtful debts		(2,103)	(877)	(4,367)	(1,975)
Operating profit		<u>116,853</u>	<u>105,261</u>	<u>323,604</u>	<u>345,935</u>
Interest income		5,886	2,211	13,105	6,516
Investment income	9	1,365	1,388	(619)	(3,631)
Share of loss of associates		(9,845)	(16,323)	(35,199)	(48,357)
Share of loss of jointly controlled entity		(2,731)	-	(5,950)	(1,776)
Other income		7,137	2,556	14,072	9,538
Finance cost		(6,165)	(23,701)	(49,083)	(69,711)
(Loss)/ gain on currency revaluation		(9,508)	(4,006)	24,020	(11,274)
Board of Directors' remuneration		(8)	(8)	(24)	(24)
Contribution to Kuwait Foundation for Advancement of Sciences(KFAS)		(827)	(429)	(2,109)	(2,029)
National Labour Support Tax and Zakat		(1,622)	(1,324)	(3,492)	(5,194)
Profit for the period before income tax		<u>100,535</u>	<u>65,625</u>	<u>278,325</u>	<u>219,993</u>
Income tax expense		(11,026)	(9,392)	(29,382)	(25,822)
Profit from continuing operations		<u>89,509</u>	<u>56,233</u>	<u>248,943</u>	<u>194,171</u>
Discontinued operations					
Profit/ (loss) from discontinued operations	3	<u>-</u>	<u>(13,808)</u>	<u>741,809</u>	<u>8,190</u>
		<u>89,509</u>	<u>42,425</u>	<u>990,752</u>	<u>202,361</u>
Attributable to:					
Shareholders of the Parent Company		80,312	38,364	975,637	190,448
Non-controlling interests		9,197	4,061	15,115	11,913
		<u>89,509</u>	<u>42,425</u>	<u>990,752</u>	<u>202,361</u>
Earnings per share					
Basic – Fils					
From continuing operations		20	13	57	44
From discontinued operations		-	(3)	195	5
		<u>20</u>	<u>10</u>	<u>252</u>	<u>49</u>
Diluted – Fils					
From continuing operations		20	13	57	44
From discontinued operations		-	(3)	195	5
		<u>20</u>	<u>10</u>	<u>252</u>	<u>49</u>

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

Condensed Consolidated Statement of Comprehensive Income – periods ended 30 September 2010
(Unaudited)

	Three months ended		Nine months ended	
	30 September		30 September	
	2010	2009	2010	2009
	(Restated)		(Restated)	
	KD'000		KD'000	
Profit for the period	89,509	42,425	990,752	202,361
Other comprehensive income				
<i>On continuing operations:</i>				
Exchange differences on translating foreign operations	(48,001)	14,562	(99,843)	40,809
Net unrealised gains on available-for-sale investments	8,626	8,746	8,053	7,910
Net realised (gains)/ loss transferred to statement of income on available-for-sale investments (net of impairment losses)	(1,133)	(409)	1,179	7,240
Cash flow hedges	1,309	428	1,298	6,737
Share based compensation	648	1,184	2,574	3,554
Share of other comprehensive income of an associate	(3,725)	5	(3,742)	(66)
Total comprehensive (expense)/ income for the period	<u>(42,276)</u>	<u>24,516</u>	<u>(90,481)</u>	<u>66,184</u>
<i>On discontinued operations-transfers to condensed consolidated statement of income:</i>				
Cumulative exchange differences	-	-	50,607	-
Net realised loss on available-for-sale investments	-	-	1,147	-
Cash flow hedges	-	-	48,000	-
	-	-	<u>99,754</u>	-
Total comprehensive income for the period	<u>47,233</u>	<u>66,941</u>	<u>1,000,025</u>	<u>268,545</u>
Total comprehensive income attributable to:				
Shareholders of the Parent Company				
From continuing operations	39,693	74,083	134,625	250,933
From discontinued operations	-	(9,848)	851,618	14,820
	<u>39,693</u>	<u>64,235</u>	<u>986,243</u>	<u>265,753</u>
Non-controlling interests				
From continuing operations	7,540	8,075	23,836	25,830
From discontinued operations	-	(5,369)	(10,054)	(23,038)
	<u>7,540</u>	<u>2,706</u>	<u>13,782</u>	<u>2,792</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 2010 (Unaudited)

	Equity attributable to the Parent Company's Shareholders										Non-controlling interests	Total		
	Share capital	Share premium	Treasury shares	Legal reserve	Voluntary reserve	Foreign currency translation reserve	Treasury shares reserve	Equity issue transaction cost of associate	Investment fair valuation reserve	Share based compensation reserve			Hedge reserve	Retained earnings
Balance at 1 January 2010	428,285	1,691,105	(567,834)	147,989	63,091	(21,174)	1,967	(1,814)	(7,719)	18,361	(49,298)	593,643	181,876	2,478,478
Exercise of share options	961	6,680	-	-	-	-	-	-	-	-	-	(2)	-	7,639
Cash dividends (2009)	-	-	-	-	(63,091)	-	-	-	-	-	-	(594,257)	(10,545)	(667,893)
Sale of shares in a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	(93,080)	(93,080)
Transfer to retained earnings	-	-	-	-	-	-	-	-	-	(14,200)	-	14,200	-	-
Total consolidated comprehensive income for the period	-	-	-	-	-	(47,903)	-	16	10,379	2,574	45,540	975,637	13,782	1,000,025
Balance at 30 September 2010	429,246	1,697,785	(567,834)	147,989	-	(69,077)	1,967	(1,798)	2,660	6,735	(3,758)	989,221	92,033	2,725,169
Balance at 1 January 2009	427,240	1,690,772	(567,834)	127,788	63,091	(97,692)	1,967	(1,746)	(9,201)	20,395	(60,382)	625,014	181,717	2,401,129
Exercise of share options	819	-	-	-	-	-	-	-	-	-	-	(393)	-	426
Cash dividends (2008)	-	-	-	-	-	-	-	-	-	-	-	(192,474)	(9,397)	(201,871)
(Purchase)/ sale of shares from/ to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(22,478)	9,597	(12,881)
Total consolidated comprehensive income for the period	-	-	-	-	-	49,930	-	(66)	15,150	3,554	6,737	190,448	2,792	268,545
Balance at 30 September 2009 (Restated)	428,059	1,690,772	(567,834)	127,788	63,091	(47,762)	1,967	(1,812)	5,949	23,949	(53,645)	600,117	184,709	2,455,348

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 2010 (Unaudited)

	Nine months ended 30 September	
	2010	2009 (Restated)
	KD'000	
Cash flows from operating activities		
Profit for the period before income tax	1,015,938	231,187
Adjustments for:		
Depreciation and amortization	238,050	295,452
Interest income	(15,235)	(8,211)
Investment income	619	3,631
Gain from disposal of a subsidiary	(778,134)	-
Share of loss of associates and joint controlled entity	41,149	50,133
Gain on disposal of property and equipment	-	(14)
Finance cost	72,438	118,174
(Gain)/ loss from currency revaluation	(14,789)	36,990
Operating profit before working capital changes	560,036	727,342
Increase in trade and other receivables	(287,359)	(53,252)
Decrease/ (increase) in inventories	3,035	(6,970)
Increase/ (decrease) in trade and other payables	140,443	(110,097)
Cash generated from operations	416,155	557,023
Paid to Kuwait Foundation for Advancement of Sciences	(4,159)	(2,841)
National Labour Support Tax and Zakat	(5,528)	(6,247)
Income tax paid	(39,222)	(11,975)
<i>Net cash from operating activities</i>	<u>367,246</u>	<u>535,960</u>
Cash flows from investing activities		
Deposits with a foreign bank under lien (Note 4)	(171,498)	-
Purchase of investments	(2)	(1,398)
Investment in a subsidiary	-	(18,583)
Investment in an associate/ jointly controlled entity	(1,313)	(28,084)
Proceeds from sale of investments	237	7,726
Proceeds from disposal of a subsidiary	2,255,066	-
Acquisition of property and equipment (net)	(201,192)	(346,813)
Acquisition of intangible assets	(36,416)	(973)
Interest received	14,529	8,211
Dividends received	1,640	-
<i>Net cash from/ (used in) investing activities</i>	<u>1,861,051</u>	<u>(379,914)</u>
Cash flows from financing activities		
Capital contribution – employees stock option	7,639	426
(Repayments)/ borrowings from banks (net)	(1,287,201)	163,266
Loan to an associate	(4,721)	(57,412)
Dividend paid to Parent Company's shareholders	(651,872)	(190,878)
Dividend paid to non-controlling interest holders of subsidiaries	(10,478)	(9,305)
Finance cost	(81,813)	(123,745)
<i>Net cash used in financing activities</i>	<u>(2,028,446)</u>	<u>(217,648)</u>
Net increase/ (decrease) in cash and cash equivalents	199,851	(61,602)
Effect of foreign currency translation	(3,388)	441
Cash and cash equivalents at beginning of period	267,175	367,871
Cash and cash equivalents at end of period (Note 4)	<u><u>463,638</u></u>	<u><u>306,710</u></u>

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

1. Incorporation and activities

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

The Parent Company and its subsidiaries (the Group) along with associates provide mobile telecommunication services in Kuwait and 7 other countries (31 December 2009 - Kuwait and 22 other countries; 30 September 2009 - Kuwait and 23 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 2009.

This condensed consolidated interim financial information does not contain all of the information and notes 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.

Zain Africa BV

Zain Africa was consolidated up to 8 June 2010 on which date the Group transferred control of the entity to another telecom operator (See Note 3).

Saudi Mobile Telecommunications Company (SMTC)

SMTC incurred a net loss of Saudi Riyals 1.838 billion (KD 140 million) for the nine month period ended 30 September 2010 (30 September 2009 - Saudi Riyals 2.442 billion, KD 188 million) and has accumulated losses of Saudi Riyals 7.215 billion (KD 547 million) as of that date (30 September 2009 - Saudi Riyals 4.720 billion, KD 361 million). SMTC's current liabilities also exceed current assets by Saudi Riyals 5.723 billion (KD 434 million) as of 30 September 2010 (31 December 2009 - KD 375 million; 30 September 2009 - KD 330 million). SMTC's reviewed financial information for the period ended 30 September 2010 disclose that they have been prepared on a going concern basis as its management is of the opinion that its efforts to secure funding to meet its obligations in the normal course of operations will be successful.

The Group is contingently liable for guarantees amounting to US\$ 873 million (KD 248 million) as of 30 September 2010 (31 December 2009 - KD 222 million; 30 September 2009 - KD Nil) relating to loan and other vendor financing availed by SMTC. The Group has provided a cash collateral of US\$ 483 million and SAR 452 million amounting to KD 171 million against these guarantees (See Note 4). The Group is also contingently liable for guarantees amounting to US\$ 515 million (KD 146 million) as of 30 September 2010 (31 December 2009 - KD 132 million; 30 September 2009 - KD 132 million) relating to loans granted to shareholders of the Saudi consortium that won the telecom license.

In August 2010, the Board of Directors of SMTC approved a plan to restructure the share capital of the Company, which is subject to regulatory and shareholders approval, as follows:

- Reduce share capital from SAR 14 billion (KD 1.061 billion) to SAR 7.328 billion (KD 555 million) by cancellation of 667 million shares in order to absorb the accumulated losses of the Company as of 30 June 2010;
- Subsequently to increase the share capital by SAR 4.383 billion (KD 332 million) through conversion of shareholders' loans and a rights issue.

The Group's investment in SMTC with a carrying value of KD 124,811,000 (31 December 2009 - KD 164,905,000; 30 September 2009 - KD 177,249,000) has a fair value of KD 209,587,000 (31 December 2009 - KD 271,766,000; 30 September 2009 - KD 291,466,000). The Group's net investment in SMTC including loans and receivable is KD 338,204,000 (31 December 2009 - KD 351,791,000; 30 September 2009 - KD 356,178,000).

Mobile Telecommunications Company Lebanon S.A.R.L.(MTCL)

On 30 January 2009, the Parent Company signed a one year Network Management Agreement (NMA) with the Republic of Lebanon. The NMA has since been extended upto 31 January 2011. The reviewed financial statements of MTCL are prepared on a going concern basis as the management believes that any potential adjustments to the presentation and amounts in the statement of financial position arising from expiry of the NMA may not be significant.

Interest in a jointly controlled entity – Zain Al Ajjal S.A.

The carrying value of this jointly controlled entity is determined by the Group management using the equity method based on estimated results.

Financial support to associate and group companies

The Group has committed to provide working capital and other financial support to Atheer Telecom Iraq Limited, Sudanese Mobile Telephone (Zain) Company Limited and SMTC whose working capitals are in deficit. Based on business plans, the Group does not expect these conditions will have a material adverse impact on the operations of these Group companies.

Results for the interim period are not necessarily indicative of the results that may be expected for the year ending 31 December 2010. For further information, refer to the consolidated financial statements and notes thereto included in the Group's annual report for the year ended 31 December 2009.

3. Disposal of Zain Africa BV

On 8 June 2010, (First Closing Date), the Group disposed its entire shareholding in Zain Africa BV, Netherlands (ZABV) to a major mobile telecom operator based in India for an enterprise valuation of US\$ 10.7 billion (KD 3.1 billion), in accordance with the legally binding definitive Share Sale Agreement (SSA) dated 30 March 2010. The buyer has assumed US\$ 1.7 billion (KD 494 million) of Zain Africa BV's consolidated net debt obligations valuing the equity and shareholder loans of ZABV at US\$ 9 billion.

Out of this amount, the Group received US\$ 7.8 billion (KD 2.41 billion) on the First Closing Date. This is after deduction of US\$ 700 million (KD 203 million) which is payable one year from the First Closing Date and US\$ 432 million (KD 125 million) in accordance with the terms and conditions in the SSA. In the current quarter, the Group received US\$ 295 million (KD 63 million) on receipt of regulatory approvals in some territories. As of 30 September 2010, the sale of one territory is contingent on receipt of regulatory approval within twelve months of the First Closing Date.

Accordingly, ZABV has been deconsolidated and its revenue and costs for the period 1 January 2010 to 8 June 2010 have been presented as a 'Discontinued Operation' based on International Financial Reporting Standard - (IFRS) 5 "Non current Assets Held for Sale and Discontinued Operations".

Gain on disposal

	KD'000
Cash flows upon disposal of subsidiary	
Enterprise value (US\$ 10.7 billion)	3,107,280
Less: Consolidated net debt obligations assumed by the buyer (US\$ 1.7 billion)	(493,680)
Equity and shareholder loan value of ZABV (US\$ 9 billion)	2,613,600
Less:	
Amount receivable on expiry of twelve months from First Closing Date (US\$ 700 million)	(203,280)
First closing amount as per SSA (US\$ 8.3 billion)	2,410,320
Less:	
Amounts retained for pending regulatory approvals in one territory and other deductions as per SSA (US\$ 137 million)	(62,024)
Net cash received	2,348,296
Less: Cash and cash equivalents of ZABV as on the first closing date	(93,230)
Net proceeds from disposal of subsidiary (as disclosed in the Cash Flow Statement)	<u>2,255,066</u>

Notes to the Condensed Consolidated Interim Financial Information - 30 September 2010 (Unaudited)

In accordance with the terms of the SSA, the Group used the cash received to prepay its US\$ 4 billion (KD 1.16 billion) bank borrowing and to unwind the related cash flow hedge. The loss on unwinding the hedging instruments amounting to US\$ 127 million (equivalent KD 37 million) is included in the transaction costs (See table below).

On the first closing date, the Group recognized a capital gain of US\$ 2.7 billion (KD 778 million) as follows:

	<u>KD'000</u>
Equity and shareholder loan value of ZABV (US\$ 9 billion)	2,613,600
Less: Inter-company shareholder loans	(720,960)
Equity value	<u>1,892,640</u>
Less:	
Carrying value of investment in ZABV	(787,879)
Provisions for transaction costs, taxation and others	(326,627)
Gain from disposal of ZABV	<u>778,134</u>

Operating results of ZABV up to 8 June 2010

	Three month ended		Nine month ended	
	30 September		30 September	
	(Unaudited)		(Unaudited)	
	2010	2009	2010	2009
	KD'000		KD'000	
Result of discontinued operations				
Revenue	-	264,163	406,903	788,243
Expenses	-	(179,344)	(295,124)	(518,261)
Depreciation and amortization	-	(71,493)	(114,063)	(186,304)
Interest income	-	587	2,130	1,695
Finance cost	-	(16,968)	(23,355)	(48,463)
Loss on currency revaluation	-	(2,110)	(9,231)	(25,716)
Loss for the period before tax	-	(5,165)	(32,740)	11,194
Income tax expense	-	(8,643)	4,196	(3,004)
(Loss)/ profit of discontinued operations	-	(13,808)	(28,544)	8,190
Net gain on disposal of discontinued operations				
Gain on disposal	-	-	930,770	-
<i>Transfers from other comprehensive income:</i>				
Cumulative exchange differences	-	-	(114,483)	-
Cash flow hedges	-	-	(37,006)	-
Investment fair valuation reserve	-	-	(1,147)	-
Gain on disposal before contribution to KFAS	-	-	778,134	-
Contribution to KFAS	-	-	(7,781)	-
Net gain on disposal of discontinued operations	-	-	770,353	-
Total (loss)/ profit from discontinued operations	-	(13,808)	741,809	8,190
Attributable to:				
Shareholders of the Parent Company	-	(9,836)	751,441	20,246
Non-controlling interests	-	(3,972)	(9,632)	(12,056)
	-	(13,808)	741,809	8,190

Notes to the Condensed Consolidated Interim Financial Information - 30 September 2010 (Unaudited)

Cash flows

The cash flows from Zain Africa operations from 1 January 2010 to 8 June 2010 are as follows:

	Nine month ended 30 September (Unaudited)	
	2010	2009
	KD'000	
Operating cash flows	57,645	190,234
Investing cash flows	2,177,788	(274,675)
Financing cash flows	20,444	61,375
Total cash flows	<u>2,255,877</u>	<u>(23,066)</u>

4. Cash and bank balances

	Unaudited 30 September 2010	Audited 31 December 2009	Unaudited 30 September 2009 (Restated)
	KD '000		
Cash on hand and at banks	275,482	169,277	247,891
Short-term deposits maturing within three months	359,654	97,898	58,819
Cash and cash equivalents	635,136	267,175	306,710
Deposits with a foreign bank under lien (Note 2)	(171,498)	-	-
	<u>463,638</u>	<u>267,175</u>	<u>306,710</u>

5. Trade and other payables

This includes dividend of KD 13,053,000 (31 December 2009 - KD 7,638,000; 30 September 2009 - KD 7,785,000) payable to the shareholders of the Parent Company.

6. Share capital

The authorized share capital as of 30 September 2010 is 4,315,097,117 shares (31 December 2009 - 4,297,371,670; 30 September 2009 - 4,297,371,670) of 100 fils each.

At the extraordinary general meeting held on 27 May 2010, the Parent Company's shareholders approved decrease in authorized share capital by 4,907,565 shares and then to increase it by 22,633,012 shares to 4,315,097,117 shares.

The issued and fully paid up share capital as of 30 September 2010 consists of 4,292,464,105 shares of 100 fils each (31 December 2009 - 4,282,853,505 shares of 100 fils each; 30 September 2009 - 4,280,590,581 shares of 100 fils each).

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

7. Dividend

The Parent Company's shareholders approved payment of cash dividend of 170 fils per share for the year ended 31 December 2009 (2008 - 50 fils per share) at the annual general meeting held on 27 May 2010 (2008 - 30 March 2009).

Notes to the Condensed Consolidated Interim Financial Information - 30 September 2010 (Unaudited)

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 30 September 2010	Audited 31 December 2009	Unaudited 30 September 2009
Number of shares	425,711,648	425,711,648	425,711,648
Percentage of issued shares	9.92%	9.94%	9.96%
Market value (KD '000)	578,968	434,226	553,425
Cost (KD '000)	567,834	567,834	567,834

9. Investment income

	Three months ended 30 September (Unaudited)		Nine months ended 30 September (Unaudited)	
	2010	2009 (Restated)	2010	2009 (Restated)
	KD '000		KD '000	
Gain from investments "at fair value through profit or loss"	685	884	38	612
Realised gain/(loss) from investments 'available -for-sale'	43	229	(2,297)	(5,325)
Impairment loss	-	-	-	(1,132)
Dividend income	637	275	1,640	2,214
	<u>1,365</u>	<u>1,388</u>	<u>(619)</u>	<u>(3,631)</u>

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 30 September (Unaudited)		Nine months ended 30 September (Unaudited)	
	2010	2009 (Restated)	2010	2009 (Restated)
	KD '000		KD '000	
Profit for the period attributable to shareholders				
From continuing operations	80,312	48,200	224,196	170,202
From discontinued operations	-	(9,836)	751,441	20,246
	<u>80,312</u>	<u>38,364</u>	<u>975,637</u>	<u>190,448</u>
	Shares	Shares	Shares	Shares
Weighted average number of shares in issue	3,866,752,457	3,854,878,933	3,866,752,457	3,854,878,933
Effect of dilution	10,573,477	9,995,202	10,568,716	7,582,788
Weighted average number of shares in issue outstanding during the period adjusted for the effect of dilution	<u>3,877,325,934</u>	<u>3,864,874,135</u>	<u>3,877,321,173</u>	<u>3,862,461,721</u>
	Fils	Fils	Fils	Fils
Earnings per share – Basic				
From continuing operations	20	13	57	44
From discontinued operations	-	(3)	195	5
	<u>20</u>	<u>10</u>	<u>252</u>	<u>49</u>
Earnings per share – Diluted				
From continuing operations	20	13	57	44
From discontinued operations	-	(3)	195	5
	<u>20</u>	<u>10</u>	<u>252</u>	<u>49</u>

Notes to the Condensed Consolidated Interim Financial Information - 30 September 2010 (Unaudited)

11. 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 and Iraq. The Group's operations in Sub-Saharan Africa are classified as a disposal group, in accordance with IFRS 5 (Notes 2 and 3). This forms the basis of the geographical segments.

	30 September 2010						Total
	Kuwait	Jordan	Bahrain	Lebanon	Sudan	Iraq	
							KD '000
Segment revenues	259,427	110,927	54,800	23,007	244,118	317,537	1,009,816
Net profit before interest and tax	96,620	39,436	12,680	7,519	101,226	94,212	351,693
Interest income	18	1,045	168	35	2,412	-	3,678
Finance cost	-	(336)	(43)	-	(4,536)	(18,347)	(23,262)
Income tax expense	-	(8,697)	-	(1,189)	(7,006)	(12,175)	(29,067)
Net profit after interest and tax	96,638	31,448	12,805	6,365	92,096	63,690	303,042
<i>Unallocated items:</i>							
Investment income							(619)
Share of loss of associates							(35,199)
Share of loss of jointly controlled entity							(5,950)
Others							(12,331)
Profit for the period from continuing operations							248,943
Profit for the period from discontinued operations							741,809
Profit for the period							990,752
Segment assets	212,827	260,741	69,227	14,505	1,018,977	1,028,743	2,605,020
<i>Unallocated items:</i>							
Investment - at fair value through profit or loss							7,685
Deferred tax assets							303
Investments - available for sale							97,805
Investment in associates							126,054
Interest in a jointly controlled entity							39,156
Loans to associates							183,774
Others							693,432
Consolidated assets							3,753,229
Segment liabilities	72,504	35,689	25,040	5,817	248,659	296,297	684,006
<i>Unallocated items:</i>							
Due to banks							289,851
Others							54,203
Consolidated liabilities							1,028,060
Net consolidated assets							2,725,169
Capital expenditure of the continuing operations incurred during the period	10,860	4,598	8,780	9	67,772	64,463	156,482
Unallocated							1,705
							158,187
Capital expenditure of the discontinued operations							79,421
Total capital expenditure incurred during the period							237,608
Depreciation and amortization	22,212	11,672	5,714	12	26,135	53,114	118,859
Unallocated							5,128
Total depreciation and amortization of continuing operations							123,987

Notes to the Condensed Consolidated Interim Financial Information - 30 September 2010 (Unaudited)

	30 September 2009 (Restated)							Total KD '000
	Kuwait	Jordan	Bahrain	Lebanon	Sudan	Iraq	Sub- Saharan Africa	
Segment revenues	264,574	99,968	55,313	18,628	207,323	286,800	-	932,606
Net profit before interest and tax	112,321	36,846	15,949	4,268	82,964	90,928	-	343,276
Interest income	387	1,913	178	34	2,561	-	-	5,073
Finance cost	-	(1,318)	(371)	-	(4,957)	(23,555)	-	(30,201)
Income tax expense	-	(9,817)	-	(673)	(4,587)	(10,406)	-	(25,483)
Net profit after interest and tax	112,708	27,624	15,756	3,629	75,981	56,967	-	292,665
<i>Unallocated items:</i>								
Investment income								(3,631)
Share of loss of associates								(48,357)
Share of loss of jointly controlled entity								(1,776)
Others								(44,730)
Profit for the period from continuing operations								194,171
Profit for the period from discontinued operations								8,190
Profit for the period								202,361
Segment assets	236,114	233,886	63,283	10,428	959,960	1,035,044	2,522,608	5,061,323
<i>Unallocated items:</i>								
Investment - at fair value through profit or loss								10,584
Deferred tax assets								112,405
Investment - available for sale								107,139
Investment in associates								178,383
Interest in a jointly controlled entity								48,276
Loan to an associate								139,945
Others								143,975
Consolidated assets								5,802,030
Segment liabilities	67,958	38,825	17,982	5,563	56,814	477,335	495,150	1,159,627
<i>Unallocated items:</i>								
Due to banks								2,089,031
Deferred tax liabilities								33,455
Others								64,569
Consolidated liabilities								3,346,682
Net consolidated assets								2,455,348
Capital expenditure incurred during the period	24,544	3,486	5,259	11	42,424	25,796	232,398	333,918
Unallocated								13,868
Total capital expenditure								347,786
Depreciation and amortization	19,464	13,801	4,574	10	20,437	47,425	-	105,711
Unallocated								5,314
Total depreciation and amortization of continuing operations								111,025

Notes to the Condensed Consolidated Interim Financial Information - 30 September 2010 (Unaudited)

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 30 September (Unaudited)		Nine months ended 30 September (Unaudited)	
	2010	2009	2010	2009
	KD '000		KD '000	
Management fee (included in other income)	4,073	2,652	10,344	6,812
Interest income on loans to an associate	4,117	-	8,452	-

Balances	Unaudited	Audited	Unaudited
	30 September 2010	31 December 2009	30 September 2009 (Restated)
	KD '000		
Trade and other receivables	3,182	3,090	7,761
Trade and other payables	1,961	1,021	873
Due to banks	-	39,859	43,018

Key management compensation

	Three months ended 30 September (Unaudited)		Nine months ended 30 September (Unaudited)	
	2010	2009	2010	2009
	KD'000		KD'000	
Salaries and other short term employee benefits	26,205	4,322	28,254	7,133
Post employment benefits	121	605	411	998
Share based payments	324	1,182	1,287	2,367

13. Commitments and contingencies

	Unaudited	Audited	Unaudited
	30 September 2010	31 December 2009	30 September 2009 (Restated)
	KD '000		
Capital expenditure	85,679	258,906	272,211
Contingent capital commitment under SSA	239,000	-	-
Capital expenditure – share of associates	29,733	38,033	182,442
Uncalled share capital of investee companies	290	411	415
Letters of credit	21,197	66,886	47,972
Letters of guarantee (including those relating to SMTC - Note 2)	424,682	394,903	178,602

Legal proceedings have been initiated by and against some of the subsidiaries in a number of jurisdictions.

Notes to the Condensed Consolidated Interim Financial Information - 30 September 2010 (Unaudited)

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

The Iraqi telecom regulatory authority has imposed a US\$ 18.61 million - KD 5.3 million (31 December 2009 – KD 5.2 million; 30 September 2009 – KD 5.3 million) penalty on the Iraqi subsidiary citing breach of certain network quality covenants. The Group believes that it has complied with the network quality covenants and that it has meritorious defences against this claim.

Under the SSA of Zain Africa BV, the Group is contingently liable for penalties, warranty claims, taxation claims and amounts that may be due for unprovided litigation claims after the first closing date. The transfer of control over telecom operations requires regulatory approval and the Group has a contingent capital commitment related to a territory where such regulatory approval is pending.

On the basis of information currently available, and having taken counsel with legal advisors, Group management is of the opinion that none of the above matters is likely to have a material adverse effect on the condensed consolidated statement of financial position or the consolidated operations of the Group.

14. Derivative financial instruments

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

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

At 30 September 2010:

	Notional amounts by term to maturity			
	Notional amount	Within 3 months	3-12 months	Over 1 year
	KD'000			
Derivatives held for hedging:				
<i>Cash flow hedges</i>				
Interest rate swaps	-	-	-	-
Interest rate swaps- share of an associate	157,048	-	-	157,048

At 31 December 2009:

	Notional amounts by term to maturity			
	Notional amount	Within 3 months	3-12 months	Over 1 year
	KD'000			
Derivatives held for hedging:				
<i>Cash flow hedges</i>				
Interest rate swaps	1,204,980	-	-	1,204,980
Interest rate swaps- share of an associate	-	-	-	-

At 30 September 2009:

	Notional amounts by term to maturity			
	Notional amount	Within 3 months	3-12 months	Over 1 year
	KD'000			
Derivatives held for trading:				
Foreign currency swaps	39,728	19,807	19,921	-
Derivatives held for hedging:				
<i>Cash flow hedges</i>				
Interest rate swaps	1,202,880	-	-	1,202,880
Interest rate swaps- share of an associate	-	-	-	-

Notes to the Condensed Consolidated Interim Financial Information - 30 September 2010 (Unaudited)

15. Comparative figures

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

Accordingly the comparative figures as of and for the period ended 30 September 2009 have been presented after de-consolidating Paltel as follows:

	Total Assets	Total Liabilities	Total Equity
			Unaudited
			KD'000
As previously reported	6,336,701	3,416,740	2,919,961
Relating to Paltel	(534,671)	(70,058)	(464,613)
As restated	<u>5,802,030</u>	<u>3,346,682</u>	<u>2,455,348</u>
		Three months ended	Nine months ended
		30 September	30 September
		2009	2009
		(Unaudited)	(Unaudited)
			KD'000
Profit for the period			
As previously reported		54,707	223,303
Relating to Paltel		(12,282)	(20,942)
As restated		<u>42,425</u>	<u>202,361</u>
Attributable to:			
Shareholders of the Parent Company			
As previously reported		41,192	195,691
Relating to Paltel		(2,828)	(5,243)
As restated		<u>38,364</u>	<u>190,448</u>
Non-controlling interests			
As previously reported		13,515	27,612
Relating to Paltel		(9,454)	(15,699)
As restated		<u>4,061</u>	<u>11,913</u>