

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

**Condensed Consolidated Interim Financial Information (Unaudited)
31 March 2017**

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

INDEPENDENT AUDITOR'S 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 2017 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 this condensed consolidated interim financial information with respect to its subsidiaries in Sudan, to conform to 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.

Emphasis of matter

Without qualifying our conclusion, we draw attention to note 2 and note 13 to the condensed consolidated interim financial information, which describes the effects on the subsidiary in Iraq due to the current security situation there and which discloses the uncertainty related to the outcome of various claims against it, respectively.

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

INDEPENDENT AUDITOR'S 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. 1 of 2016 and its Executive Regulations or of the Company's Memorandum of Incorporation and Articles of Association during the three-month period ended 31 March 2017 that might have had a material effect on the business of the Company or on its financial position.



Talal Y. Al-Muzaini
Licence No. 209A
Deloitte & Touche
Al-Wazzan & Co.

Kuwait
02 May 2017

Condensed Consolidated Statement of Financial Position as at 31 March 2017 (Unaudited)

		<u>Unaudited</u>	<u>Audited</u>	<u>Unaudited</u>
		<u>31 March</u>	<u>31 December</u>	<u>31 March</u>
	Notes	<u>2017</u>	<u>2016</u>	<u>2016</u>
				<u>KD '000</u>
Assets				
Current assets				
Cash and bank balances	3	150,371	208,752	414,091
Trade and other receivables		452,063	450,386	402,740
Inventories		24,716	16,418	22,850
Investment securities at fair value through profit or loss		1,041	964	1,062
		<u>628,191</u>	<u>676,520</u>	<u>840,743</u>
Non-current assets				
Investment securities available for sale		18,569	22,134	25,693
Investments in associates and joint ventures	4	190,883	190,396	210,216
Dues from associates		391,916	381,661	358,721
Other assets		15,076	15,598	15,514
Property and equipment		788,160	798,156	884,371
Intangible assets and goodwill		986,815	1,007,237	1,163,395
		<u>2,391,419</u>	<u>2,415,182</u>	<u>2,657,910</u>
		<u>3,019,610</u>	<u>3,091,702</u>	<u>3,498,653</u>
Liabilities and Equity				
Current liabilities				
Trade and other payables		583,204	570,920	838,523
Due to banks	5	247,086	219,154	212,940
		<u>830,290</u>	<u>790,074</u>	<u>1,051,463</u>
Non-current liabilities				
Due to banks	5	824,378	830,193	782,033
Other non-current liabilities		38,541	48,953	37,985
		<u>862,919</u>	<u>879,146</u>	<u>820,018</u>
Equity				
Attributable to the Company's shareholders				
Share capital	6	432,706	432,706	432,706
Share premium		1,707,164	1,707,164	1,707,164
Treasury shares	8	(567,834)	(567,834)	(567,834)
Legal reserve		216,353	216,353	216,353
Foreign currency translation reserve		(1,096,577)	(1,100,094)	(775,715)
Treasury shares reserve		1,967	1,967	1,967
Investment fair valuation reserve		4,096	3,484	(666)
Hedge reserve		(279)	(120)	(617)
Retained earnings		473,185	571,503	430,851
		<u>1,170,781</u>	<u>1,265,129</u>	<u>1,444,209</u>
Non-controlling interests		155,620	157,353	182,963
Total equity		<u>1,326,401</u>	<u>1,422,482</u>	<u>1,627,172</u>
Total Liabilities and Equity		<u>3,019,610</u>	<u>3,091,702</u>	<u>3,498,653</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 02 May 2017.

Mohammad Muhammad Abdulmohsen Al Kharafi
Chairman

Bader Nasser Al Kharafi
Vice Chairman & Chief Executive Officer

Mobile Telecommunications Company K.S.C.P
Kuwait

Condensed Consolidated Statement of Profit or Loss – three months ended 31 March 2017 (Unaudited)

	Notes	Three months ended 31 March	
		2017	2016
		KD'000	
Revenue		246,941	276,920
Cost of sales		(67,508)	(65,938)
Gross profit		179,433	210,982
Operating and administrative expenses		(68,766)	(86,998)
Depreciation and amortization		(49,917)	(54,690)
Provision for impairment - trade and other receivables		(3,410)	(1,376)
Operating profit		57,340	67,918
Interest income		2,375	2,305
Investment income	9	253	(116)
Share of results of associates and joint ventures	4	888	(8,486)
Other income/(expense)		(1,152)	1,574
Finance costs		(9,464)	(7,564)
Loss on currency revaluation		(5,841)	(10,546)
Profit before, contribution to KFAS, NLST, Zakat, income taxes and Board of Directors' remuneration		44,399	45,085
Contribution to Kuwait Foundation for Advancement of Sciences		(280)	(218)
National Labour Support Tax and Zakat		(1,583)	(1,723)
Income tax expenses		(3,849)	(5,137)
Board of Directors' remuneration		(69)	(69)
Profit for the period		38,618	37,938
Attributable to:			
Shareholders of the Company		38,229	37,251
Non-controlling interests		389	687
		38,618	37,938
Earnings per share	10		
Basic – Fils		10	10

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 2017 (Unaudited)**

	Three months ended 31 March	
	2017	2016
	KD'000	
Profit for the period	38,618	37,938
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	3,179	(20,222)
Net unrealised gain on available for sale investments	709	780
Net realised loss transferred to condensed consolidated statement of profit or loss on available for sale investments (net of impairment losses)	(97)	-
Cash flow hedges	(159)	(401)
	<u>3,632</u>	<u>(19,843)</u>
Total comprehensive income for the period	<u>42,250</u>	<u>18,095</u>
Total comprehensive income attributable to:		
Shareholders of the Company	42,199	18,558
Non-controlling interests	51	(463)
	<u>42,250</u>	<u>18,095</u>

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

Condensed Consolidated Statement of Changes in Equity – three months ended 31 March 2017 (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 valuation reserve	Hedge reserve	Retained earnings			
Balance at 1 January 2017	432,706	1,707,164	(567,834)	216,353	(1,100,094)	1,967	3,484	(120)	571,503	157,353	1,422,482	
Cash dividends (2016)	-	-	-	-	-	-	-	-	(136,547)	(1,784)	(138,331)	
Total comprehensive income for the period	-	-	-	-	3,517	-	612	(159)	38,229	51	42,250	
Balance at 31 March 2017	432,706	1,707,164	(567,834)	216,353	(1,096,577)	1,967	4,096	(279)	473,185	155,620	1,326,401	
Balance at 1 January 2016	432,706	1,707,164	(567,834)	216,353	(756,643)	1,967	(1,446)	(216)	510,641	185,398	1,728,090	
Cash dividends (2015)	-	-	-	-	-	-	-	-	(117,041)	(1,940)	(118,981)	
Purchase of non-controlling interests	-	-	-	-	-	-	-	-	-	(32)	(32)	
Total comprehensive income for the period	-	-	-	-	(19,072)	-	780	(401)	37,251	(463)	18,095	
Balance at 31 March 2016	432,706	1,707,164	(567,834)	216,353	(775,715)	1,967	(666)	(617)	430,851	182,963	1,627,172	

KD '000

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 2017 (Unaudited)

	Three months ended 31 March	
	2017	2016
	<u>KD'000</u>	
Cash flows from operating activities		
Profit for the period before income tax	42,467	43,075
Adjustments for:		
Depreciation and amortization	49,917	54,690
Interest income	(2,375)	(2,305)
Investment income	(253)	116
Share of results of associates and joint ventures	(888)	8,486
Finance costs	9,464	7,564
Loss on currency revaluation	5,841	10,546
Operating profit before working capital changes	104,173	122,172
(Increase)/decrease in trade and other receivables	(5,205)	9,050
(Increase)/decrease in inventories	(8,220)	4,727
Decrease in trade and other payables	(2,191)	(58,501)
Cash generated from operations	88,557	77,448
Paid to Kuwait Foundation for Advancement of Sciences	(250)	(500)
National Labour Support Tax and Zakat paid	(3,341)	-
Income tax paid	(2,302)	(4,093)
<i>Net cash from operating activities</i>	<u>82,664</u>	<u>72,855</u>
Cash flows from investing activities		
Deposits maturing after three months and bank balances blocked (Note 3)	(8,221)	2,753
Purchase of investments	(3,301)	-
Net cash outflow on purchase of non-controlling interest/ a subsidiary	-	(26)
Proceeds from sale of investments	7,527	1,667
Acquisition of property and equipment (net)	(21,864)	(26,635)
Acquisition of intangible assets (net)	(4,365)	(7,029)
Interest received	3,010	2,834
Dividend received	81	-
<i>Net cash used in investing activities</i>	<u>(27,133)</u>	<u>(26,436)</u>
Cash flows from financing activities		
Proceeds from bank borrowings	156,588	63,442
Repayment of bank borrowings	(132,309)	(28,262)
Loan to an associate	(4,373)	(10,051)
Dividends paid to Company's shareholders	(128,117)	(621)
Dividends paid to minority shareholders of subsidiaries	(1,117)	(1,267)
Finance costs paid	(12,910)	(6,031)
<i>Net cash (used in)/from financing activities</i>	<u>(122,238)</u>	<u>17,210</u>
Net (decrease)/increase in cash and cash equivalents	(66,707)	63,629
Effect of foreign currency translation	105	(6,584)
Cash and cash equivalents at beginning of period	177,150	228,266
Cash and cash equivalents at end of period (Note 3)	<u>110,548</u>	<u>285,311</u>

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

1. Corporate information

Mobile Telecommunications Company K.S.C.P (the "Company") is a Kuwaiti shareholding company incorporated in 1983. 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 2016 - Kuwait and 8 other countries; 31 March 2016 - 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 2016. Amendments to IFRSs, which are effective for annual accounting period starting from 1 January 2017, did not have any material impact on the accounting policies, financial position or performance of the Group.

In 2015, the Group noted that the economy of the Republic of Sudan, where the Group has subsidiaries, may be hyperinflationary from the beginning of 2015. This was based on the general price index showing the cumulative three-year rate of inflation exceeding 100% at that time. However, International Accounting Standard, IAS 29: Financial Reporting in Hyperinflationary Economies, does not establish an absolute rate at which hyperinflation is deemed to arise and states that it is a matter of judgment when restatement of financial statements in accordance with this Standard becomes necessary. In addition, the Group noted that in the 2014 International Monetary Fund (IMF) Sudan country report, the cumulative projected three year inflation rate outlook for Sudan in 2016 to be around 57% and thus, applying IAS 29 in 2015, could entail going in and out of hyperinflation within a short period. Based on the above matters, the Group concluded that there was no definitive basis to apply IAS 29 at that time and to review it on an ongoing basis. This assessment is now confirmed by the consumer price inflation rates in 2016 and the first quarter of 2017, which indicate that the economy of Sudan is no longer hyperinflationary.

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 324 million and non-monetary assets comprising of Zain Sudan's Property and Equipment, Intangible assets and Capital WIP as of that date higher by the same amount. This would have then required the Group to test the restated carrying value of its investment in Zain Sudan and the related goodwill for impairment losses, if any, to be recognized in the consolidated statement of profit or loss. Even if this had resulted in goodwill being determined as fully impaired at that time, the net overall impact on the Group's consolidated statement of financial position is that net equity and the above non-monetary assets related to Zain Sudan as of 31 March 2017 would have been higher by KD 85 million (31 December 2016 – KD 90 million; 31 March 2016: KD 101 million). Furthermore, the profit for the period ended 31 March 2017 would have been lower by KD 5.82 million (31 March 2016: KD 10.7 million).

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 2017, 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 2016.

Al Khatem/Atheer

The unrest in Iraq since June 2014 has had an impact on the Group's operations and has resulted in forced shut down of or restricted access to some sites with the result that Atheer may be unable to exercise effective control over assets with a net book value of approximately KD 2.5368 million. While noting the general uncertainty on this matter, the Group currently, does not expect that it could materially affect the Group's operations or effective control over its property and equipment in the foreseeable future.

Notes to the Condensed Consolidated Interim Financial Information - 31 March 2017 (Unaudited)

Financial support to associate and group companies

The Group has committed to provide working capital and other financial support to certain subsidiaries including Mobile Telecommunications Company Saudi Arabia ("SMTC"), Zain Jordan, Al Khatem and Zain South Sudan 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.

3. Cash and bank balances

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

	Unaudited 31 March 2017	Audited 31 December 2016	Unaudited 31 March 2016
	KD '000		
Cash on hand and at banks	92,178	153,852	312,051
Short-term deposits with banks	57,889	54,608	101,414
Government certificates of deposits held by subsidiaries	304	292	626
	<u>150,371</u>	<u>208,752</u>	<u>414,091</u>
Less:			
Bank balances blocked (refer Note 13)	-	-	(128,146)
Cash at bank under lien	(9,049)	(770)	(8)
Deposits with maturity exceeding three months	(30,470)	(30,540)	-
Government certificates of deposits with maturities exceeding three months held by subsidiaries	(304)	(292)	(626)
Cash and cash equivalent in the condensed consolidated statement of statements of cash flows	<u>110,548</u>	<u>177,150</u>	<u>285,311</u>

4. Investments in associates and joint ventures

4.1 Investments in associates

This represents the Group's share of investments in Mobile Telecommunications Company Saudi Arabia ("SMTC") accounted for using the equity method:

	Unaudited 31 March 2017	Audited 31 December 2016	Unaudited 31 March 2016
	KD '000		
Current assets	314,865	269,701	312,126
Non-current assets	1,867,221	1,896,961	1,756,366
Current liabilities	537,287	540,621	523,542
Non-current liabilities	1,352,329	1,334,971	1,200,112
Net assets of SMTC	292,470	291,070	344,838
Revenue	156,018	563,968	141,920
Profit/(loss)	3,698	(78,804)	(20,079)
Total comprehensive income	(429)	259	(1,085)
Proportion of Group's ownership interest in SMTC	37.045%	37.045%	37.045%
Group's share of SMTC's net assets	108,346	107,827	127,746
Goodwill	12,486	12,515	12,355
Carrying amount of Group's interest in SMTC	<u>120,832</u>	<u>120,342</u>	<u>140,101</u>

As at 31 March 2017 the fair value of the Group's investment in SMTC, being its quoted market share price on the Saudi Stock Exchange, was KD 155.336 million (31 December 2016 – KD 145.958 million; 31 March 2016: KD 151.799 million).

Notes to the Condensed Consolidated Interim Financial Information - 31 March 2017 (Unaudited)

4.2 Interest in a joint venture

This represents the Group's KD 70.051 million (31 December 2016 - KD 70.054 million; 31 March 2016: KD 70.115 million) interest in the joint venture, Zain Al Ajjal 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 for the period in the joint venture amounting to KD 0.0028 million (31 March 2016 - KD 1.047 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 was determined by Group management using the equity method based on management information provided by Wana Corporate.

5. Due to banks

	<u>Unaudited</u> 31 March 2017	<u>Audited</u> 31 December 2016	<u>Unaudited</u> 31 March 2016
	KD '000		
<i>Company</i>			
Short term loans	202,618	172,338	171,433
Long term loans	722,817	722,638	663,157
	<u>925,435</u>	<u>894,976</u>	<u>834,590</u>
<i>Zain Sudan</i>			
Short term Murabaha financing	1,426	765	-
<i>Zain – Bahrain</i>			
Long term loans	7,061	7,834	13,215
<i>Atheer – Iraq</i>			
Long term loans	137,542	145,772	147,168
	<u>1,071,464</u>	<u>1,049,347</u>	<u>994,973</u>

The closing balance includes a non-cash movement arising from foreign currency loss of KD 2.162 million (31 March 2016 – KD 5.085 million).

The current and non-current amounts are as follows:

	<u>Unaudited</u> 31 March 2017	<u>Audited</u> 31 December 2016	<u>Unaudited</u> 31 March 2016
	KD '000		
Current liabilities	247,086	219,154	212,940
Non-current liabilities	824,378	830,193	782,033
	<u>1,071,464</u>	<u>1,049,347</u>	<u>994,973</u>

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	<u>Unaudited</u> 31 March 2017	<u>Audited</u> 31 December 2016	<u>Unaudited</u> 31 March 2016
	KD '000		
US dollar	953,029	930,623	871,099
Kuwaiti dinar	109,947	110,125	110,659
Others	8,488	8,599	13,215
	<u>1,071,464</u>	<u>1,049,347</u>	<u>994,973</u>

The effective interest rate as at 31 March 2017 was 1.75% to 12% (31 December 2016 - 1.75% to 12.00%; 31 March 2016 - 1.18% to 3.875%) per annum.

The Group is compliant with the principal covenant ratios, which include:

- consolidated net borrowings to adjusted consolidated Earnings Before Interest Tax Depreciation and Amortisation (EBITDA);
- adjusted consolidated EBITDA to adjusted consolidated net interest payable;
- equity to total assets.

During the period, the Company:

- drewdown US\$ 260 million (KD 79.326 million) from the US\$ 500 million revolving credit facility that was availed in January 2017. As of 31 March 2017 KD 79.222 million (US\$ 260 million) was outstanding on this facility;
- availed short term loan amounting to KD 30.470 million (US\$ 100 million) from a commercial bank;
- repaid loans amounting to KD 122.429 million. This includes US\$ 390 million (KD 118.989 million) from the US\$ 800 million revolving credit facility availed in February 2014. As of 31 March 2017 - US\$ 190 million (KD 57.893 million) (31 December 2016 - KD 177.132 million) (31 March 2016 - KD 171.855 million) was outstanding on this facility.

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.

Zain – Bahrain

This represents balance outstanding on the long term Bahraini Dinar denominated facilities, availed in 2013, at a fixed margin over Bahrain Inter Bank Overnight rate (BIBOR). These are amortising facilities with maturities over four years.

Atheer

Long term loans include:

- US\$ 400 million loan availed in 2011 from a syndicate of international development finance institutions and foreign banks. This is repayable in twenty four equal installments by January 2018. As of 31 March 2017, US\$ 66.400 million (KD 20.231 million) (31 December 2016 - KD 25.373 million; 31 March 2016 – KD 40.136 million) was outstanding from this facility;
- US\$ 300 million (KD 91.41 million) loan from a commercial bank that was rolled over as a long term loan maturing in December 2019;
- US\$ 55 million (KD 16.76 million) long-term loan repayable by March 2020 availed from a commercial bank in 2015;
- US\$ 30 million (KD 9.141 million) long-term loan repayable by December 2019 availed from a commercial bank in 2016.

These facilities are guaranteed by the Company and carry a floating interest rate of a fixed margin over three month LIBOR.

Zain Sudan

This represents Sudanese Pounds short term financing availed from a local Islamic bank carrying an effective interest rate of 12% (31 December 2016 – 12%) (31 March 2016 – Nil). This facility is secured by cash at bank of an equivalent amount.

6. Share capital

The authorized, issued and fully paid up share capital as of 31 March 2017 is 4,327,058,909 shares (31 December 2016 – 4,327,058,909; 31 March 2016 - 4,327,058,909) of 100 fils each.

Notes to the Condensed Consolidated Interim Financial Information - 31 March 2017 (Unaudited)

7. Dividend

The annual general meeting of shareholders for the year ended 31 December 2016 held on 12 March 2017 (31 December 2015 - 23 March 2016) approved distribution of cash dividends of 35 fils (31 December 2015 - 30 fils) per share amounting to KD 136,547,000 (31 December 2015 - KD 117,041,000) 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 2017	Audited 31 December 2016	Unaudited 31 March 2016
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)	199,172	174,542	151,128
Cost (KD '000)	567,834	567,834	567,834

9. Investment income

	Three months ended 31 March (Unaudited)	
	2017	2016
	KD'000	
Profit/(loss) from investment securities "at fair value through profit or loss"	77	(116)
Realised gain from sale of investment securities "available for sale"	2,568	-
Impairment loss on available for sale investments	(2,473)	-
Dividend income	81	-
	<u>253</u>	<u>(116)</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 31 March (Unaudited)	
	2017	2016
	KD'000	
Profit for the period attributable to shareholders	38,229	37,251
	Shares	Shares
Weighted average number of shares in issue outstanding during the period	3,901,347,261	3,901,347,261
	Fils	Fils
Earnings per share – Basic	10	10

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, Iraq and Bahrain as the basis for disclosing the segment information.

Notes to the Condensed Consolidated Interim Financial Information - 31 March 2017 (Unaudited)

	31 March 2017					Total KD'000	
	Kuwait	Jordan	Sudan	Iraq	Bahrain		Others
Segment revenues	79,492	36,279	32,568	77,270	15,144	6,188	246,941
Net profit before interest and tax	16,266	10,773	6,079	3,152	482	(879)	35,873
Interest income	1	68	308	34	9	45	465
Finance cost	-	(1,124)	-	(3,104)	(84)	(805)	(5,117)
Income tax expense	-	(2,245)	(1,329)	-	-	(131)	(3,705)
Unallocated items:	16,267	7,472	5,058	82	407	(1,770)	27,516
Investment income							253
Share of results of associates and joint ventures							888
Others							9,961
Profit for the period							38,618
Segment assets including goodwill	293,404	321,668	262,246	1,062,343	88,562	130,572	2,158,795
Unallocated items:							1,041
Investment securities at fair value through profit or loss							18,569
Investment securities available for sale							190,883
Investment in associates and joint ventures							391,916
Due from associates							258,406
Others							3,019,610
Consolidated assets	90,363	164,294	55,491	220,084	29,680	220,226	780,138
Segment liabilities	-	-	1,426	137,542	7,061	-	146,029
Due to banks	90,363	164,294	56,917	357,626	36,741	220,226	926,167
Unallocated items:							925,435
Due to banks							(158,393)
Others							1,693,209
Consolidated liabilities							1,326,401
Net consolidated assets	3,418	1,381	11,565	8,853	161	76	25,454
Capital expenditure incurred during the period							554
Unallocated							26,008
Total capital expenditure							49,578
Depreciation and amortization	13,628	7,022	3,708	18,964	4,071	2,185	339
Unallocated							49,917
Total depreciation and amortization							

Notes to the Condensed Consolidated Interim Financial Information - 31 March 2017 (Unaudited)

	31 March 2016						Total KD'000
	Kuwait	Jordan	Sudan	Iraq	Bahrain	Others	
Segment revenues	83,785	35,106	56,430	81,513	13,029	7,057	276,920
Net profit before interest and tax	21,906	10,399	10,410	3,873	847	603	48,038
Interest income	43	139	1,253	25	23	36	1,519
Finance cost	-	(1,100)	-	(3,113)	(135)	(798)	(5,146)
Income tax expense	-	(2,142)	(2,501)	-	-	(292)	(4,935)
	<u>21,949</u>	<u>7,296</u>	<u>9,162</u>	<u>785</u>	<u>735</u>	<u>(451)</u>	<u>39,476</u>
<i>Unallocated items:</i>							
Investment income							(116)
Share of results of associates and joint ventures							(8,486)
Others							7,064
Profit for the period							<u>37,938</u>
Segment assets including goodwill	280,973	325,605	541,688	1,210,548	91,954	73,520	2,524,288
<i>Unallocated items:</i>							
Investment securities at fair value through profit or loss							1,062
Investment securities available for sale							25,693
Investment in associates and joint ventures							210,216
Due from associates							358,721
Others							378,673
Consolidated assets							<u>3,498,653</u>
Segment liabilities	91,928	169,462	72,610	238,825	29,095	184,406	786,326
Due to banks	-	-	-	147,168	13,215	-	160,383
	<u>91,928</u>	<u>169,462</u>	<u>72,610</u>	<u>385,993</u>	<u>42,310</u>	<u>184,406</u>	<u>946,709</u>
<i>Unallocated items:</i>							
Due to banks							834,590
Others							90,182
Consolidated liabilities							<u>1,871,481</u>
Net consolidated assets							<u>1,627,172</u>
Capital expenditure incurred during the period	6,705	2,208	14,866	7,957	1,341	67	33,144
Unallocated							4,122
Total capital expenditure							<u>37,266</u>
Depreciation and amortization	17,130	6,518	7,233	18,043	4,138	1,350	54,412
Unallocated							278
Total depreciation and amortization							<u>54,690</u>

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:

Key management compensation

	Three months ended 31 March (Unaudited)	
	2017	2016
	KD'000	
Salaries and other short term employee benefits	753	703
Post-employment benefits	112	189

13. Commitments and contingencies

	Unaudited	Audited	Unaudited
	31 March 2017	31 December 2016	31 March 2016
	KD '000		
Capital expenditure	54,127	46,021	71,492
Capital expenditure - share of an associate	42,445	57,773	79,521
Uncalled share capital of investee companies	5,375	2,430	7,248
Letters of guarantee	454,244	456,800	461,251

The above include guarantees amounting to KD 401.807 million (31 December 2016 - KD 405.615 million; 31 March 2016 - KD 409.235 million) relating to loans and other vendor financing availed by SMTC.

The Company is a guarantor for credit facilities amounting to KD 10.653 million (31 December 2016 - KD 10.677 million; 31 March 2016 - KD 10.540 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.

Penalties and Fee claims in Iraq

In 2011, the Iraqi Telecom Regulatory Authority, the Communications and Media Commission (CMC) claimed a total amount of US\$ 262 million (KD 79.831 million) from Atheer, citing non-compliance with certain license terms. These claims were resolved in favor of Atheer during the second quarter of 2015. However, in March 2016, the Executive Director of the CMC filed a complaint with the Hearing Panel of the CMC claiming US\$ 100 million (KD 30.47 million) relating to the matter which had been ruled in favor of Atheer by the Appeals Board of the CMC on three previous occasions. On 13 July 2016, the Hearing Panel of the CMC issued a decision in favor of CMC. On 8 September 2016, Atheer filed an appeal against this decision with the CMC Appellate Panel. On 15 January 2017, the CMC Appellate Panel issued a decision in favor of CMC. Atheer challenged the decision of the CMC Appellate Panel in the Court of First Instance and also requested the Court to issue an order restraining the CMC from collecting the amount or attempting to enforce against Atheer, which the Court granted to Atheer on 2 February 2017. The Court of First Instance issued orders in February and April 2017, restraining any enforcement proceedings by the CMC to collect the amount of claim until the case is decided by the Court. Based on the report of its attorneys, the Group believes that the prospects of resolving this matter is in its favor.

On 30 May 2016, the Director General of the CMC sent a letter to Atheer demanding that Atheer pay approximately US\$ 61 million (KD 18.587 million) in spectrum fees for the period commencing from 2010. CPA Order number 65 (establishing the CMC) and the License Agreement between Atheer and the CMC (dated 31 August 2007) clearly state that any fees that are assessed on Atheer cannot be backdated, and are required to be clearly stipulated to Atheer ahead of the period of their imposition and comply with international laws. In addition, the CMC Appeals Board had in the past decided the procedures for establishing such spectrum fees and the decision of the Director General on 30 May 2016 is in violation of the decision of the CMC Appeals Board. Accordingly, Atheer appealed this decision to the CMC Appeals Board on 28 June 2016. The CMC Appeals Board issued a decision against Atheer on 9 November 2016 rejecting Atheer's Appeal. On 15 December 2016, Atheer filed a suit before the Commercial Court of First Instance in Baghdad challenging the legality of the decision to unilaterally impose the spectrum fees and to apply such decision retroactively. Atheer's challenges include contractual, legal and constitutional grounds. On 5 February 2017, Atheer obtained an order from the Commercial Court of First Instance to stop any enforcement proceedings by the CMC to collect the spectrum fee until the case is decided by the Court. On the basis of the report of its attorneys, the Group believes that Atheer will prevail in this matter.

Income and Capital Gains taxes in Iraq

In November 2016, Atheer signed an agreement with Iraq's Ministry of Finance as follows:

- In connection with the additional corporate income tax for the years 2004 to 2010 of US \$ 244 million (KD 74.347) claimed by the Iraq General Commission for Taxes, Atheer would have the right to submit its objection to the income tax claimed by the Income Tax Authority for the years 2004 to 2010, and pay 25% of the amount claimed and the balance US\$ 173 million (KD 52.713 million) in fifty equal monthly instalments from December 2016, net of amounts already paid. Atheer would reserve the right to file an objection for each of these years.
- Atheer to settle the capital gains tax claim for US\$ 93 million (KD 28.337 million) which is 50% of the original claim based on Iraq's Council of Ministers approval in November 2016.
- The block on Atheer's bank accounts and the lien on part of Group's shares in Al Khatem would be released.

Atheer paid the amounts agreed in December 2016 and secured the release of the block on its bank accounts and the lien on the Group's shares in Al Khatem. Atheer submitted its appeal against the US\$ 244 million (KD 74.347 million) tax claim in November 2016 objecting to the full amount of the claim. As of 31 March 2017, Atheer has an obligation to pay the balance of US\$ 159 million (KD 48.447 million) in forty six instalments. Based on the report of its attorneys, Atheer management expects a favorable outcome to the appeal submitted in November 2016. In March 2017, Atheer won the legal case relating to Iraqi tax claims it had filed against Orascom Telecom Iraq Corp. Ltd, the seller of Iraqna and received the claimed amount of US\$ 60 million (KD 18.282 million) and interest. Orascom has filed for leave to appeal.

Pella is a defendant in lawsuits amounting to KD 12.615 million (31 December 2016 – KD 8.893 million). Based on the report of its attorneys, the Group expects the outcome of these proceedings to be favorable to Pella.

Pella has initiated legal proceedings against the claim by regulatory authorities of KD 9.600 million (31 December 2016 - KD 9.622 million) for the years 2002 - 2005 on the grounds that it has already paid the amount that it was obligated to pay for those years. Based on the report of its attorneys, the Group expects the outcome to be favorable to Pella.

Pella has also initiated legal proceedings against the regulatory authorities claiming refund of excess license fee paid amounting to KD 11.752 million (31 December 2016 - KD 11.780 million) of earlier years.

In addition, legal proceedings have been initiated by and against the Group in some 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 consolidated financial position or the consolidated performance of the Group.

Notes to the Condensed Consolidated Interim Financial Information - 31 March 2017 (Unaudited)

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 2017	Audited 31 December 2016	Unaudited 31 March 2016
	KD'000		
Loans and receivables:			
Cash and bank balances	150,371	208,752	414,091
Trade and other receivables	452,063	449,760	402,533
Due from associates	391,916	381,661	358,721
Other assets	12,188	12,216	12,060
Investment securities - at fair value through profit or loss	1,041	964	1,062
Investment securities -available for sale	18,569	22,134	25,693

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

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 2017

	Level 1	Level 2	Level 3	Total
	KD'000			
Financial assets at fair value:				
Investment securities - at fair value through profit or loss	1,041	-	-	1,041
Investment securities - available for sale	6,404	7,142	-	13,546
Total assets	7,445	7,142	-	14,587

31 December 2016

	Level 1	Level 2	Level 3	Total
	KD'000			
Financial assets at fair value:				
Investment securities - at fair value through profit or loss	964	-	-	964
Investment securities - available for sale	13,581	6,580	-	20,161
Total assets	14,545	6,580	-	21,125

31 March 2016

	Level 1	Level 2	Level 3	Total
	KD'000			
Financial assets at fair value:				
Investment securities - at fair value through profit or loss	1,062	-	-	1,062
Investment securities - available for sale	16,353	7,134	-	23,487
Total assets	17,415	7,134	-	24,549

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Available for sale investments include unlisted securities amounting to KD 5.023 million (31 December 2016 – KD 1.973 million; 31 March 2016 – KD 2.206 million) carried at cost less impairment since it is not possible to reliably measure their fair value. There have been no transfers between levels 1 and 2 during the reporting period.

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.

The notional amounts indicate the volume of transactions outstanding at the period/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 2017:

	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	-	279	129,906	-	-	129,906
	-	279	129,906	-	-	129,906

At 31 December 2016:

	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	-	120	130,161	-	-	130,161
	-	120	130,161	-	-	130,161

At 31 March 2016:

	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	-	617	128,547	-	-	128,547
	-	617	128,547	-	-	128,547