

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

**Condensed Consolidated Interim Financial Information (Unaudited)
30 September 2018**

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INDEPENDENT AUDITOR'S REVIEW REPORT TO THE BOARD OF DIRECTORS OF MOBILE TELECOMMUNICATIONS COMPANY K.S.C.P

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 30 September 2018 and the related condensed consolidated statements of profit or loss, profit or loss and other comprehensive income for three-month and nine-month periods then ended and the related condensed consolidated statements of changes in equity and cash flows for the nine-month period then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 - Interim Financial Reporting. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

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

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 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.

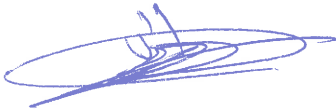
Emphasis of matter

We draw attention to note 18 to the condensed consolidated interim financial information, which discloses the uncertainty related to the outcome of various claims against the subsidiary in Iraq. Our conclusion is not modified in respect of this matter.

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE BOARD OF DIRECTORS OF MOBILE TELECOMMUNICATIONS COMPANY K.S.C.P (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, as amended, during the nine-month period ended 30 September 2018 that might have had a material effect on the business of the Company or on its financial position.



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Kuwait
07 November 2018

Mobile Telecommunications Company K.S.C.P

Condensed Consolidated Statement of Financial Position as at 30 September 2018 (Unaudited)

		Unaudited	Audited	Unaudited
	Notes	30 September	31 December	30 September
		2018	2017	2017
		KD '000		
Assets				
Current assets				
Cash and bank balances	4	282,185	244,398	283,932
Trade and other receivables		587,208	455,801	491,095
Contract assets		55,866	-	-
Inventories		26,984	34,402	24,536
Investment securities at FVTPL		13,181	778	989
Non-current assets held for sale	5	7,656	7,656	7,656
		<u>973,080</u>	<u>743,035</u>	<u>808,208</u>
Non-current assets				
Contract assets		12,804	-	-
Investment securities at FVOCI		7,030	-	-
Investment securities available for sale		-	16,118	17,110
Investments in associates and joint ventures	6	68,672	188,412	189,877
Due from associates		-	415,759	407,265
Other assets		15,285	15,131	15,081
Property and equipment	7	1,188,077	743,586	747,589
Intangible assets and goodwill	8	2,185,399	911,630	935,096
		<u>3,477,267</u>	<u>2,290,636</u>	<u>2,312,018</u>
Total assets		<u>4,450,347</u>	<u>3,033,671</u>	<u>3,120,226</u>
Liabilities and equity				
Current liabilities				
Trade and other payables		904,672	467,616	496,229
Deferred revenue		107,518	47,768	59,203
Due to banks	9	331,317	199,564	206,608
		<u>1,343,507</u>	<u>714,948</u>	<u>762,040</u>
Non-current liabilities				
Due to banks	9	1,160,848	670,637	719,576
Other non-current liabilities	10	323,283	38,482	29,230
		<u>1,484,131</u>	<u>709,119</u>	<u>748,806</u>
Equity				
Attributable to the Company's shareholders				
Share capital	11	432,706	432,706	432,706
Share premium		1,707,164	1,707,164	1,707,164
Legal reserve		216,353	216,353	216,353
Foreign currency translation reserve		(1,305,915)	(1,189,469)	(1,152,322)
Investment fair valuation reserve		894	3,251	4,237
Other reserves		398	(326)	(247)
Retained earnings		227,733	281,919	244,552
		<u>1,279,333</u>	<u>1,451,598</u>	<u>1,452,443</u>
Non-controlling interests		343,376	158,006	156,937
Total equity		<u>1,622,709</u>	<u>1,609,604</u>	<u>1,609,380</u>
Total liabilities and equity		<u>4,450,347</u>	<u>3,033,671</u>	<u>3,120,226</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 07 November 2018.


Ahmed Tahous Al Tahous
 Chairman


Bader Nasser Al Kharafi
 Vice Chairman & Chief Executive Officer

Mobile Telecommunications Company K.S.C.P
**Condensed Consolidated Statement of Profit or Loss – nine months ended 30 September 2018
(Unaudited)**

	Note	Three months ended 30 September		Nine months ended 30 September	
		2018	2017	2018	2017
		KD'000		KD'000	
Revenue		403,098	259,361	906,260	767,431
Cost of sales		(121,329)	(70,439)	(283,354)	(214,147)
Gross profit		281,769	188,922	622,906	553,284
Operating and administrative expenses		(122,982)	(82,034)	(289,129)	(230,577)
Depreciation and amortization		(75,555)	(44,527)	(152,456)	(141,849)
Provision for impairment - trade and other receivables		-	(2,393)	-	(6,571)
Expected credit loss on financial assets (ECL)		(3,848)	-	(9,649)	-
Operating profit		79,384	59,968	171,672	174,287
Interest income		1,191	6,320	15,641	18,057
Investment income	14	1,388	75	1,686	502
Share of results of associates and joint ventures		(74)	22	(3,627)	1,067
Other expenses		(17,005)	(3,603)	(34,034)	(5,765)
Fair value gain on the previously held equity interest	22	30,931	-	30,931	-
Finance costs		(24,738)	(10,749)	(44,555)	(30,596)
Provision for impairment loss on property and equipment	20	-	-	(9,648)	(21,292)
Loss from currency revaluation		(1,691)	(6,018)	(9,496)	(18,500)
Net monetary (loss) / gain	20	(4,555)	1,487	45,714	25,506
Profit before contribution to KFAS, NLST, ZAKAT, income taxes and Board of Directors' remuneration		64,831	47,502	164,284	143,266
Contribution to Kuwait foundation for Advancement of Sciences (KFAS)		(594)	(261)	(1,074)	(881)
National Labour Support Tax (NLST) and Zakat		(2,160)	(1,522)	(4,065)	(4,904)
Income tax expenses		(7,122)	(3,862)	(15,226)	(11,558)
Board of Directors' remuneration		(68)	(68)	(206)	(206)
Profit for the period		54,887	41,789	143,713	125,717
Attributable to:					
Shareholders of the Company		50,624	40,164	137,075	122,450
Non-controlling interests		4,263	1,625	6,638	3,267
		54,887	41,789	143,713	125,717
Earnings per share	15				
Basic and diluted – Fils		12	10	32	31

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

Mobile Telecommunications Company K.S.C.P

**Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income –
nine months ended 30 September 2018 (Unaudited)**

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	2018	2017
	KD'000		KD'000	
Profit for the period	54,887	41,789	143,713	125,717
Other comprehensive income				
<i>Items that will be reclassified to profit or loss:</i>				
Exchange differences on translating foreign operations	5,450	(21,563)	(99,766)	(54,135)
Net unrealised gain on available for sale investments	-	96	-	1,004
Net realised loss/(gain) transferred to condensed consolidated statement of profit or loss on available for sale investments (net of impairment losses)	-	73	-	(251)
Cash flow hedges	1,072	73	651	(127)
Share in associate transferred to condensed consolidated statement of profit or loss on business combination (Refer note 22)	(16,395)	-	(16,395)	-
	<u>(9,873)</u>	<u>(21,321)</u>	<u>(115,510)</u>	<u>(53,509)</u>
<i>Items that will not be reclassified to profit or loss:</i>				
Changes in the fair value of equity investments at FVOCI	(654)	-	(812)	-
Total comprehensive income for the period	<u>44,360</u>	<u>20,468</u>	<u>27,391</u>	<u>72,208</u>
Total comprehensive income attributable to:				
Shareholders of the Company	38,892	19,290	20,541	70,848
Non-controlling interests	5,468	1,178	6,850	1,360
	<u>44,360</u>	<u>20,468</u>	<u>27,391</u>	<u>72,208</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 2018 (Unaudited)

	Equity attributable to Company's shareholders								Non - controlling interests	Total	
	Share Capital	Share premium	Legal reserve	Foreign currency translation reserve	Treasury shares	Treasury shares reserve	Investment fair valuation reserve	Other reserves			Retained earnings
Balance at 1 January 2018	432,706	1,707,164	216,353	(1,189,469)	-	-	3,251	(326)	281,919	158,006	1,609,604
Transition adjustment on adoption of IFRS 9 and IFRS 15 at 1 January 2018 (Note 3)	-	-	-	-	-	-	(2,218)	-	(39,141)	(1,357)	(42,716)
Total comprehensive income for the period	432,706	1,707,164	216,353	(1,189,469)	-	-	1,033	(326)	242,778	156,649	1,566,888
On business combination (Note 22)	-	-	-	(116,446)	-	-	(812)	724	137,075	6,850	27,391
Realised loss on equity securities at FVOCI	-	-	-	-	-	-	-	-	-	181,483	181,483
Cash dividends (2017)	-	-	-	-	-	-	673	-	(673)	-	-
Balance at 30 September 2018	432,706	1,707,164	216,353	(1,305,915)	-	-	894	398	227,733	(1,606)	(153,053)
Balance at 1 January 2017	432,706	1,707,164	216,353	(1,100,094)	(567,834)	1,967	3,484	(120)	571,503	157,353	1,422,482
Total comprehensive income for the period	-	-	-	(52,228)	-	-	753	(127)	122,450	1,360	72,208
Cash dividends (2016)	-	-	-	-	-	-	-	-	(136,547)	(1,776)	(138,323)
Sale of treasury shares (Note 13)	-	-	-	-	567,834	(1,967)	-	-	(312,854)	-	253,013
Balance at 30 September 2017	432,706	1,707,164	216,353	(1,152,322)	-	-	4,237	(247)	244,552	156,937	1,609,380

KD '000

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 2018
(Unaudited)**

	Nine months ended 30 September	
	2018	2017
	KD'000	
Cash flows from operating activities		
Profit for the period before income tax	158,939	137,275
Adjustments for:		
Depreciation and amortization	152,456	141,849
ECL/provision for impairment	9,649	6,571
Interest income	(15,641)	(18,057)
Investment income	(1,686)	(502)
Share of results of associates and joint ventures	3,627	(1,067)
Provision for impairment loss on property and equipment	9,648	21,292
Finance costs	44,555	30,596
Loss from currency revaluation	9,496	18,500
Net monetary gain	(45,714)	(25,506)
Fair value gain on the previously held equity interest	(30,931)	-
Loss on sale of property and equipment	147	-
Operating profit before working capital changes	294,545	310,951
Increase in trade and other receivables	(66,852)	(88,408)
Decrease/(increase) in inventories	13,941	(8,400)
Increase/(decrease) in trade and other payables	52,351	(12,707)
Cash generated from operations	293,985	201,436
Paid to KFAS	(319)	(250)
NLST and Zakat paid	(5,492)	(7,427)
Income tax paid	(10,165)	(11,838)
<i>Net cash from operating activities</i>	<u>278,009</u>	<u>181,921</u>
Cash flows from investing activities		
Deposits maturing after three months and cash at bank under lien (note 4)	(69)	(6,382)
Investments in securities	(3,989)	(4,129)
Investment in subsidiaries	103,276	-
Proceeds from sale of investments	1,919	9,360
Increase in due from associates	(7,039)	(10,178)
Acquisition of property and equipment (net)	(88,940)	(82,254)
Acquisition of intangible assets (net)	(18,286)	(11,357)
Interest received	3,632	18,613
Dividend received	253	246
<i>Net cash used in investing activities</i>	<u>(9,243)</u>	<u>(86,081)</u>
Cash flows from financing activities		
Proceeds from bank borrowings	194,235	228,986
Repayment of bank borrowings	(233,467)	(340,424)
Dividends paid to Company's shareholders	(150,573)	(136,324)
Dividends paid to minority shareholders of subsidiaries	(611)	(1,718)
Finance costs paid	(30,240)	(29,251)
Proceeds from sale of treasury shares	-	255,172
<i>Net cash used in financing activities</i>	<u>(220,656)</u>	<u>(23,559)</u>
Net increase in cash and cash equivalents	48,110	72,281
Effect of foreign currency translation	(3,895)	(3,483)
Transition adjustment on adoption of IFRS 9 (Note 3.3)	(6,497)	-
Cash and cash equivalents at beginning of period	206,432	177,150
Cash and cash equivalents at end of period (Note 4)	<u>244,150</u>	<u>245,948</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. 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 2017 - Kuwait and 8 other countries; 30 September 2017 - 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.

The Company is a subsidiary of Oman Telecommunications Company SAOG, Oman.

2. Basis of preparation

This condensed consolidated interim financial information is prepared in accordance with IAS 34: Interim Financial Reporting.

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 2017 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 was confirmed by the consumer price inflation rates in 2016 and 2017, which indicate that the economy of Sudan is no longer hyperinflationary. The Group is awaiting the annual 2018 index to determine this with reasonable certainty.

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 30 September 2018 would have been higher by KD 20 million (31 December 2017 – KD 53 million; 30 September 2017: KD 63 million). Furthermore, the profit for the period ended 30 September 2018 would have been lower by KD 15.79 million (30 September 2017: KD 14.65 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 2018, 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 2017.

Changes in accounting policy and disclosures

The accounting policies used in the preparation of the condensed consolidated interim financial information are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2017. However, the Group has adopted IFRS 15: Revenue from Contract with Customers and IFRS 9: Financial Instruments, effective 1 January 2018. As required by IAS 34, the nature and effect of adoption of IFRS 15 and IFRS 9 are disclosed in Note 3. Significant judgments and estimates are also disclosed in Note 3 considering first time adoption of IFRS 9 and IFRS 15.

Other amendments and interpretations that apply for the first time in 2018 do not have an impact on the condensed consolidated interim financial information of the Group.

Financial support to subsidiaries

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 subsidiaries.

3. Impact of changes in accounting policies due to adoption of new standards

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 and IFRS 15 are summarized below:

3.1 IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) on its effective date of 1 January 2018. IFRS 15 introduces a 5-step approach to revenue recognition. The core principle of IFRS 15 is that the entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange of those goods and services. Under IFRS 15, an entity recognizes revenue when or as the performance obligation is satisfied.

The implementation of IFRS 15 does not impact the quantum or the phasing of cash flows. The adjustments made are purely a timing difference between the cash flows and accounting recognition, with the difference recognized on the balance sheet and reflected in the working capital changes and other cash flow line items.

Management has identified the following as areas where key revenue recognition and other accounting changes under IFRS 15 have had an impact on the Group's condensed consolidated interim financial information.

Handsets and telecommunication services

Revenue from mobile telecommunication services provided to postpaid and prepaid customers is recognized as services are transferred. When the customer performs first, for example, by prepaying its promised consideration, the Group has a contract liability. If the Group performs first by satisfying a performance obligation, the Group has a contract asset. Consideration received from the sale of prepaid credit is recognized as contract liability until such time the customer uses the services when it is recognized as revenue.

The Group provides subsidized handsets to its customers along with mobile telecommunication services. IFRS 15 requires entities to allocate a contract's transaction price to each performance obligation based on their relative stand-alone selling price. This resulted in a reallocation of a portion of revenue from trading revenue to service revenue which was earlier recognized upfront on signing of the customer contract and correspondingly a creation of contract asset, which includes also some items previously presented as trade and other receivables. Contract asset represents receivable from customers that has not yet legally come into existence. The standalone selling prices are determined based on observable prices. Revenue from device sales is recognized when the device is delivered to the customer. This usually occurs when a customer signs the contract. For devices sold separately, customer pays in full at the point of sale. Revenue from voice, messaging, internet services etc. are included in the bundled package and are recognized as the services are rendered during the period of the contract.

Connection fees

The Group has concluded that connection fees charged for the activation of services will be recognized over the contract period, however connection fees which relates at or near to the contract inception to fulfill that contract, then revenue will be recognized as and when services are provided (i.e.as the identified performance obligations are satisfied).

Value added services - Principal vs. agent

Revenue from value added services (VAS) sharing arrangements depend on the analysis of the facts and circumstances surrounding these transactions. Revenue from VAS is recognized when the Group performs the related service and, depending on the Group's control or lack of control on the services transferred to the customer, is recognized either at the gross amount billed to the customer or the amount receivable by the Group as commission for facilitating the service.

Significant financing component

If a customer can pay for purchased equipment or services over a period, IFRS 15 requires judgement to determine if the contract includes a significant financing component. If it does, then the transaction price is adjusted to reflect the time value of money.

Commissions and other contract costs

Under IFRS 15, certain incremental costs incurred in acquiring a contract with a customer is deferred on the consolidated statement of financial position and amortised as revenue is recognised under the related contract; this will generally lead to the later recognition of charges for some commissions payable to third party dealers and employees.

Intermediaries are given incentives by the Group to acquire new customers and upgrade existing customers. Activation commission and renewal commission paid on post-paid connections are amortized over the period of the contract. In case of prepaid customers, commission costs are expensed when incurred. However, the Group may choose to expense such commission costs if the amortization period of the resulting asset is one year or less or if it is not significant.

Customer loyalty programs

The Group operates a customer loyalty program that provides a variety of benefits for customers. The Group allocates the consideration received between products and services in a bundle including loyalty points as separate performance obligation based on their stand-alone selling prices.

3.2 IFRS 9 – Financial Instruments

The Group has adopted *IFRS 9 Financial Instruments* issued in July 2014 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from *IAS 39 Financial Instruments: Recognition and Measurement*. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

Classification of financial assets and financial liabilities

The Group classifies its financial assets as follows:

- Financial assets at amortised cost
- Financial assets at Fair Value Through Other Comprehensive Income (FVOCI)
- Financial assets at Fair Value Through Profit or Loss (FVTPL)

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

Adoption of IFRS 9 did not result in any change in classification or measurement of financial liabilities, which continue to be at amortized cost.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these are applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'Sell' business model.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account.

Contractual cash flow characteristics test

The Group assesses whether the financial instruments' cash flows represent Solely for Payments of Principal and Interest (the 'SPPI'). The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk.

The Group reclassifies a financial asset only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent.

Financial assets at amortised cost

A financial asset is measured at amortised cost if it satisfies the SPPI test and is held within a business model whose objective is to hold assets to collect contractual cash flows; and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and profit on the principal amount outstanding.

Cash and cash equivalents, trade and receivables, contract assets, due from associates and other assets are classified as financial assets at amortised cost.

Financial assets at FVOCI

A debt instrument is measured at FVOCI if it satisfies the SPPI test and is held within a business model whose objective is to hold assets to collect contractual cash flows and to sell. These assets are subsequently measured at fair value, with change in fair value recognized in OCI. Interest income calculated using effective interest method, foreign exchange gains/losses and impairment are recognized in the condensed consolidated interim statement of profit or loss. On de-recognition, gains and losses accumulated in the OCI are reclassified to SOI.

For an equity instrument; upon initial recognition, the Group may elect to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis. Gains and losses on these equity instruments are never recycled to statement of profit or loss. Dividends are recognised in statement of profit or loss when the right to receive has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal cumulative gains or losses may be reclassified from fair value reserve to retained earnings in the statement of changes in equity.

Financial asset at FVTPL

Financial assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. This also includes equity instruments held-for-trading and are recorded and measured in the statement of financial position at fair value.

Changes in fair values and dividend income are recorded in statement of profit or loss according to the terms of the contract, or when the right to receive has been established.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward looking 'Expected Credit Loss' (ECL) model. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

Group recognizes ECL for cash and bank balances, due from associates and other assets using the general approach and uses the simplified approach for trade receivables and contract assets as required by IFRS 9.

General approach

The Group applies three-stage approach to measuring ECL. Assets migrate through the three stages based on the change in credit quality since initial recognition. Financial assets with significant increase in credit risk since initial recognition, but not credit impaired, are transitioned to stage 2 from stage 1 and ECL is recognized based on the probability of default (PD) of the counter party occurring over the life of the asset. All other financial assets are considered to be in stage 1 unless it is credit impaired and an ECL is recognized based on the PD of the customer within next 12 months. Financial assets are assessed as credit impaired when there is a detrimental impact on the estimated future cash flows of the financial asset.

Simplified approach

The Group applies simplified approach to measuring credit losses, which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled customer receivables and have substantially the same risk characteristics as the trade receivable for the same type of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

ECL is the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD). The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the financial instruments and potential changes to the current amounts allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. The LGD represents expected loss conditional on default, its expected value when realised and the time value of money.

The Group incorporates forward-looking information based on expected changes in macro- economic factors in assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

3.3 Impact on adoption of the IFRS 9 and IFRS 15 - Transition

Changes in accounting policies resulting from the adoption of IFRS 15 and IFRS 9 have been applied with effect from 1 January 2018, using the modified retrospective method and accordingly the comparative periods have not been restated. Differences in the carrying amounts of assets and liabilities resulting from the adoption of IFRS 9 and IFRS 15 are recognised in opening retained earnings as at 1 January 2018.

Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and 15 and therefore is not comparable.

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(a) Impact of IFRS 9 and IFRS 15 on the condensed consolidated interim financial information

Net impact from the adoption of IFRS 9 and 15 on opening retained earnings and non-controlling interests as at 1 January 2018 is as follows:

	KD '000		
	Retained earnings	Fair value reserve	Non-controlling interests
Closing balance -31 December 2017	281,919	3,251	158,006
Adjustment from adoption of IFRS 9:			
On reclassification and re-measurement	2,218	(2,218)	-
On recognition of ECL on financial assets	(26,344)	-	(1,272)
Share of associate's ECL on financial assets	242	-	-
On recognition of ECL on financial guarantees	(2,631)	-	-
Adjustment from adoption of IFRS 15:			
Mainly from handset & telecommunication services	(16,271)	-	(85)
Share of associate's adjustments	3,645	-	-
	<u>(39,141)</u>	<u>(2,218)</u>	<u>(1,357)</u>
Opening retained earnings 1 January 2018 -- post IFRS 9 and IFRS 15 restatement	<u>242,778</u>	<u>1,033</u>	<u>156,649</u>

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets as at 1 January 2018:

Financial assets	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Reclassification and re-measurement	New carrying amount under IFRS 9
			KD '000	KD '000	KD '000
Cash and bank balances	Loans and receivables	Amortised cost	244,398	(6,497)	237,901
Trade and other receivables	Loans and receivables	Amortised cost	389,186	(14,572)	374,614
Contract assets	Loans and receivables	Amortised cost	56,467	(5,465)	51,002
Investment securities at FVPTL	FVTPL	FVTPL	778	-	778
Investment securities	AFS	FVOCI	6,454	-	6,454
Investment securities	AFS	FVTPL	9,664	-	9,664
Due from associates	Loans and receivables	Amortised cost	415,759	(1,082)	414,677
Other assets	Loans and receivables	Amortised cost	12,072	-	12,072
Total financial assets			<u>1,134,778</u>	<u>(27,616)</u>	<u>1,107,162</u>

The financial assets at amortized cost are after reclassifications and adjustments arising from the adoption of IFRS 15.

Investment securities classified as Available for Sale (AFS) under IAS 39 represent investments that the Group intends to hold for a long term for strategic purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at FVOCI.

Certain investment securities classified as AFS under IAS 39 have been reclassified mandatorily to FVTPL under IFRS 9 as the Group has not elected to reclassify irrevocably as FVOCI for these equity securities on the date of initial application.

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**Notes to the Condensed Consolidated Interim Financial Information –
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3.4 Impact of adoption of IFRS 9 and 15 on the condensed consolidated interim statement of financial position

(a) The following table summarizes the impact on statement of financial position as at 30 September 2018:

	KD '000			Amounts without adoption of IFRS 15 and IFRS 9
	As reported	IFRS 15	IFRS 9	
Current assets				
Cash and bank balances	282,185	-	5,731	287,916
Trade and other receivables	587,208	88,140	9,867	685,215
Contract assets	55,866	(59,779)	3,913	-
Inventories	26,984	-	-	26,984
Investment securities at FVTPL	13,181	-	(11,560)	1,621
Non-current assets held for sale	7,656	-	-	7,656
	<u>973,080</u>	<u>28,361</u>	<u>7,951</u>	<u>1,009,392</u>
Non-current assets				
Contract assets	12,804	(14,355)	1,551	-
Investment securities at FVOCI	7,030	-	(7,030)	-
Investment securities available for sale	-	-	18,590	18,590
Investments in associates and joint ventures	68,672	(3,645)	(242)	64,785
Other assets	15,285	-	-	15,285
Property and equipment	1,188,077	-	-	1,188,077
Intangible assets and goodwill	2,185,399	3,859	-	2,189,258
	<u>3,477,267</u>	<u>(14,141)</u>	<u>12,869</u>	<u>3,475,995</u>
Total Assets	<u>4,450,347</u>	<u>14,220</u>	<u>20,820</u>	<u>4,485,387</u>
Current liabilities				
Trade and other payables	904,672	1	(3,481)	901,192
Deferred revenue	107,518	-	-	107,518
Due to banks	331,317	-	-	331,317
	<u>1,343,507</u>	<u>1</u>	<u>(3,481)</u>	<u>1,340,027</u>
Non-current liabilities				
Due to banks	1,160,848	-	-	1,160,848
Other non-current liabilities	323,283	-	-	323,283
	<u>1,484,131</u>	<u>-</u>	<u>-</u>	<u>1,484,131</u>
Equity				
Attributable to the Company's shareholders				
Share capital	432,706	-	-	432,706
Share premium	1,707,164	-	-	1,707,164
Legal reserve	216,353	-	-	216,353
Foreign currency translation reserve	(1,305,915)	-	-	(1,305,915)
Investment fair valuation reserve	894	-	4,114	5,008
Share of reserves of associates	398	-	-	398
Retained earnings	227,733	15,979	19,344	263,056
	<u>1,279,333</u>	<u>15,979</u>	<u>23,458</u>	<u>1,318,770</u>
Non-controlling interests	343,376	(1,760)	843	342,459
Total equity	<u>1,622,709</u>	<u>14,219</u>	<u>24,301</u>	<u>1,661,229</u>
Total Liabilities and Equity	<u>4,450,347</u>	<u>14,220</u>	<u>20,820</u>	<u>4,485,387</u>

Mobile Telecommunications Company K.S.C.P

**Notes to the Condensed Consolidated Interim Financial Information –
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(b) The following table summarizes the impact on the condensed consolidated statement of profit or loss for the three-month and nine month periods ended 30 September 2018:

	Three months ended 30 September 2018 (Unaudited)			Nine months ended 30 September 2018 (Unaudited)		
	As reported	IFRS 15	IFRS 9	As reported	IFRS 15	IFRS 9
	KD '000					
Revenue	403,098	(1,055)	-	906,260	5,175	-
Cost of sales	(121,329)	829	(120,500)	(283,354)	3,002	-
Gross profit	281,769	(226)	281,543	622,906	8,177	631,083
Operating and administrative expenses	(122,982)	491	(122,491)	(289,129)	1,092	-
Depreciation and amortization	(75,555)	(1,741)	(77,296)	(152,456)	(6,521)	-
Provision for impairment – trade and other receivables	-	-	(6,843)	-	-	(15,643)
Expected credit loss on financial assets	(3,848)	-	3,848	(9,649)	-	9,649
Operating profit	79,384	(1,476)	74,913	171,672	2,748	(5,994)
Interest income	1,191	-	1,191	15,641	-	-
Investment income	1,388	-	(141)	1,686	-	(1,896)
Share of results of associates and joint ventures	(74)	-	(74)	(3,627)	-	-
Other (expense)/income	(17,005)	-	(17,005)	(34,034)	-	-
Fair value gain on the previously held equity interest	30,931	-	30,931	30,931	-	-
Finance costs	(24,738)	-	(24,738)	(44,555)	-	-
Provision for impairment loss on property and equipment	-	-	-	(9,648)	-	-
Loss from currency revaluation	(1,691)	-	(1,691)	(9,496)	-	-
Net monetary gain	(4,555)	-	(4,555)	45,714	-	-
Profit before contribution to KFAS, NLST, ZAKAT, income taxes and Board of Directors' remuneration	64,831	(1,476)	(4,524)	164,284	2,748	(7,890)
Contribution to KFAS	(594)	15	45	(1,074)	(27)	79
NLST and Zakat	(2,160)	52	158	(4,065)	(96)	276
Income tax expenses	(7,122)	(13)	(6)	(15,226)	(25)	(6)
Board of Directors' remuneration	(68)	-	(68)	(206)	-	-
Profit for the period	54,887	(1,422)	(4,327)	143,713	2,600	(7,541)
			49,138			138,772

3.5 Significant judgments and estimates

The preparation of the condensed consolidated interim financial information requires management to make judgments, estimates and assumptions that affects the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's annual consolidated financial statements for the year ended 31 December 2017, except as mentioned below:

Classification of equity investment securities

On acquisition of an equity investment security, the Group decides whether it should be classified as fair value through profit or loss or fair value through other comprehensive income.

Measurement of the expected credit loss allowance

Loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in the accounting policy above.

4. Cash and bank balances

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

	<u>Unaudited</u> <u>30 September</u> <u>2018</u>	<u>Audited</u> <u>31 December</u> <u>2017</u>	<u>Unaudited</u> <u>30 September</u> <u>2017</u> <u>KD '000</u>
Cash on hand and at banks	138,078	125,484	103,796
Short-term deposits with banks	149,666	118,673	179,870
Government certificates of deposits held by subsidiaries	172	241	266
	<u>287,916</u>	<u>244,398</u>	<u>283,932</u>
Expected credit loss	(5,731)	-	-
	<u>282,185</u>	<u>244,398</u>	<u>283,932</u>
Cash at bank under lien	(7,573)	(7,545)	(7,548)
Deposits with maturity exceeding three months	(30,290)	(30,180)	(30,170)
Government certificates of deposits with maturities exceeding three months held by subsidiaries	(172)	(241)	(266)
Cash and cash equivalent in the condensed consolidated statements of cash flows	<u>244,150</u>	<u>206,432</u>	<u>245,948</u>

5. Non-current assets held for sale

This represents the carrying value of telecom tower assets in Kuwait classified as held for sale, on the basis that management is committed to a plan to sell these assets and the sale is expected to qualify for recognition as a sale within one year.

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6. Investments in associates and joint ventures

6.1 Investments in associates

Based on an event in July 2018, the Group has concluded that it is able to control SMTC through its majority representation on the board of directors (Note 22). Accordingly, the Group has changed the accounting in July 2018. Prior period numbers represent the Group's share of investments in SMTC, which was accounted for using the equity method. Summarized financial information of SMTC for the comparative periods are as follows:

	<u>Unaudited</u> <u>30 September</u> <u>2018</u>	<u>Audited</u> <u>31 December</u> <u>2017</u>	<u>Unaudited</u> <u>30 September</u> <u>2017</u>
	<u>KD '000</u>		
Current assets	-	302,248	355,495
Non-current assets	-	1,784,895	1,830,307
Current liabilities	-	924,335	1,175,420
Non-current liabilities	-	876,084	719,893
Net asset of SMTC	-	286,724	290,489
Revenue	-	604,913	449,003
Profit	-	955	4,586
Other comprehensive income	-	(577)	(4,929)
Total comprehensive income for the period	-	378	(343)
Proportion of Group's ownership interest in SMTC	-	37.045%	37.045%
Group's share of SMTC's net assets	-	106,217	107,612
Goodwill	-	12,367	12,363
Carrying amount of Group's interest in SMTC	-	<u>118,584</u>	<u>119,975</u>

6.2 Interest in a joint venture

This represents Group's KD 68.648 million (31 December 2017 - KD 69.828 million; 30 September 2017: KD 69.902 million) interest in the joint venture, Zain Al Ajial S.A. that owns 31% of the equity shares and voting rights of Wana Corporate (a Moroccan joint stock company that is specialized in the telecom sector in that country).

7. Property and equipment

	<u>Unaudited</u> <u>30 September</u> <u>2018</u>	<u>Audited</u> <u>31 December</u> <u>2017</u>	<u>Unaudited</u> <u>30 September</u> <u>2017</u>
	<u>KD '000</u>		
Net fixed assets	1,066,602	636,094	650,822
Capital work in progress	121,475	107,492	96,767
	<u>1,188,077</u>	<u>743,586</u>	<u>747,589</u>

This includes SAR 6,153.477 million (KD 498.063 million) relating to SMTC.

8. Intangible assets and goodwill

	<u>Unaudited</u> <u>30 September</u> <u>2018</u>	<u>Audited</u> <u>31 December</u> <u>2017</u>	<u>Unaudited</u> <u>30 September</u> <u>2017</u>
	<u>KD '000</u>		
Intangible assets	1,572,162	309,372	326,865
Goodwill	613,237	602,258	608,231
	<u>2,185,399</u>	<u>911,630</u>	<u>935,096</u>

Intangible assets includes SAR 16,172.736 million (KD 1,309.021 million) relating to SMTC. Refer note 22 for goodwill allocated to SMTC.

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9. Due to banks

	<u>Unaudited</u> <u>30 September</u> <u>2018</u>	<u>Audited</u> <u>31 December</u> <u>2017</u>	<u>Unaudited</u> <u>30 September</u> <u>2017</u> <u>KD '000</u>
<i>Company</i>			
Short term loans	110,870	110,540	176,421
Long term loans	618,395	621,940	604,688
	<u>729,265</u>	<u>732,480</u>	<u>781,109</u>
<i>Zain - Kingdom of Saudi Arabia</i>			
Long term loans	609,935	-	-
<i>Zain - Bahrain</i>			
Long term loans	-	1,501	3,867
<i>Atheer - Iraq</i>			
Long term loans	152,965	136,220	141,208
	<u>1,492,165</u>	<u>870,201</u>	<u>926,184</u>

The closing balance includes a non-cash movement arising from foreign currency loss of KD 3.403 million (31 December 2017 – gain of KD 11.422 million; 30 September 2017 – gain of KD 11.725 million).

The current and non-current amounts are as follows:

	<u>Unaudited</u> <u>30 September</u> <u>2018</u>	<u>Audited</u> <u>31 December</u> <u>2017</u>	<u>Unaudited</u> <u>30 September</u> <u>2017</u> <u>KD '000</u>
Current liabilities	331,317	199,564	206,608
Non-current liabilities	1,160,848	670,637	719,576
	<u>1,492,165</u>	<u>870,201</u>	<u>926,184</u>

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

	<u>Unaudited</u> <u>30 September</u> <u>2018</u>	<u>Audited</u> <u>31 December</u> <u>2017</u>	<u>Unaudited</u> <u>30 September</u> <u>2017</u> <u>KD '000</u>
US dollar	1,158,640	836,587	818,226
Saudi Riyals	313,525	-	-
Kuwaiti dinar	20,000	32,113	104,091
Others	-	1,501	3,867
	<u>1,492,165</u>	<u>870,201</u>	<u>926,184</u>

The effective interest rate as at 30 September 2018 was 2.42% to 6.16% (31 December 2017 - 2.01% to 12%; 30 September 2017 – 2.01% to 5.60%) 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:

drew down loans amounting to KD 126.502 million. This includes:

- US\$ 200 million (KD 59.86 million) from an existing US\$ 200 million murabaha facility agreement.
- US\$ 140 million (KD 41.964 million) from an existing US\$ 500 million revolving credit facility.

Repaid loans amounting to KD 132.739 million. This includes:

- US\$ 175 million (KD 52.394 million) of an existing US\$ 200 million murabaha facility agreement.
- KD 12.112 million to fully repay the term loan that was availed from a local commercial bank in 2014.
- US\$ 140 million (KD 42.381 million) of an existing US\$ 500 million revolving credit facility.

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The above facilities carry a floating interest rate of a fixed margin over one, 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 were four year amortising facilities that have matured in September 2018.

Zain – Kingdom of Saudi Arabia

Long term loans include:

- SAR 5,365 million (KD 433.572 million) syndicate murabaha facility repayable by June 2023 availed from a consortium of banks. SMTC refinanced and extended the maturity date of its existing five years syndicated Murabaha facility of SAR 5,900 million (KD 476.897 million) which includes a working capital facility of SAR 647.3 million (KD 52.321 million) and USD 45.6 million (KD 13.812 million) for two years.
- SAR 2,269 million (KD 183.403 million) long-term loan repayable by August 2019 availed from a commercial bank in 2018.

Atheer

Long term loans include:

- US\$ 250 million (KD 75.725 million) loan from a commercial bank that was rolled over as a long term loan maturing in December 2019.
- US\$ 55 million (KD 16.660 million) long-term loan repayable by March 2020 availed from a commercial bank in 2015.
- US\$ 50 million (KD 15.145 million) long-term loan repayable by April 2020 availed from a commercial bank in 2017.
- US\$ 50 million (KD 15.145 million) long-term loan repayable by April 2021 availed from a commercial bank in 2018.
- US\$ 100 million (KD 30.29 million) long-term loan repayable by May 2025 availed from a commercial bank in 2018.

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

10. Other non-current liabilities

	<u>Unaudited</u> <u>30 September</u> <u>2018</u>	<u>Audited</u> <u>31 December</u> <u>2017</u>	<u>Unaudited</u> <u>30 September</u> <u>2017</u>
	<u>KD '000</u>		
Customer deposits	5,697	5,570	3,434
Post-employment benefits	31,572	21,996	25,713
Others	76,640	10,916	83
Payable to Ministry of Finance – Saudi Arabia (Refer note below)	209,374	-	-
	<u>323,283</u>	<u>38,482</u>	<u>29,230</u>

During 2013, SMTC had signed an agreement with the Ministry of Finance – Saudi Arabia to defer payments of its dues to the government for the next seven years. The amount is repayable in equal installments starting June 2021.

11. Share capital

The authorized, issued and fully paid up share capital as of 30 September 2018 is 4,327,058,909 shares (31 December 2017 – 4,327,058,909; 30 September 2017 - 4,327,058,909) of 100 fils each.

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12. Dividend

The annual general meeting of shareholders for the year ended 31 December 2017 held on 28 March 2018 (31 December 2016 - 12 March 2017) approved distribution of cash dividends of 35 fils (31 December 2016 - 35 fils) per share amounting to KD 151,447,000 (31 December 2016 - KD 136,547,000) to be paid to the registered shareholders, after obtaining necessary regulatory approvals.

13. Treasury shares

In August 2017, the Company sold all of its treasury shares for KD 255.172 million and the resultant difference between cost and sale price was recorded in retained earnings.

14. Investment income

	Three months ended 30 September (Unaudited)		Nine months ended 30 September (Unaudited)	
	2018	2017	2018	2017
	KD'000		KD'000	
Profit/(loss) from investment securities at FVTPL	1,388	(9)	1,433	18
Realised gains from investment securities 'available for sale'	-	326	-	2,953
Impairment loss on available for sale investments	-	(244)	-	(2,718)
Dividend income	-	2	253	249
	<u>1,388</u>	<u>75</u>	<u>1,686</u>	<u>502</u>

15. 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)	
	2018	2017	2018	2017
	KD'000		KD'000	
Profit for the period attributable to shareholders	50,624	40,164	137,075	122,450
	Shares	Shares	Shares	Shares
Weighted average number of shares in issue outstanding during the period	4,327,058,909	4,054,048,178	4,327,058,909	3,952,806,911
	Fils	Fils	Fils	Fils
Earnings per share – Basic and diluted	12	10	32	31

16. Segmental information

The Company and its subsidiaries operate in a single business segment, telecommunications and related services in Kuwait and other countries.

Based on the quantitative thresholds, the Group has identified its operations in Kuwait, Jordan, Sudan, Iraq, Bahrain and Kingdom of Saudi Arabia as geographical segments.

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	30 September 2018						Total KD '000	
	Kuwait	Jordan	Sudan	Iraq	Bahrain	KSA		Others
Segment revenues - airtime, data and subscription (Point over time)	199,866	108,062	75,695	255,606	30,092	139,991	16,324	825,636
Segment revenues - trading income (Point in time)	48,938	3,203	403	1,292	8,798	17,822	168	80,624
Net profit before interest and tax	59,692	25,915	15,960	23,204	2,946	23,254	38,272	189,243
Interest income	1	354	663	46	39	535	146	1,784
Finance costs	-	(4,361)	-	(9,058)	(40)	(19,909)	(30)	(33,398)
Income tax expenses	-	(4,965)	(3,392)	(3,900)	-	-	(2,542)	(14,799)
	<u>59,693</u>	<u>16,943</u>	<u>13,231</u>	<u>10,292</u>	<u>2,945</u>	<u>3,880</u>	<u>35,846</u>	<u>142,830</u>
<i>Unallocated items:</i>								
Investment income								1,686
Share of results of associates and joint ventures								(3,627)
Others (including unallocated interest income and finance costs)								2,824
Profit for the period								<u>143,713</u>
Segment assets including goodwill	317,159	310,491	179,461	998,413	77,624	2,134,236	90,738	4,108,122
<i>Unallocated items:</i>								
Investment securities at FVTPL								13,181
Investment securities at FVOCI								7,030
Investment in associates and joint ventures								68,672
Others								253,342
Consolidated assets								<u>4,450,347</u>
Segment liabilities	83,366	144,760	46,174	134,039	22,411	1,203,628	78,889	1,713,267
Due to banks	-	-	-	152,964	-	609,935	-	762,899
	<u>83,366</u>	<u>144,760</u>	<u>46,174</u>	<u>287,003</u>	<u>22,411</u>	<u>1,813,563</u>	<u>78,889</u>	<u>2,476,166</u>
<i>Unallocated items:</i>								
Due to banks								729,266
Others								(377,794)
Consolidated liabilities								<u>2,827,638</u>
Net consolidated assets								<u>1,622,709</u>
Capital expenditure incurred during the period								109,023
Unallocated	14,154	6,290	14,680	34,247	388	34,097	5,167	2,730
Total capital expenditure								<u>111,753</u>
Depreciation and amortization								150,959
Unallocated	19,755	18,717	8,075	57,943	6,232	37,137	3,100	1,497
Total depreciation and amortization								<u>152,456</u>

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	30 September 2017					Total KD '000	
	Kuwait	Jordan	Sudan	Iraq	Bahrain		Others
Segment revenues	248,672	112,527	95,702	246,098	44,910	19,522	767,431
Net profit before interest and tax	62,309	31,847	19,046	16,952	2,430	2,449	135,033
Interest income	13	168	459	100	22	117	879
Finance costs	-	(3,823)	-	(9,858)	(201)	(2,859)	(16,741)
Income tax expenses	62,322	(6,456)	(4,097)	7,194	2,251	(532)	(11,085)
		21,736	15,408			(825)	108,086
<i>Unallocated items:</i>							
Investment income							502
Share of results of associates and joint ventures							1,067
Others (including unallocated interest income and finance costs)							16,062
Profit for the period							125,717
Segment assets including goodwill	325,011	304,027	237,896	1,057,093	83,681	118,710	2,126,418
<i>Unallocated items:</i>							
Investment securities at FVTPL							989
Investment securities available for sale							17,110
Investment in associates and joint ventures							189,877
Dues from associates							407,265
Others							378,567
Consolidated assets							3,120,226
Segment liabilities	90,990	133,170	52,388	211,009	26,724	222,426	736,707
Due to banks	-	-	-	141,208	3,867	-	145,075
	90,990	133,170	52,388	352,217	30,591	222,426	881,782
<i>Unallocated items:</i>							
Due to banks							781,109
Others							(152,045)
Consolidated liabilities							1,510,846
Net consolidated assets							1,609,380
Capital expenditure incurred during the period							
Unallocated	17,131	12,146	31,907	21,482	1,559	166	84,391
Total capital expenditure							10,608
Depreciation and amortization							
Unallocated	34,548	21,058	10,906	56,800	11,083	6,436	140,831
Total depreciation and amortization							1,018
							141,849

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17. 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)	
	2018	2017	2018	2017
	KD'000		KD'000	
Revenue	10	1,264	1,229	3,725
Cost of sales	225	261	1,120	1,193
Management fee (included in other income)	-	1,042	2,026	2,132
Interest income on loans to an associate	-	5,703	11,587	14,588

Key management compensation

	Three months ended 30 September (Unaudited)		Nine months ended 30 September (Unaudited)	
	2018	2017	2018	2017
	KD'000		KD'000	
Salaries and other short term employee benefits	822	699	2,382	2,187
Post-employment benefits	125	109	527	333

Balances

	Unaudited	Audited	Unaudited
	30 September 2018	31 December 2017	30 September 2017
	KD '000		
Trade receivables	4	16,553	7,710
Trade payables	219	9,851	2,622

18. Commitments and contingencies

	Unaudited	Audited	Unaudited
	30 September 2018	31 December 2017	30 September 2017
	KD '000		
Capital expenditure	201,363	37,727	61,903
Capital expenditure - share of an associate	-	60,835	60,552
Uncalled share capital of investee companies	1,988	4,685	4,736
Letters of guarantee and credit	81,474	453,691	453,628

The above include guarantees amounting to KD Nil (31 December 2017 - KD 396.316 million; 30 September 2017 - KD 396.185 million) relating to loans and other vendor financing availed by SMTC.

The Company is a guarantor for credit facilities amounting to KD 7.269 million (31 December 2017 - KD 10.551 million; 30 September 2017 - KD 10.548 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 Communications and Media Commission (CMC) claimed an amount of US\$ 100 million (KD 30.29 million) from Atheer, citing non-compliance with certain license terms. This claim was 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 30.29 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 Appeals Board issued a decision in favor of CMC. Atheer challenged this decision of the CMC Appeals Board in the Court of First Instance arguing that the provisions of Order No. 65 (governing telecom activities in Iraq), that immunizes CMC Appeals Board decisions from being appealed or challenged, is unconstitutional. Atheer also requested the Court to issue an order preventing CMC from collecting the amount of claim or enforcing the CMC Appeals Board decision until the matter is decided by the Court. The Court of First Instance issued orders in February and April 2017 to stop any enforcement proceedings by the CMC to collect the amount of claim until the case is decided by the Court. On 27 April 2017, the Court of First Instance issued a decision in favor of CMC. In May 2017, Atheer filed an appeal with the Court of Appeals against this decision. In November 2017, the Court of Appeals issued a decision in favor of Atheer. However, CMC challenged such decision by filing an appeal with the Court of Cassation which issued a decision on 15 November 2017 reversing the decision of the Court of Appeals and returning the file to the Court of Appeals for a decision. On 28 December 2017, the Court of Appeals issued a decision which upheld the decision of Court of First Instance dated 27 April 2017. Atheer filed a challenge to this decision with the Court of Cassation on 11 January 2018. On 12 March 2018, the Court of Cassation decided in favour of Atheer and ruled that the Court of Appeals erred and should have examined the basis on which the CMC imposed the fine, taking into account the views of the expert appointed by the CMC. The case was remanded to the Court of Appeals to take a decision. On 3 June 2018, the Court of Appeals issued a decision in favour of Atheer and directed CMC to stop demanding payment of the fine amount from Atheer. CMC has challenged the decision before the Court of Cassation and on 28 August 2018, the Expanded Civil Committee at the Court of Cassation upheld the earlier decision of the Court of Appeals by referring that the fine has no legal basis and decided to drop off the fine. Atheer believes that this decision is final and unchallengeable.

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 73.908 million) claimed by the Iraq General Commission for Taxes (IGCT), Atheer would have the right to submit its objection to the income tax claimed by the Income Tax Authority for the years from 2004 to 2010. However, Atheer had to pay minimum 25% of the amount claimed and the balance US\$ 173 million (KD 52.402 million) in fifty equal monthly instalments from December 2016, net of amount 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 28.170 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 share 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 Group's shares in Al Khatem. Atheer submitted its objections against the US\$ 244 million (KD 73.908 million) tax claim in November 2016 objecting to the full amount of the claim. As of 30 September 2018, Atheer has an obligation to pay the balance of US\$ 97 million; equivalent to KD 29.381 million (31 December 2017: US\$ 128 million equivalent to KD 38.63 million) net of previous payments in twenty-eight instalments.

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In May 2017, IGCT issued its decision rejecting the objections for the above years without stating any reasons. On 7 June 2017, Atheer filed appeals against IGCT decisions with the Appeal Committee at IGCT. On 9 November 2017, the Appeal Committee issued a decision with respect to years 2004-2007 rejecting Atheer's appeals by mainly arguing that Atheer did not have the right to file the original objections in November 2016, which implies that the Appeal Committee did not recognize the settlement agreed with the Ministry of Finance. On 21 December 2017, the Appeal Committee issued a decision with respect to years 2008-2010 rejecting Atheer's appeals on the basis that while Atheer had filed the objections on time but it did not pay the requisite amounts that are required under the law for the objections to be deemed properly filed, which again implies that the Appeal Committee did not recognize the settlement agreed with the Ministry of Finance. On 21 November 2017, Atheer filed a further appeal with the Cassation Committee at the IGCT with respect to years 2004-2007, and further filed similar appeals with the Cassation Committee on 2 January 2018 for the years 2008-2010. On 12 February 2018, the Cassation Committee issued decisions in favour of Atheer in relation to the years 2004-2010, by upholding Atheer's right to appeal and instructing the Appeals Committee to reconsider those appeals on their merits on the basis that Atheer's agreement with Ministry of Finance was not invalid. Appeals Committee resumed its session in June 2018 in which Atheer submitted a statement to clear its grounds. On 25 September 2018, the Appeals Committee decided to suspend the final decision on this case until getting the response from the Council of Ministers in respect of this matter based on recommendations by an internal committee at the Ministry of Finance. Based on the report of its attorneys, Atheer believes that the prospects of resolving this matter is in its favor.

Pella - Jordan

Pella is a defendant in lawsuits amounting to KD 12.449 million (31 December 2017 – KD 12.474 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 9.527 million (31 December 2017 - KD 9.504 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. Pella has also initiated legal proceedings against the regulatory authorities claiming refund of excess license fee paid amounting to KD 11.663 million (31 December 2017 - KD 11.934 million) of earlier years. Based on the report of its attorneys, the Group expects the outcome to be favorable to Pella.

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.

19. Financial instruments

19.1 Categories of financial assets and liabilities

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

	(Unaudited) 30 September 2018	(Audited) 31 December 2017	(Unaudited) 30 September 2017
	KD'000		
Amortised costs/Loans and receivables:			
Cash and bank balances	282,185	244,398	283,932
Trade and other receivables	587,018	455,472	491,095
Contract assets (current and non-current)	68,670	-	-
Due from associates	-	415,759	407,265
Other assets	12,116	12,072	12,068
Investment securities – FVTPL	13,181	778	989
Investment securities – FVOCI	7,030	-	-
Investments securities available for sale	-	16,118	17,110

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

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19.2 Fair value hierarchy for financial instruments measured at fair value

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

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

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

Level 2 : Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 : Inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

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

30 September 2018

	Level 1	Level 2	Level 3	Total
	KD'000			
Financial assets at fair value:				
Investments securities at FVTPL	3,825	9,356	-	13,181
Investments securities at FVOCI	1,079	395	5,556	7,030
Total assets	<u>4,904</u>	<u>9,751</u>	<u>5,556</u>	<u>20,211</u>

31 December 2017

	Level 1	Level 2	Level 3	Total
	KD'000			
Financial assets at fair value:				
Investments securities at FVTPL	778	-	-	778
Investments securities available for sale	3,347	7,925	-	11,272
Total assets	<u>4,125</u>	<u>7,925</u>	<u>-</u>	<u>12,050</u>

30 September 2017

	Level 1	Level 2	Level 3	Total
	KD'000			
Financial assets at fair value:				
Investments securities at FVTPL	989	-	-	989
Investments securities available for sale	4,106	8,158	-	12,264
Total assets	<u>5,095</u>	<u>8,158</u>	<u>-</u>	<u>13,253</u>

Measurement at fair value

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

20. Hyperinflation – Zain South Sudan

Net monetary gain/(loss)

The Republic of South Sudan economy had become hyperinflationary in 2016. Accordingly the results, cash flows and financial position of the Group's subsidiary in South Sudan have been expressed in terms of the measuring unit current at the reporting date in accordance with IAS 29 Financial Reporting. The effect on the net monetary position is included in the Condensed Consolidated Statement of Profit or Loss as 'net monetary gain'.

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The general price indices used in adjusting the results, cash flows and the financial position of Zain South Sudan is based on the Consumer Price Index (CPI) published by South Sudan Bureau for Statistics as set out below:

	<u>Index</u>	<u>Conversion factor</u>
30 September 2018	5,943	1.00
31 December 2017	4,502	1.32
31 December 2016	2,068	2.87
31 December 2015	357	16.66
31 December 2014	170	34.96
31 December 2013	155	38.41
31 December 2012	170	35.03

Provision for impairment loss on property and equipment

The Group assessed that the carrying value of its network assets at Zain South Sudan exceeds their recoverable amount as determined by their fair value less cost of disposal and estimated an impairment loss of KD 9.648 million (30 September 2017: KD 21.292 million). The fair value was determined using the current replacement cost approach based on level 3 inputs of the fair value hierarchy with the service capacity of the assets being the most significant unobservable input. The current use was determined to be highest and best use. The impairment loss is subject to reassessment at the end of each reporting period to determine if it no longer exists or may have decreased in which case it is reversible to that extent.

21. 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 year end and are not indicative of either market or credit risk. All derivative contracts are fair valued based on observable market data.

At 30 September 2018:

	<u>Notional amounts by term to maturity</u>		
	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Notional amount</u>
			<u>KD '000</u>
<i>Derivatives held for hedging:</i>			
Cash flow hedges	-	271	96,473
Profit rate swaps			

At 31 December 2017:

	<u>Notional amounts by term to maturity</u>		
	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Notional amount</u>
			<u>KD '000</u>
<i>Derivatives held for hedging:</i>			
Cash flow hedges			
Profit rate swaps - share of an associate	-	78	96,454

At 30 September 2017:

	<u>Notional amounts by term to maturity</u>		
	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Notional amount</u>
			<u>KD '000</u>
<i>Derivatives held for hedging:</i>			
Cash flow hedges			
Profit rate swaps - share of an associate	-	127	108,133

22. Business combination

Acquisition of Mobile Telecommunications Company Saudi Arabia (SMTC)

In July 2018, the Group concluded that it is able to control SMTC through its majority representation on the board of directors.

The provisional values assigned to the identifiable assets and liabilities as at the date of acquisition, which are subject to review within one year of acquisition on finalisation of the Purchase Price Allocation (PPA), are shown below:

	<u>KD '000</u>
Consideration transferred in cash	200
Acquisition date fair value of the previously held equity interest	133,720
Non-controlling interest share	<u>181,483</u>
Total	<u>315,403</u>
Less	
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash and bank balances	103,802
Trade and other receivables	187,047
Inventories	6,990
Property and equipment	504,878
Intangible assets	1,256,140
Other assets	44,161
Trade and other payables	370,164
Long term borrowings	887,592
Other non-current liabilities	<u>556,987</u>
Total identifiable net assets	<u>288,275</u>
Goodwill arising from business combination	27,128

The above goodwill is attributable to the profitability of the acquired business. From the date of acquisition, SMTC contributed revenues of KD 157.813 million and profit for the period of KD 3.88 million to the net results of the Group. If the acquisition had taken place on 1 January 2018, the Group revenue for the period would have been higher by KD 282.537 million.

The acquisition date fair value of the Group's previously held voting equity interest in SMTC, was estimated at KD 133.720 million. Since the business combination was achieved in stages, the Group remeasured the previously held equity holding at fair value and recognized the resultant gain of KD 30.931 million in the statement of income, net of amounts reclassified from other comprehensive income.