

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

**Consolidated Annual Financial Statements and
Independent Auditor's Report**

31 December 2018

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MOBILE TELECOMMUNICATIONS COMPANY K.S.C.P.

Report on the Audit of the Consolidated Financial Statements

Qualified Opinion

We have audited the consolidated financial statements of Mobile Telecommunications Company K.S.C.P. ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

As disclosed in note 2.1 to the consolidated financial statements, the Group has excluded the effects reported therein of applying International Accounting Standard (IAS) 29: Financial Reporting in Hyperinflationary Economies with respect to its subsidiaries in the Republic of Sudan. It is not possible to determine with reasonable certainty the exact impact of applying hyperinflationary accounting for these subsidiaries as the Group has not performed the required calculations. In these circumstances, we are unable to quantify the effect of the departure from IAS 29.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Emphasis of matter

We draw attention to note 28 to the consolidated financial statements, which discloses the uncertainty related to the outcome of various claims against the subsidiary in Iraq. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed that matter is provided in that context. In addition to the matter described in the *Basis for Qualified Opinion* section we have determined the matters described below to be the key audit matters to be communicated in our report.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MOBILE TELECOMMUNICATIONS COMPANY K.S.C.P. (CONTINUED)

a) Revenue recognition

The Group has recognized revenue from telecom services amounting to KD 1,318 million (2017: KD 1,030 million) for the year ended 31 December 2018. There is an inherent risk around the accuracy of telecom services revenue recognition because of the complexity of the related Information Technology ("IT") environment, processing large volumes of data through a number of different IT systems and involves a combination of different products, prices and price changes. Application of "IFRS 15 – Revenue from Contracts with Customers" during the year resulted in significant change in the accounting policy for revenue recognition of multiple element contracts. This requires considerable judgment from management in determining the stand alone selling price of each performance obligation in the multiple element contracts and allocation of the total transaction price to those performance obligations. Due to the complexities and judgement required in the revenue recognition process, we have considered this as a key audit matter. The accounting policy for revenue recognition is set out in note 2.19 and the related disclosures are disclosed in note 19 and note 25 to the consolidated financial statements.

Our audit procedures included evaluation of the relevant IT systems, implementation and design of internal controls related to revenue recognition including the changes resulting from application of IFRS 15. We also tested the operating effectiveness of controls over the capture and recording of revenue transactions; authorization of rate changes and its input to the billing systems and the change control procedures in place around those systems. In addition, we tested the reconciliation of the revenue generated and recorded in those systems to the general ledger and performed substantive tests of revenue recorded. Further, we have assessed the appropriateness of management's processes and judgments relating to determination of stand alone selling prices and their allocation to performance obligations under IFRS 15.

b) Impairment of Goodwill

As at 31 December 2018, goodwill is carried at KD 609 million (2017: KD 602 million) which represents 13.57% of the total assets. The impairment test of goodwill performed by the management is significant to our audit because the assessment of the recoverable amount of goodwill under the value-in-use basis is complex and requires considerable judgment on the part of management. Estimates of future cash flows are based on management's views of variables such as the growth in the telecom sector, economic growth, expected inflation rates and yield. Therefore, we identified the impairment testing of goodwill as a key audit matter. The Group's policy on assessing impairment of goodwill is in note 2.12 and related disclosure is in note 13 to the consolidated financial statements.

We evaluated the design and implementation of controls over the impairment assessment process. With the support of our valuation experts, we benchmarked and challenged key assumptions forming the Group's value-in-use calculation including the cash flow projections and discount rate. We compared actual historical cash flows with previous forecasts and assessed differences, if any, were within an acceptable range. We assessed the overall reasonableness of the cash flow forecasts and compared the discount rate and growth rate to market data. Additionally, we analyzed the sensitivities such as the impact on the valuation if the growth rate would be decreased, or the discount rate would be increased. We also assessed the adequacy of the Group's disclosures included in notes to the consolidated financial statements about those assumptions to which the outcome of the impairment test is more sensitive.

c) Application of IAS 29 by South Sudanese subsidiary

The economy of the Republic of South Sudan, where the Group has a subsidiary, became hyperinflationary from the beginning of the year 2016. This was based on the general price index (consumer price index) showing the cumulative three-year rate of inflation exceeding 100% at that time. The accounting policy for hyperinflationary financial reporting and related disclosure are given in note 2.23 and 33 respectively to the consolidated financial statements.

The restatement of non-monetary items and historical financial information of the subsidiary in terms of the measuring unit current at the date of the consolidated statement of financial position and determination of the net monetary gain or loss is complex and requires the application of certain procedures and judgment on the part of management. Therefore, we identified application of IAS 29 as a key audit matter.

We compared the general price index used for restatement of non-monetary items, re-computed the net monetary gain and translation of historical financial information with the rates published by the Government of South Sudan and assessed the accuracy of the restatement and the amount of the net monetary gain.



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MOBILE TELECOMMUNICATIONS COMPANY K.S.C.P. (CONTINUED)

Other information

Management is responsible for the other information. The other information comprises of the information included in the Annual Report of the Group for the year ended 31 December 2018. The other information does not include the consolidated financial statements and our auditor's report thereon. We obtained the report of the Company's Board of Directors prior to the date of our auditor's report and we expect to obtain the remaining sections of the Group's Annual Report for the year ended 31 December 2018 after the date of our auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the Basis for qualified opinion for the consolidated financial statements section above, we were unable to obtain sufficient appropriate audit evidence about non-adoption of IAS 29 by the Group over its subsidiaries in the Republic of Sudan. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MOBILE TELECOMMUNICATIONS COMPANY K.S.C.P. (CONTINUED)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of accounts have been kept by the Company and the consolidated financial statements, together with the contents of the report of the Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all the information that is required by the Companies Law No. 1 of 2016 and its Executive Regulations and by the Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no 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, have occurred during the year ended 31 December 2018 that might have had a material effect on the business of the Company or on its consolidated financial position.



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

Kuwait
13 February 2019

Mobile Telecommunications Company K.S.C.P.

Consolidated Statement of Financial Position as at 31 December 2018

	Note(s)	2018	2017
		KD '000	
ASSETS			
Current assets			
Cash and bank balances	4	311,916	244,398
Trade and other receivables	5	572,783	455,801
Contract assets	19.2	66,062	-
Inventories	6	45,957	34,402
Investment securities at fair value through profit or loss	7	15,519	778
Non-current assets held for sale	8	7,656	7,656
		<u>1,019,893</u>	<u>743,035</u>
Non-current assets			
Contract assets	19.2	16,940	-
Investment securities at FVOCI	7	7,040	-
Investment securities available for sale	7	-	16,118
Investments in associates and joint venture	9,10	69,851	188,412
Dues from associates	11	-	415,759
Other assets		11,953	15,131
Property and equipment	12	1,198,775	743,586
Intangible assets and goodwill	13	2,163,267	911,630
		<u>3,467,826</u>	<u>2,290,636</u>
Total Assets		<u>4,487,719</u>	<u>3,033,671</u>
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	14	956,272	467,616
Deferred revenue	19.2	105,308	47,768
Due to banks	15	412,971	199,564
		<u>1,474,551</u>	<u>714,948</u>
Non-current liabilities			
Due to banks	15	1,033,565	670,637
Other non-current liabilities	16	336,325	38,482
		<u>1,369,890</u>	<u>709,119</u>
Equity			
Attributable to the Company's shareholders			
Share capital	17	432,706	432,706
Share premium		1,707,164	1,707,164
Legal reserve	17	216,353	216,353
Foreign currency translation reserve	17	(1,367,018)	(1,189,469)
Investment fair valuation reserve		864	3,251
Other reserves		(4)	(326)
Retained earnings		287,143	281,919
		<u>1,277,208</u>	<u>1,451,598</u>
Non-controlling interests	26	366,070	158,006
Total equity		<u>1,643,278</u>	<u>1,609,604</u>
Total Liabilities and Equity		<u>4,487,719</u>	<u>3,033,671</u>

The accompanying notes are an integral part of these consolidated financial statements.


Ahmed Tahous Al Tahous
 Chairman


Bader Nasser Al Kharafi
 Vice Chairman & Chief Executive Officer

Mobile Telecommunications Company K.S.C.P.**Consolidated Statement of Profit or Loss – Year ended 31 December 2018**

		2018	2017
	Note(s)	KD '000	
Revenue	19	1,317,613	1,029,547
Cost of sales		(375,517)	(290,891)
Operating and administrative expenses	20	(409,996)	(313,964)
Depreciation and amortization	12,13	(229,532)	(185,050)
Provision for impairment – trade and other receivables		-	(10,256)
Expected credit loss on financial assets (ECL)		(13,188)	-
Interest income		18,320	27,850
Investment income	21	3,930	781
Share of results of associates and joint venture	9,10	(2,444)	127
Other expenses		(41,696)	(12,207)
Gain on business combination	35	30,931	-
Finance costs		(69,173)	(40,100)
Provision for impairment loss on property and equipment	12,33	(9,648)	(37,826)
Loss from currency revaluation		(14,764)	(32,120)
Net monetary gain	33	46,935	45,789
Profit before contribution to KFAS, NLST, Zakat, income taxes and Board of Directors' remuneration		251,771	181,680
Contribution to Kuwait Foundation for Advancement of Sciences		(1,667)	(1,100)
National Labour Support Tax and Zakat	22	(4,476)	(5,753)
Income tax expenses	23	(19,752)	(10,400)
Board of Directors' remuneration		(420)	(275)
Profit for the year		225,456	164,152
Attributable to:			
Shareholders of the Company		196,500	159,817
Non-controlling interests		28,956	4,335
		225,456	164,152
Earnings per share (EPS)			
	24		
Basic – Fils		45	39
Diluted – Fils		45	39

The accompanying notes are an integral part of these consolidated financial statements.

Mobile Telecommunications Company K.S.C.P.**Consolidated Statement of Profit or Loss and Other Comprehensive Income –
Year ended 31 December 2018**

	2018	2017
		KD '000
Profit for the year	225,456	164,152
Other comprehensive income:		
<i>Other comprehensive income transferred or reclassifiable to consolidated statement of profit or loss in subsequent periods:</i>		
Exchange differences on translating foreign operations	(160,697)	(91,284)
Net unrealised gain on available-for-sale investments	-	2,564
Net gain transferred to consolidated statement of profit or loss on sale of available-for-sale investments (net of impairment losses)	-	(2,797)
Share of reserves of associates	-	(206)
Other reserves	(430)	-
Share in associate transferred to consolidated statement of profit or loss on business combination (note 35)	(16,395)	-
Other comprehensive income for the year	<u>47,934</u>	<u>72,429</u>
<i>Items that will not be reclassified to consolidated statement of profit or loss:</i>		
Changes in the fair value of equity investments at FVOCI	(857)	-
Total comprehensive income for the year	<u>47,077</u>	<u>72,429</u>
Total comprehensive income attributable to:		
Shareholders of the Company	18,416	70,003
Non-controlling interests	<u>28,661</u>	<u>2,426</u>
	<u>47,077</u>	<u>72,429</u>

The accompanying notes are an integral part of these consolidated financial statements.

Mobile Telecommunications Company K.S.C.P.

Consolidated Statement of Changes in Shareholders' Equity – Year ended 31 December 2018

	Equity attributable to Company' shareholders										Total equity
	Share capital	Share premium	Legal reserve	Foreign currency translation reserve	Treasury shares	Treasury shares reserve	Investment fair valuation reserve	Other reserves	Retained earnings	Non-controlling interests	
											KD '000
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 2.26)	-	-	-	-	-	-	(2,218)	-	(39,141)	(1,357)	(42,716)
	432,706	1,707,164	216,353	(1,189,469)	-	-	1,033	(326)	242,778	156,649	1,566,888
Total comprehensive income for the year	-	-	-	(177,549)	-	-	(857)	322	196,500	28,661	47,077
On business combinations	-	-	-	-	-	-	-	-	-	182,367	182,367
Realised loss on equity securities at FVOCI	-	-	-	-	-	-	688	-	(688)	-	-
Cash dividends (2017)	-	-	-	-	-	-	-	-	(151,447)	(1,607)	(153,054)
Balance at 31 December 2018	<u>432,706</u>	<u>1,707,164</u>	<u>216,353</u>	<u>(1,367,018)</u>	<u>-</u>	<u>-</u>	<u>864</u>	<u>(4)</u>	<u>287,143</u>	<u>366,070</u>	<u>1,643,278</u>
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
Cash dividends (2016)	-	-	-	-	-	-	-	-	(136,547)	(1,773)	(138,320)
Total comprehensive income for the year	-	-	-	(89,375)	-	-	(233)	(206)	159,817	2,426	72,429
Sale of treasury shares (note 18)	-	-	-	-	567,834	(1,967)	-	-	(312,854)	-	253,013
Balance at 31 December 2017	<u>432,706</u>	<u>1,707,164</u>	<u>216,353</u>	<u>(1,189,469)</u>	<u>-</u>	<u>-</u>	<u>3,251</u>	<u>(326)</u>	<u>281,919</u>	<u>158,006</u>	<u>1,609,604</u>

The accompanying notes are an integral part of these consolidated financial statements.

Mobile Telecommunications Company K.S.C.P.
Consolidated Statement of Cash Flows – Year ended 31 December 2018

	Note(s)	2018	2017
		<u> </u>	<u> </u>
		KD '000	KD '000
Cash flows from operating activities			
Profit for the year before income tax		245,208	174,552
Adjustments for:			
Depreciation and amortization	12,13	229,532	185,050
ECL/provision for impairment – trade and other receivables		13,188	10,256
Interest income		(18,320)	(27,850)
Investment income	21	(3,930)	(781)
Share of results of associates and joint venture	9,10	2,444	(127)
Gain on business combination	35	(30,931)	-
Finance costs		69,173	40,100
Provision for impairment loss on property and equipment	12,33	9,648	37,826
Loss from currency revaluation		14,764	32,120
Net monetary gain	33	(46,935)	(45,789)
Loss/(gain) on sale of property and equipment		202	(163)
Operating profit before working capital changes		<u>484,043</u>	<u>405,194</u>
Increase in trade and other receivables		(84,716)	(63,158)
Increase in inventories		(3,730)	(18,483)
Increase/(decrease) in trade and other payables and deferred revenue		<u>118,545</u>	<u>(50,610)</u>
<i>Cash generated from operations</i>		514,142	272,943
<i>Payments:</i>			
Income tax		(10,629)	(13,735)
Kuwait Foundation for Advancement of Sciences (KFAS)		(319)	(250)
National Labour Support Tax and Zakat		<u>(5,492)</u>	<u>(7,491)</u>
<i>Net cash from operating activities</i>		<u>497,702</u>	<u>251,467</u>
Cash flows from investing activities			
Deposits maturing after three months and cash at bank under lien	4	30,286	(6,364)
Proceeds from sale of investment securities		1,919	9,829
Investments in securities		(4,132)	(4,184)
Increase in dues from associates		(7,039)	(11,750)
Acquisition of property and equipment (net)		(173,837)	(133,657)
Acquisition of intangible assets (net)		(43,977)	(11,863)
Net cash on acquisition of subsidiaries		101,993	(516)
Interest received		6,028	28,089
Dividends received		253	249
<i>Net cash used in investing activities</i>		<u>(88,506)</u>	<u>(130,167)</u>
Cash flows from financing activities			
Proceeds from bank borrowings	15	203,019	323,387
Repayment of bank borrowings	15	(288,901)	(491,111)
Proceeds from sale of treasury shares	18	-	255,172
Dividends paid		(151,017)	(136,834)
Dividends paid to non-controlling interests		(1,569)	(1,741)
Finance costs paid		<u>(52,966)</u>	<u>(35,340)</u>
<i>Net cash used in financing activities</i>		<u>(291,434)</u>	<u>(86,467)</u>
Net increase in cash and cash equivalents			
Effects of exchange rate changes on cash and cash equivalents		117,762	34,833
Transition adjustment on adoption of IFRS 9 (Note 2.26)		(13,461)	(5,551)
Transition adjustment on adoption of IFRS 9 (Note 2.26)		(6,497)	-
Cash and cash equivalents at beginning of year		<u>206,432</u>	<u>177,150</u>
Cash and cash equivalents at end of year	4	<u>304,236</u>	<u>206,432</u>

The accompanying notes are an integral part of these consolidated financial statements.

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) under licenses from the governments of the countries in which they operate; purchase, deliver, install, manage and maintain mobile telephone systems; and invests surplus funds in investment securities.

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

These consolidated financial statements were authorized and approved for issue by the Board of Directors of the Company on 13 February 2019 and are subject to approval of the shareholders at their forthcoming Annual General Meeting.

2. Basis of preparation and significant accounting policies

2.1 Basis of preparation

These consolidated financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). These consolidated financial statements are prepared under the historical cost basis of measurement adjusted for the effects of inflation where entities operate in hyperinflationary economies and modified by the revaluation at fair value of financial assets held as "at fair value through profit or loss", "at fair value through comprehensive income" and "derivative financial instruments". These consolidated financial statements have been presented in Kuwaiti Dinars, rounded to the nearest thousand.

The economy of Republic of South Sudan became 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 in Hyperinflationary Economies. The methods used to measure the fair value and adjustments made to the account of Group's entities that operate in the hyperinflationary economies are discussed further in the accounting policies and in the respective notes.

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 have entailed going in and out of hyperinflation within a short period which was confirmed when the Republic of Sudan went out of hyperinflation in 2016. The Republic of Sudan has been again declared as hyperinflationary in 2018. Based on the above matters, Group believes that there is no definitive basis to apply IAS 29 at this stage. However, Group will review it on an ongoing basis, accordingly it has not quantified the impact of applying IAS 29 in 2018.

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent assets and contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a high degree of judgment or complexity or areas where assumptions and estimates are significant to these consolidated financial statements are disclosed in note 34.

2.2 New and revised accounting standards

Effective for the current year

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year except for the following new and amended IASB Standards during the year:

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.

The Company's accounting policies for its revenue streams are detailed in note 2.19 below.

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. The impairment model in IFRS 9 also applies to lease receivables, loan commitments and financial guarantee contracts. The Company's accounting policies are detailed in note 2.5 below.

Hedge accounting

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required. As permitted by IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39.

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. The impact on adoption is disclosed in note 2.26 below.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2018 did not have any material impact on the accounting policies, financial position or performance of the Group.

Standards issued but not effective

At the date of authorization of these financial statements, the Company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
IFRS 16 <i>Leases</i>	1 January 2019
Annual Improvements to IFRSs 2015–2017 Cycle amending IFRS 3 <i>Business Combinations</i> , IFRS 11 <i>Joint Arrangements</i> , IAS 12 <i>Income Taxes</i> and IAS 23 <i>Borrowing costs</i> .	1 January 2019
IFRIC 23 <i>Uncertainty over Income Tax Treatments</i>	1 January 2019
Amendments in IFRS 9 <i>Financial Instruments</i> relating to prepayment features with negative compensation.	1 January 2019
Amendment to IAS 19 <i>Employee Benefits</i> relating to amendment, curtailment or settlement of a defined benefit plan	1 January 2019
Amendments in IAS 28 <i>Investments in Associates and Joint Ventures</i> relating to long-term interests in associates and joint ventures.	1 January 2019
Amendments to References to the Conceptual Framework in IFRS Standards - amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework	1 January 2020
Amendment to IFRS 3 <i>Business Combinations</i> relating to definition of a business	1 January 2020
Amendments to IAS 1 and IAS 8 relating to definition of material	1 January 2020
IFRS 17 <i>Insurance Contracts</i>	1 January 2021
Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

The management do not expect that the adoption of the Standards and Interpretations listed above will have a material impact on the consolidated financial statements of the Group in future periods, except as noted below:

IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees.

IFRS 16 will supersede the current lease guidance including IAS 17 *Leases* and the related interpretations. In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

The Group will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Group will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract).

Impact on Lessee Accounting

Operating leases

IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

The Group intends to adopt the standard using the cumulative effect approach, which means that the Group will recognize the cumulative effect of initially applying this standard as an adjustment to the opening balance of retained earnings of the annual reporting period that includes the date of initial application. The Group is continuing to analyze the impact of the changes and its impact will be disclosed in the first interim financial information as of March 31, 2019 that includes the effects of its application from the effective date.

Lease incentives (e.g. rent-free period) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
 - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
 - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after 1 January 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively.

2.3 Business combinations

A business combination is the bringing together of separate entities or businesses into one reporting entity as a result of one entity, the acquirer, obtaining control of one or more other businesses. The acquisition method of accounting is used to account for business combinations. The consideration transferred for the acquisition is measured as the fair values of the assets transferred, equity interests issued and liabilities incurred or assumed at the date of the exchange. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. The acquisition related costs are expensed when incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination (net assets acquired in a business combination) are measured initially at their fair values at the acquisition date. Non-controlling interest in the subsidiary acquired is recognized at the non-controlling interest's proportionate share of the acquiree's net assets.

When a business combination is achieved in stages, the previously held equity interest in the acquiree is re-measured at its acquisition-date fair value and the resulting gain or loss is recognized in the consolidated statement of profit or loss. The fair value of the equity of the acquiree at the acquisition date is determined using valuation techniques and considering the outcome of recent transactions for similar assets in the same industry in the same geographical region.

The Group separately recognizes contingent liabilities assumed in a business combination if it is a present obligation that arises from past events and its fair value can be measured reliably.

An indemnification received from the seller in a business combination for the outcome of a contingency or uncertainty related to all or part of a specific asset or liability that is recognized at the acquisition date at its acquisition-date fair value is recognized as an indemnification asset at the acquisition date at its acquisition-date fair value.

The Group uses provisional values for the initial accounting of a business combination and recognizes any adjustment to these provisional values within the measurement period which is twelve months from the acquisition date.

2.4 Consolidation

The Group consolidates the financial statements of the Company and subsidiaries (i.e. investees that it controls) and investees controlled by its subsidiaries.

The Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- Voting rights and potential voting rights;

The financial statements of subsidiaries are included in the consolidated financial statements on a line-by-line basis, from the date on which control is transferred to the Group until the date that control ceases.

Non-controlling interest in an acquiree is stated at the non-controlling interest's proportionate share in the recognized amounts of the acquiree's identifiable net assets at the acquisition date and the non-controlling interest's share of changes in the equity since the date of the combination. Total comprehensive income is attributed to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. Changes in the Group's ownership interest in a subsidiary that do not result in loss of control are accounted for as equity transactions. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interest in the subsidiary and any difference between the amount by which the non-controlling interests is adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the Company's shareholders. Non-controlling interest is presented separately in the consolidated statements of financial position, consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income. The non-controlling interests are classified as a financial liability to the extent there is an obligation to deliver cash or another financial asset to settle the non-controlling interest.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances based on latest audited financial statements of subsidiaries. Intra group balances, transactions, income, expenses and dividends are eliminated in full. Profits and losses resulting from intra group transactions that are recognized in assets are eliminated in full. Intragroup losses that indicate an impairment is recognized in the consolidated financial statements.

When the Company loses control of a subsidiary, it derecognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost as well as related non-controlling interests. Any investment retained is recognized at fair value at the date when control is lost. Any resulting difference along with amounts previously directly recognized in equity is transferred to the consolidated statement of profit or loss.

2.5 Financial instruments

In the normal course of business the Group uses financial instruments, principally cash and bank balances, deposits, receivables, contract assets, investments, trade and other payables, due to banks and derivatives.

Classification

Classification of financial instruments-applicable from 1 January 2018

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, all financial assets, except equity instruments and derivatives, is assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

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 liabilities

All financial liabilities are classified as "other than at fair value through profit or loss".

Classification of financial instruments-applicable up to 31 December 2017

In accordance with International Accounting Standard (IAS) 39, the Group classified its financial assets as "at fair value through profit or loss", "loans and receivables" or "available for sale". All financial liabilities were classified as "other than at fair value through profit or loss".

Recognition/derecognition

The criteria for recognition and de-recognition of financial instruments remains unchanged under IFRS 9.

A financial asset or a financial liability is recognized when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (in whole or in part) is derecognized when the contractual rights to receive cash flows from the financial asset has expired or the Group has transferred substantially all risks and rewards of ownership and has not retained control. If the Group has retained control, it continues to recognize the financial asset to the extent of its continuing involvement in the financial asset.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and recognition of a new liability. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

All regular way purchase and sale of financial assets are recognized using settlement date accounting. Changes in fair value between the trade date and settlement date are recognized in the consolidated statement of profit or loss or in the consolidated statement of comprehensive income in accordance with the policy applicable to the related instrument. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

Measurement

All financial assets or financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue are added except for those financial instruments classified as "at fair value through profit or loss".

Measurement of financial instruments- applicable from 1 January 2018

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 consolidated statement of profit or loss. On de-recognition, gains and losses accumulated in the OCI are reclassified to SOI.

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 consolidated statement of financial position at fair value.

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 consolidated statement of profit or loss. Dividends are recognised in the consolidated 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 consolidated statement of changes in shareholders' equity.

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

Financial liabilities

Financial liabilities "other than at fair value through profit or loss" are subsequently measured and carried at amortized cost using the effective yield method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss. Equity interests are classified as financial liabilities if there is a contractual obligation to deliver cash or another financial asset.

Financial guarantees

Financial guarantees are subsequently measured at the higher of the amount initially recognized less any cumulative amortization and the best estimate of the present value of the amount required to settle any financial obligation arising as a result of the guarantee.

Measurement of financial instruments- applicable upto 31 December 2017

All financial assets or financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue are added except for those financial instruments classified as "at fair value through profit or loss".

Financial assets at fair value through profit or loss

Financial assets classified as "at fair value through profit or loss" are divided into two sub categories: financial assets held for trading, and those designated at fair value through consolidated statement of profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if they are managed and their performance is evaluated and reported internally on a fair value basis in accordance with a documented risk management or investment strategy. Derivatives are classified as "held for trading" unless they are designated as hedges and are effective hedging instruments.

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are subsequently measured and carried at amortised cost using the effective yield method.

Available for sale

These are non-derivative financial assets not included in any of the above classifications and principally acquired to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. These are subsequently measured and carried at fair value and any resultant gains or losses are recognized in the consolidated statement of comprehensive income. When the "available for sale" asset is disposed of or impaired, the related accumulated fair value adjustments are transferred to the consolidated statement of profit or loss as gains or losses.

Financial liabilities/equity

Financial liabilities "other than at fair value through profit or loss" are subsequently measured and carried at amortized cost using the effective yield method. Equity interests are classified as financial liabilities if there is a contractual obligation to deliver cash or another financial asset.

Financial guarantees

Financial guarantees are subsequently measured at the higher of the amount initially recognized less any cumulative amortization and the best estimate of the present value of the amount required to settle any financial obligation arising as a result of the guarantee.

Impairment

Impairment of financial assets – applicable from 1 January 2018

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 considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

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.

Impairment of financial assets –applicable upto 31 December 2017

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An assessment is made at each consolidated statement of financial position date to determine whether there is objective evidence that a specific financial asset or a group of similar assets may be impaired. If such evidence exists, the asset is written down to its recoverable amount. The recoverable amount of an interest bearing instrument is determined based on the net present value of future cash flows discounted at original effective interest rates; and of an equity instrument is determined with reference to market rates or appropriate valuation models. Any impairment loss is recognised in the consolidated statement of profit or loss. For “available for sale” equity investments, reversals of impairment losses are recorded as increases in fair valuation reserve through equity.

Financial assets are written off when there is no realistic prospect of recovery.

Derivative financial instruments and hedging activities

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Derivatives with positive fair values (unrealised gains) are included in other receivables and derivatives with negative fair values (unrealised losses) are included in other payables in the consolidated statement of financial position. For hedges, which do not qualify for hedge accounting and for “held for trading” derivatives, any gains or losses arising from changes in the fair value of the derivative are taken directly to the consolidated statement of profit or loss.

For hedge accounting, the Group designates derivatives as either hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge) or hedges of a net investment in a foreign operation (net investment hedge).

Fair value hedge

In relation to fair value hedges, which meet the conditions for hedge accounting, any gain or loss from re-measuring the hedging instrument to fair value is recognized in ‘Other receivables’ or ‘Other payables’ respectively and in the consolidated statement of profit or loss. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognized in the consolidated statement of profit or loss.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged items recorded at amortised cost, using the effective interest rate method, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge. If the hedged item is derecognized, the unamortised fair value adjustment is recognized immediately in the consolidated statement of profit or loss.

Cash flow hedge

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in the consolidated statement of comprehensive income and the ineffective portion is recognized in the consolidated statement of profit or loss.

When the hedged cash flow affects the consolidated statement of profit or loss, the gain or loss on the hedging instrument is 'recycled' in the corresponding income or expense line of the consolidated statement of profit or loss. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in shareholders' equity at that time remains in shareholders' equity and is recognized when the hedged forecast transaction is ultimately recognized in the consolidated statement of profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in shareholders' equity is immediately transferred to the consolidated statement of profit or loss.

Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

The Group documents at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than twelve months and as a current asset or liability if less than twelve months.

Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and reported on a net basis in the accompanying consolidated statement of financial position when a legally enforceable right to set off such amounts exists and when the Group intends to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

2.6 Cash and cash equivalents

Cash on hand, demand and time deposits with banks whose original maturities do not exceed three months are classified as cash and cash equivalents in the consolidated statement of cash flows.

2.7 Inventories

Inventories are stated at the lower of weighted average cost and net realizable value.

2.8 Investments in associates

Associates are those entities over which the Group has significant influence but not control, generally accompanying a direct or indirect shareholding of more than 20% of the voting rights. The excess of the cost of investment over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recognised as goodwill. Goodwill on acquisition of associates is included in the carrying values of investments in associates. Investments in associates are initially recognised at cost and are subsequently accounted for by the equity method of accounting from the date of significant influence to the date it ceases.

Under the equity method, the Group recognises in the consolidated statement of profit or loss, its share of the associate's post acquisition results of operations and in equity, its share of post acquisition movements in reserves that the associate directly recognises in equity. The cumulative post acquisition adjustments, and any impairment, are directly adjusted against the carrying value of the associate. Appropriate adjustments such as depreciation, amortisation and impairment losses are made to the Group's share of profit or loss after acquisition to account for the effect of fair value adjustments made at the time of acquisition. Where applicable, adjustments are made to the associates' financial statements to make them conform to the Group's accounting policies.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivable, the Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate.

An assessment is made at each consolidated statement of financial position date to determine whether there is objective evidence that an associate may be impaired. If such evidence exists, it is tested for impairment as a single asset, including goodwill, by comparing its recoverable amount (being the higher of its value in use and its fair value less cost to sell) with its carrying amount. Any impairment loss is recognized in the consolidated statement of profit or loss and forms part of its carrying amount. Any impairment loss reversal is recognized in the consolidated statement of profit or loss to the extent that the recoverable amount of the associate subsequently increases.

2.9 Interests in joint ventures

A joint arrangement is a contractual arrangement that gives two or more parties joint control. Joint control is a contractually agreed sharing of control of an arrangement, which exists only when decision about the relevant activities require unanimous consent of the parties sharing control. A joint venture is a joint arrangement whereby the parties that have the joint control of the arrangement have rights to the net assets of the arrangement. The Group recognises its interests in joint ventures and accounts for it using the equity method.

2.10 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Freehold land is not depreciated.

Property and equipment are depreciated on a straight-line basis over their estimated economic useful lives, which are as follows:

	Years
Buildings and leasehold improvements	8 - 50
Cellular and other equipment	3 - 20
Furniture and fixtures	5

These assets are reviewed periodically for impairment. If there is an indication that the carrying value of an asset is greater than its recoverable amount, the asset is written down to its recoverable amount and the resultant impairment loss is taken to the consolidated statement of profit or loss. The residual value, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Assets in hyper inflationary economies are restated by applying the change in the general price indices from the date of acquisition to the current reporting date. Depreciation on these assets are based on the restated amounts.

2.11 Intangible assets and goodwill

Identifiable non-monetary assets acquired in a business combination and from which future benefits are expected to flow are treated as intangible assets. Intangible assets comprise of telecom license fees, customer contracts and relationships, Indefeasible Rights of Use (IRU), key money and software rights.

Intangible assets

Intangible assets which have a finite life are amortized over their useful lives. For acquired network businesses whose operations are governed by fixed term licenses, the amortisation period is determined primarily by reference to the unexpired license period and the conditions for license renewal. Telecom license fees are amortised on a straight line basis over the life of the license. Key money and software rights are amortized on a straight line basis over a period of five years for software rights and over the lease period for operating leases. Customer contracts and relationships are amortised over a period of 4 to 5 years.

Prior to 1 January 2018, handsets provided below cost as part of the telecom service connection, were treated as a subscriber acquisition cost and recognized as an intangible asset and amortised over the period of the contract.

IRU are the rights to use a portion of the capacity of a terrestrial or submarine transmission cable granted for a fixed period. IRUs are recognized at cost as an asset when the Group has the specific indefeasible right to use an identified portion of the underlying asset, generally optical fibers and the duration of the right is for the major part of the underlying asset's economic life. They are amortised on a straight line basis over the shorter of the expected period of use and the life of the contract which ranges between 10 to 20 years.

Goodwill

Goodwill arising in a business combination is computed as the excess of the aggregate of: the consideration transferred; the non-controlling interests' proportionate share in the recognized amounts of the acquiree's net identifiable assets at the acquisition date, if any; and in a business combination achieved in stages the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree, over the net of the acquisition-date fair values of the identifiable assets acquired and liabilities assumed. Any deficit is a gain from a bargain purchase and is recognized directly in the consolidated statement of profit or loss.

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is allocated to each of the cash generating units for the purpose of impairment testing. Gains and losses on disposal of an entity or a part of an entity include the carrying amount of goodwill relating to the entity or the portion sold.

2.12 Impairment of non-financial assets

If there is an indication that the carrying value of non-financial assets such as property, plant and equipment or intangible assets with a definite useful life is greater than its recoverable amount, it is tested for impairment and the asset is written down to its recoverable amount. Goodwill and intangible assets with indefinite useful lives are tested, at least annually, for impairment.

The recoverable amount is determined for an individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. In that case, they are grouped at the lowest levels for which there are separately identifiable cash flows, known as cash generating units for the purpose of assessing impairment of property, plant and equipment and intangible assets as well as goodwill.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risk specific to the asset for which the estimates of future cash flows have not been adjusted. The Group prepares formal four to five year plans for its businesses. These plans are used for the value in use calculation. Long range growth rates are used for cash flows into perpetuity beyond the four to five year period. Fair value less costs to sell is determined using valuation techniques and considering the outcome of recent transactions for similar assets in the same industry in the same geographical region.

If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata, on the basis of the carrying amount of each asset in the unit. An impairment loss is recognized immediately in the consolidated profit or loss unless the relevant assets are carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease to the extent of any previously recognized revaluation gain.

For non-financial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of profit or loss. That relating to goodwill cannot be reversed in a subsequent period.

2.13 Fair value measurement

Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For financial instruments quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities.

For unquoted financial instruments, fair value is determined by reference to the market value of a similar investment, discounted cash flows, other appropriate valuation models or brokers' quotes.

For financial instruments carried at amortized cost, the fair value is estimated by discounting future cash flows at the current market rate of return for similar financial instruments.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group determines classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

2.14 Income taxes

Income tax payable on profits is recognized as an expense in the period in which the profits arise based on the applicable tax laws and tax rates in each jurisdiction that have been enacted or substantively enacted by the end of consolidated statement of financial position date.

Deferred income tax is provided using the liability method on all temporary differences, at the consolidated statement of financial position date, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax provisions depend on whether the timing of the reversal of the temporary difference can be controlled and whether it is probable that the temporary difference will reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of consolidated statement of financial position date.

Deferred tax assets are recognized for all deductible temporary differences, including carry-forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. The carrying amount of deferred tax assets is reviewed at each consolidated statement of financial position date and reduced to the extent that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised.

2.15 Provisions for liabilities

Provisions for liabilities are recognized when as a result of past events it is probable that an outflow of economic resources will be required to settle a present legal or constructive obligation; and the amount can be reliably estimated.

2.16 Post-employment benefits

The Group is liable to make defined contributions to State Plans and lump sum payments under defined benefit plans to employees at cessation of employment, in accordance with the laws of the place where they are deemed to be employed. The defined benefit plan is unfunded and is computed as the amount payable to employees as a result of involuntary termination on the consolidated statement of financial position date. This basis is considered to be a reliable approximation of the present value of the final obligation.

2.17 Treasury shares

The cost of the Company's own shares purchased, including directly attributable costs, is classified under equity. Gains or losses arising on sale are separately disclosed under shareholders' equity and these amounts are not available for distribution. These shares are not entitled to cash dividends. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

2.18 Accounting for leases

Where the Group is the lessee

Operating leases

Leases of property and equipment under which, all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of profit or loss on a straight-line basis over the period of the lease.

Finance leases

Leases of property and equipment where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are recognized as assets in the consolidated statement of financial position at the estimated present value of the related lease payments. Each lease payment is allocated between the liability and finance charge so as to produce a constant periodic rate of interest on the liability outstanding.

2.19 Revenue

Revenues from operations consist of recurring revenues, such as billings to customers for monthly subscription fees, roaming, leased line and airtime usage fees, and non-recurring revenues, such as one-time connection fees, and telephone equipment and accessory sales.

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 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.

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 distributors 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.

Installation and maintenance contracts

The Group also enters into installation and maintenance contracts where the revenue is recognised over time based on the cost-to-completion method. The related costs are recognised in profit or loss when they are incurred. Advances received are included in contract liabilities.

Interest income is recognized on a time proportion basis using the effective yield method and dividend income is recognized when the right to receive payment is established.

The 'effective interest rate' is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset.

In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired). However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

2.20 Government grants

Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to operating activities of the entity.

Grants related to assets are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long term assets. Other conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held. Government grants relating to assets are deducted against the carrying amount of the assets.

2.21 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of the asset. Borrowing costs are recognized as an expense in the period in which they are incurred, except to the extent that they are capitalised.

2.22 Foreign currencies

The functional currency of an entity is the currency of the primary economic environment in which it operates and in the case of the Company it is the Kuwaiti Dinar and in the case of subsidiaries it is their respective national currencies or the applicable foreign currency. Presentation currency of the Group is Kuwaiti Dinar. Foreign currency transactions are recorded at the rates of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the consolidated statement of financial position date are translated to Kuwaiti Dinars at the rates of exchange prevailing on that date. Resultant gains and losses are taken to the consolidated statement of profit or loss.

Translation differences on non-monetary items, such as equities classified as FVOCI (prior to 01 January 2018 - available for sale financial assets) are included in the investment fair valuation reserve in equity.

The income and cash flow statements of foreign operations are translated into the Company's reporting currency at average exchange rates for the year and their consolidated statement of financial position are translated at exchange rates ruling at the year-end. Exchange differences arising from the translation of the net investment in foreign operations (including goodwill, long term receivables or loans and fair value adjustments arising on business combinations) are taken to the consolidated statement of comprehensive income. When a foreign operation is sold, any resultant exchange differences are recognized in the consolidated statement of profit or loss as part of the gain or loss on sale.

The financial results, cash flows and financial position of Group's subsidiaries and associates (Group entities) which are accounted for as entities operating in hyperinflationary economies and that have functional currencies different from the presentation currency of the Group are translated into the presentation currency of its immediate parent at rates of exchange ruling at the reporting date. As the presentation currency of the Group is that of a non-hyperinflationary economy, comparative amounts of a Group entity are not adjusted for changes in the price level or exchange rates in the current year.

2.23 Financial reporting in hyperinflationary economies

The financial statements of subsidiaries whose functional currencies are the currencies of hyperinflationary economies are adjusted in terms of the measuring unit current at the end of the reporting period.

In the first period of application, the adjustments determined at the beginning of the period are recognized directly in equity as an adjustment to opening retained earnings. In subsequent periods, the prior period adjustments related to components of owners' equity and differences arising on translation of comparative amounts are accounted for in other comprehensive income.

Items in the consolidated statement of financial position not already expressed in terms of the measuring unit current at the reporting period, such as non-monetary items carried at cost or cost less depreciation, are restated by applying a general price index. The restated cost, or cost less depreciation, of each item is determined by applying to its historical cost and accumulated depreciation the change in a general price index from the date of acquisition to the end of the reporting period. An impairment loss is recognized in profit or loss if the restated amount of a nonmonetary item exceeds its estimated recoverable amount.

At the beginning of the first period of application, the components of owners' equity, except retained earnings, are restated by applying a general price index from the dates the components were contributed or otherwise arose. Restated retained earnings are derived from all other amounts in the restated consolidated statement of financial position. At the end of the first period and in subsequent periods, all components of owners' equity are restated by applying a general price index from the beginning of the period or the date of contribution, if later.

All items recognized in the income statement are restated by applying the change in the general price index from the dates when the items of income and expenses were initially earned or incurred.

Gains or losses on the net monetary position are recognized in profit or loss.

All items in the consolidated statement of cash flows are expressed in terms of the general price index at the end of the reporting period.

2.24 Non-current assets held for sale

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell and are presented separately from the other assets in the balance sheet. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale.

2.25 Contingencies

Contingent assets are not recognized as an asset until realisation becomes virtually certain. Contingent liabilities, other than those arising on acquisition of subsidiaries, are not recognized as a liability unless as a result of past events it is probable that an outflow of economic resources will be required to settle a present, legal or constructive obligation; and the amount can be reliably estimated. Contingent liabilities arising in a business combination are recognized if their fair value can be measured reliably.

2.26 Impact on adoption of IFRS 9 and IFRS 15 – Transition

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>

On 1 January 2018, the Group's management has assessed the business models and the cash flow characteristics of the financial assets (other than equity instruments) held by the Group at the date of initial application of IFRS 9. The Group has concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

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	FVTPL	FVTPL (mandatorily)	778	-	778
Investment securities	AFS	FVOCI	6,454	-	6,454
Investment securities	AFS	FVPTL	5,602	-	5,602
Investment securities	AFS	FVPTL (mandatorily)	4,062	-	4,062
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 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.

2.27 Impact of adoption of IFRS 9 and 15 on the consolidated financial position

The following table summarizes the impact on consolidated statement of financial position as at 31 December 2018:

	KD '000			Amounts without adoption of IFRS 15 and IFRS 9
	As reported	IFRS 15	IFRS 9	
Current assets				
Cash and bank balances	311,916	-	4,106	316,022
Trade and other receivables	572,783	97,585	7,638	678,006
Contract assets	66,062	(69,975)	3,913	-
Inventories	45,957	-	-	45,957
Investment securities at fair value through profit or loss	15,519	-	(13,366)	2,153
Non-current assets held for sale	7,656	-	-	7,656
	<u>1,019,893</u>	<u>27,610</u>	<u>2,291</u>	<u>1,049,794</u>
Non-current assets				
Contract assets	16,940	(18,491)	1,551	-
Investment securities at FVOCI	7,040	-	(7,030)	10
Investment securities available for sale	-	-	20,396	20,396
Investments in associates and joint venture	69,851	(3,645)	(242)	65,964
Other assets	11,953	-	-	11,953
Property and equipment	1,198,775	-	-	1,198,775
Intangible assets and goodwill	2,163,267	2,369	-	2,165,636
	<u>3,467,826</u>	<u>(19,767)</u>	<u>14,675</u>	<u>3,462,734</u>
Total Assets	<u>4,487,719</u>	<u>7,983</u>	<u>16,966</u>	<u>4,512,528</u>
Current liabilities				
Trade and other payables	956,272	(611)	(3,737)	951,924
Deferred revenue	105,308	-	-	105,308
Due to banks	412,971	-	-	412,971
	<u>1,474,551</u>	<u>(611)</u>	<u>(3,737)</u>	<u>1,470,203</u>
Non-current liabilities				
Due to banks	1,033,565	-	-	1,033,565
Other non-current liabilities	336,325	-	-	336,325
	<u>1,369,890</u>	<u>-</u>	<u>-</u>	<u>1,369,890</u>
Equity				
Attributable to the Group'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	(1,367,018)	-	-	(1,367,018)
Investment fair valuation reserve	864	-	5,920	6,784
Other reserves	(4)	-	-	(4)
Retained earnings	287,143	19,306	14,482	320,931
	<u>1,277,208</u>	<u>19,306</u>	<u>20,402</u>	<u>1,316,916</u>
Non-controlling interests	366,070	(10,852)	301	355,519
Total equity	<u>1,643,278</u>	<u>8,454</u>	<u>20,703</u>	<u>1,672,435</u>
Total Liabilities and Equity	<u>4,487,719</u>	<u>7,843</u>	<u>16,966</u>	<u>4,512,528</u>

Mobile Telecommunications Company K.S.C.P.

Notes to the Consolidated Financial Statements – 31 December 2018

The following table summarizes the impact on the consolidated statement of profit or loss for the year:

	KD '000			Amounts without adoption of IFRS 15 and IFRS 9
	As reported	IFRS 15	IFRS 9	
Revenue	1,317,613	(7,440)	-	1,310,173
Cost of sales	(375,517)	4,128	-	(371,389)
Operating and administrative expenses	(409,996)	508	-	(409,488)
Depreciation and amortization	(229,532)	(8,034)	-	(237,566)
Expected credit loss on financial assets	(13,188)	-	(9,846)	(23,034)
Interest income	18,320	-	-	18,320
Investment income	3,930	-	(3,702)	228
Share of results of associates and joint venture	(2,444)	-	-	(2,444)
Other expenses	(41,696)	-	-	(41,696)
Gain on business combination	30,931	-	-	30,931
Finance costs	(69,173)	-	-	(69,173)
Provision for impairment loss on property and equipment	(9,648)	-	-	(9,648)
Loss from currency revaluation	(14,764)	-	-	(14,764)
Net monetary gain	46,935	-	-	46,935
Profit before contribution to KFAS, NLST, ZAKAT, income taxes and Board of Directors' remuneration	251,771	(10,838)	(13,548)	227,385
Contribution to Kuwait foundation for Advancement of Sciences	(1,667)	108	135	(1,424)
National Labour Support Tax and Zakat	(4,476)	379	474	(3,623)
Income tax expenses	(19,752)	(23)	44	(19,731)
Board of Directors' remuneration	(420)	-	-	(420)
Profit for the period	225,456	(10,374)	(12,895)	202,187

3. Subsidiaries and Associates/Joint Venture

The principal subsidiaries and associates/joint ventures are:

Subsidiary	Country of incorporation	Percentage of ownership	
		2018	2017
Zain International B.V. ("ZIBV")	The Netherlands	100%	100%
Pella Investment Company ("Pella")	Jordan	96.516%	96.516%
Zain Bahrain B.S.C ("MTCB")	Bahrain	55.40%	55.40%
Mobile Telecommunications Company Lebanon (MTC) S.A.R.L. ("MTCL")	Lebanon	100%	100%
Sudanese Mobile Telephone (Zain) Company Limited ("Zain Sudan")	Sudan	100%	100%
Kuwaiti Sudanese Holding Company ("KSHC")	Sudan	100%	100%
South Sudanese Mobile Telephone (Zain) Company Limited ("Zain South Sudan")	South Sudan	100%	100%
Al Khatem Telecoms Company ("Al Khatem")	Iraq	76%	76%
Atheer Telecom Iraq Limited ("Atheer")	Cayman Islands	76%	76%
Mobile Telecommunications Company ("SMTC")	Saudi Arabia	37.045%	-
Al Mouakhaa Lil Kadamat Al-Logistya Wal Al-Itisalat ("Mada Jordan")	Jordan	99.1%	99.1%
Nexgen Advisory Group FZ LLC ("Nexgen")	UAE	84.66%	84.66%
Associate/Joint Venture			
Mobile Telecommunications Company ("SMTC")	Saudi Arabia	-	37.045%
Zain Al Ajial S.A (Wana Corporate S.A is an associate of this joint venture)	Morocco	50%	50%

Pella owns 100% of Jordan Mobile Telecommunications Services Co. JSC – "JMTC".

JMTS, MTCB, Zain Sudan, Zain South Sudan, Atheer and SMTC operate the cellular mobile telecommunications network in Jordan, Bahrain, Sudan, South Sudan, Iraq and the Kingdom of Saudi Arabia respectively. MTCL manages the state owned cellular mobile telecommunications network in Lebanon. Mada Jordan provides WiMAX services in Jordan.

SMTC

In July 2018, the Group has concluded that it is able to control SMTC through its majority representation on the board of directors and accordingly considered it as a subsidiary effective that date.

During the fourth quarter of 2018, SMTC signed an agreement with the Ministry of Finance, the Ministry of Communications and Information Technology and the Communications and Information Technology Commission (CITC) to amend the annual royalty for commercial service and to the settlement of disputed amounts for the period from 2009 to 2017, as follows:

- Consolidate the annual royalty fee and reduce it to 10% from 15% of net revenues effective 1 January 2018.
- Settlement of the disputed amounts with CITC regarding the payment of annual royalty fee for the period from 2009 to 2017 and to further invest in expanding the telecom infrastructure in addition to other conditions over the next 3 years.
- Based on the above, SMTC reversed cost of sales amounting to SAR 536 million (KD 43.41 million) in the consolidated statement of profit or loss.

Zain South Sudan

During the year, the Group entered into an agreement with the Government of Republic of South Sudan to regularize Zain South Sudan's telecommunication license. The Group was earlier providing telecom services in South Sudan awaiting the issue of a formal telecom license.

Financial support to Group companies

The Group has committed to provide working capital and other financial support to certain Group entities including Zain Jordan, SMTC, Al Khatem and Zain South Sudan whose working capitals are in deficit.

4. Cash and bank balances

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

	2018	2017
	KD '000	
Cash on hand and at banks	141,699	125,484
Short-term deposits with banks	174,014	118,673
Government certificates of deposits held by subsidiaries	102	241
	<u>315,815</u>	<u>244,398</u>
Expected credit loss	(3,899)	-
	<u>311,916</u>	<u>244,398</u>
Cash at bank under lien	(7,578)	(7,545)
Deposits with maturity exceeding three months	-	(30,180)
Government certificates of deposits with maturities exceeding three months held by subsidiaries	(102)	(241)
	<u>304,236</u>	<u>206,432</u>

5. Trade and other receivables

	2018	2017
	KD '000	
Trade receivables:		
Customers	236,919	174,056
Distributors	22,705	8,748
Other operators (interconnect)	42,422	27,329
Roaming partners	14,382	13,180
ECL / provision for impairment	<u>(137,918)</u>	<u>(60,180)</u>
	<u>178,510</u>	<u>163,133</u>
Other receivables:		
Accrued income	5,285	3,003
Staff	1,546	1,972
Deposits and other receivables	36,188	52,727
Prepayments and advances	198,593	93,123
Others (refer note below)	155,601	142,862
ECL / provision for impairment	<u>(2,940)</u>	<u>(1,019)</u>
	<u>394,273</u>	<u>292,668</u>
	<u>572,783</u>	<u>455,801</u>

In 2011, the Group paid US\$ 473 million to settle the guarantees provided by the Company to lending banks for loans to a founding shareholder of SMTC. The Group has been pursuing legal action for its recovery and in November 2016 the court upheld the Group's right to recover the US\$ 473 million paid in addition to interest and costs. These amounts are secured by an agreement to transfer to the Group, the founding shareholder's shares in SMTC, which is currently pledged to the murabaha lenders of SMTC, and the shareholder loan in SMTC owed to the founding shareholder. The Company has initiated the legal procedures necessary to enforce the arbitral award.

In 2010, the Group paid US\$ 40 million; equivalent to KD 12.124 million (2017: US\$ 40 million, equivalent to KD 12.072 million) to settle guarantees provided by the Company to lending bank for loans to a founding shareholder of SMTC. In 2013, the Group won a legal action for the recovery of that amount, and is currently pursuing further legal action for its implementation in Saudi Arabia. These amounts are secured by an agreement to transfer to the Group, the founding shareholder's shares in SMTC.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2018	2017
	KD '000	
Kuwaiti Dinar	60,319	123,200
US Dollar	301,440	224,034
Bahraini Dinar	12,534	19,150
Sudanese Pound	4,427	6,633
Jordanian Dinar	21,677	18,457
Iraqi Dinar	47,406	61,770
Saudi Riyals	122,003	-
Others	<u>2,977</u>	<u>2,557</u>
	<u>572,783</u>	<u>455,801</u>

6. Inventories

	2018	2017
	KD '000	
Handsets and accessories	50,547	37,737
Provision for obsolescence	(4,590)	(3,335)
	<u>45,957</u>	<u>34,402</u>

7. Investment securities

	2018	2017
	KD '000	
<i>Current investments</i>		
<i>At fair value through profit or loss</i>		
Quoted equities	2,224	-
Funds -mandatorily at FVTPL	5,830	778
Other funds	7,465	-
	<u>15,519</u>	<u>778</u>
<i>Non-current investments</i>		
<i>At fair value through other comprehensive income</i>		
Quoted equities- designated at inception	1,012	-
Funds	875	-
Unquoted equities - designated at inception	5,153	-
	<u>7,040</u>	<u>-</u>
<i>Available for sale</i>		
Quoted equities	-	3,347
Funds	-	7,925
Unquoted equities	-	4,846
	<u>-</u>	<u>16,118</u>

Investment securities are denominated in the following currencies:

	2018	2017
	KD '000	
Kuwaiti Dinar	6,266	6,396
US Dollar	13,578	7,961
Other currencies	2,715	2,539
	<u>22,559</u>	<u>16,896</u>

8. 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 to a Tower Company. The Company will be the anchor tenant on commercial terms on each of the towers being sold and the transaction is expected to close in 2019, subject to customary closing conditions.

9. 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 35). 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 period is as follows:

Summarized financial information of SMTC:	2018	2017
	KD '000	
Current assets	-	302,248
Non-current assets	-	1,784,895
Current liabilities	-	924,335
Non-current liabilities	-	876,084
Net asset of SMTC	-	286,724
Revenue	-	604,913
Profit/(loss)	-	955
Other comprehensive income	-	(577)
Total comprehensive income	-	378
Group's ownership interest in SMTC	-	37.045%
Group's share of SMTC's net assets	-	106,217
Goodwill	-	12,367
Carrying amount of Group' interest in SMTC	<u>-</u>	<u>118,584</u>

The Group's share of loss in SMTC until the date of consolidation was KD 3.405 million (2017: share of profit 0.354 million).

10. Interest in a joint venture

This represents the Group's KD 69.831 million (31 December 2017 – KD 69.828 million) interest in the joint venture, Zain Al Ajial S.A. which owns 31% of the equity shares and voting rights of Wana Corporate, (a Moroccan joint stock company which is specialized in the telecom sector in that country). The Group's share of profit for the year in the joint venture amounting to KD 961 thousand (2017 – share of loss of KD 227 thousand) has been recognized in the consolidated statement of profit or loss. The carrying value of this joint venture and its results for the year are determined by Group management using the equity method based on management information provided by Wana Corporate.

11. Dues from associates

	2018	2017
	KD '000	
Loans	-	267,494
Others	-	148,265
	<u>-</u>	<u>415,759</u>

These amounts were due from SMTC and was subordinate to its borrowings from banks. The loans comprised of a US\$ loan of US\$ 764.261 million (KD 230.655 million) and KD 36.839 million with an effective interest rate of 6.75% and 4.25% per annum over six and three months Saudi Inter-Bank Offered Rate (SIBOR) respectively. Others included management fees and interest due on the loans. During the year, SMTC became a subsidiary of the Group and accordingly amounts due are eliminated on consolidation.

12. Property and equipment

	Land and buildings and leasehold improvements	Cellular and other equipment	Projects in progress	Total
	KD '000			
Cost				
As at 31 December 2016	64,960	1,571,346	107,684	1,743,990
Additions	8,631	31,058	95,243	134,932
Transfers	7,931	73,343	(81,274)	-
Transfer to non-current asset held for sale	-	(28,608)	-	(28,608)
Disposals	-	(29,821)	-	(29,821)
Impairment (note 33)	-	(52,650)	(3,062)	(55,712)
Exchange adjustment	(4,140)	(54,553)	(11,099)	(69,792)
As at 31 December 2017	77,382	1,510,115	107,492	1,694,989
On acquisition of subsidiaries	30,878	1,043,688	26,934	1,101,500
Additions	18,572	64,342	104,049	186,963
Transfers	5,809	64,718	(70,527)	-
Disposals	(34)	(16,813)	(790)	(17,637)
Impairment (note 33)	(3,043)	(7,401)	(827)	(11,271)
Exchange adjustments	(13,993)	(79,096)	(27,407)	(120,496)
As at 31 December 2018	115,571	2,579,553	138,924	2,834,048
Accumulated depreciation				
As at 31 December 2016	23,806	922,028	-	945,834
Charge for the year	1,355	106,644	-	107,999
On disposals	-	(25,496)	-	(25,496)
Transfer to non-current asset held for sale	-	(20,952)	-	(20,952)
Impairment (note 33)	-	(17,886)	-	(17,886)
Exchange adjustments	323	(38,419)	-	(38,096)
As at 31 December 2017	25,484	925,919	-	951,403
On acquisition of subsidiaries	25,094	566,571	-	591,665
Charge for the year	2,131	147,015	-	149,146
On disposals	(34)	(15,060)	-	(15,094)
Impairment (note 33)	(369)	(1,254)	-	(1,623)
Exchange adjustment	(1,125)	(39,099)	-	(40,224)
As at 31 December 2018	51,181	1,584,092	-	1,635,273
Net book value				
As at 31 December 2018	64,390	995,461	138,924	1,198,775
As at 31 December 2017	51,898	584,196	107,492	743,586

Exchange adjustments of 2018 and 2017 includes effect of hyperinflationary restatement of property and equipment in Zain South Sudan based on the respective price index changes.

13. Intangible assets and goodwill

	Goodwill	Licence fees	Others	Total
	KD '000			
Cost				
As at 31 December 2016	634,661	646,966	231,944	1,513,571
Additions	-	-	7,296	7,296
On acquisition of subsidiaries	507	-	-	507
Disposals/write off	-	-	(66,206)	(66,206)
Exchange adjustments	(20,968)	(10,300)	(2,956)	(34,224)
As at 31 December 2017	614,200	636,666	170,078	1,420,944
Impact on adoption of IFRS 15	-	-	(80,132)	(80,132)
Restated balance as on 1 January 2018	614,200	636,666	89,946	1,340,812
On acquisition of subsidiaries	40,215	1,889,232	134,456	2,063,903
Other additions	-	229	39,916	40,145
Exchange adjustments	(33,352)	(1,673)	(2,696)	(37,721)
As at 31 December 2018	621,063	2,524,454	261,622	3,407,139
Accumulated amortization				
As at 31 December 2016	11,942	321,146	173,246	506,334
Charge for the year	-	48,380	28,671	77,051
On disposals/write off	-	-	(66,206)	(66,206)
Exchange adjustments	-	(5,071)	(2,794)	(7,865)
As at 31 December 2017	11,942	364,455	132,917	509,314
Impact on adoption of IFRS 15	-	-	(71,946)	(71,946)
Restated balance as on 1 January 2018	11,942	364,455	60,971	437,368
On acquisition of subsidiaries	-	695,258	34,618	729,876
Charge for the year	-	68,971	11,415	80,386
Exchange adjustments	-	(536)	(3,222)	(3,758)
As at 31 December 2018	11,942	1,128,148	103,782	1,243,872
Net book value				
As at 31 December 2018	609,121	1,396,306	157,840	2,163,267
As at 31 December 2017	602,258	272,211	37,161	911,630

Impact on adoption of IFRS 15, represents reversal of customer acquisition costs.

Goodwill has been allocated to each country of operation as that is the Cash Generating Unit (CGU) which is expected to benefit from the synergies of the business combination. It is also the lowest level at which goodwill is monitored for impairment purposes. Goodwill and the CGU to which it has been allocated are as follows:

	2018	2017
	KD '000	
Pella Investment Company, Jordan- Pella	79,516	79,516
Sudanese Mobile Telephone Company Limited (Zain Sudan)	24,163	57,759
Atheer Telecom Iraq Limited, Cayman Islands (Atheer)	456,127	455,615
Mobile Telecommunications Company ("SMTC")	27,171	-
Others	22,144	9,368
	<u>609,121</u>	<u>602,258</u>

Others include KD 12.874 million relating to an acquisition of an Iraqi entity by a subsidiary of the Group during November 2018. The carrying value of assets and liabilities of this entity amounted to KD 5 thousand.

Impairment testing

The Group determines whether goodwill or intangible assets with indefinite useful lives are impaired, at least on an annual basis. This requires an estimation of the recoverable amount of the CGUs to which these items are allocated. The recoverable amount is determined based on value-in-use calculations or fair value less cost to sell if that is higher.

Group management used the following approach to determine values to be assigned to the following key assumptions, in the value in use calculations:

Key assumption Basis used to determine value to be assigned to key assumption

Growth rate Increase in competition expected but no significant change in market share of any CGU as a result of ongoing service quality improvements and expected growth from technology and license upgrades. The growth rates are consistent with forecasts included in industry and country reports.

Compounded annual growth in revenue of upto 17% (2017: 13%) for Zain Sudan, 10% (2017: 11%) for Atheer and 3% (2017: 4%) for Pella during the projected five year period. Value assigned reflects past experience and changes in economic environment.

Cash flows beyond the five year period have been extrapolated using a growth rate of upto of 3% (2017: 4%) for Zain Sudan, 3% (2017: 3.5%) for Atheer and 4% (2017: 2%) for Pella. This growth rate does not exceed the long-term average growth rate of the market in which the CGU operates.

Capital expenditure The cash flow forecasts for capital expenditure are based on experience and include the ongoing capital expenditure required to continue rolling out networks to deliver target voice and data products and services and meeting license obligations. Capital expenditure includes cash outflows for the purchase of property, plant and equipment and other intangible assets.

Discount rate Discount rates of 23.24% (2017: 21.3%) for Zain Sudan, 13.8% (2017: 12%) for Atheer and 11.2% (2017: 9.8%) for Pella. Discount rates reflect specific risks relating to the relevant CGU.

The Group has performed a sensitivity analysis by varying these input factors by a reasonably possible margin and assessing whether the change in input factors results in any of the goodwill allocated to appropriate cash generating units being impaired.

These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five year period. The recoverable amounts so obtained were higher than the carrying amount of the CGUs.

14. Trade and other payables

	2018	2017
	KD '000	
Trade payables and accruals	688,458	361,341
Due to roaming partners	11,852	20,854
Due to other operators (interconnect)	10,926	10,763
Dues to regulatory authorities (refer below)	146,716	4,023
Taxes payable	51,931	38,870
Dividend payable	16,335	13,048
Provisions	2,758	2,747
Directors' remuneration	420	275
Other payables	26,876	15,695
	<u>956,272</u>	<u>467,616</u>

Dues to regulatory authorities includes amount of SAR 1,759 million (KD 142.452 million) payable by SMTC.

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15. Due to banks

	2018	2017
	KD `000	
<i>Company</i>		
Short term loans	110,930	110,540
Long term loans	610,117	621,940
	<u>721,047</u>	<u>732,480</u>
<i>SMTC</i>		
Long term loans	568,126	-
	<u>568,126</u>	<u>-</u>
<i>Zain Bahrain</i>		
Long term loans	-	1,501
	<u>-</u>	<u>1,501</u>
<i>Zain Jordan</i>		
Short term loans	4,275	-
	<u>4,275</u>	<u>-</u>
<i>Atheer</i>		
Long term loans	153,066	136,220
	<u>153,066</u>	<u>136,220</u>
<i>Others</i>		
Long term loans	22	-
	<u>22</u>	<u>-</u>
	<u>1,446,536</u>	<u>870,201</u>

Reconciliation of movements of amounts due to banks to cash flows from financing activities:

	2018	2017
	KD `000	
Opening balance	870,201	1,049,347
On acquisition of a subsidiary (refer note 35)	657,143	-
Proceeds from bank borrowings	203,019	323,387
Repayment of bank borrowings	(288,901)	(491,111)
Effect of change in foreign exchange rates	5,074	(11,422)
	<u>1,446,536</u>	<u>870,201</u>

The current and non-current amounts are as follows:

	2018	2017
	KD `000	
Current liabilities	412,971	199,564
Non-current liabilities	1,033,565	670,637
	<u>1,446,536</u>	<u>870,201</u>

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

	2018	2017
	KD '000	
US Dollar	1,148,923	836,587
Kuwaiti Dinar	20,000	32,113
Saudi Riyals	273,315	-
Others	4,298	1,501
	<u>1,446,536</u>	<u>870,201</u>

The effective interest rate as at 31 December 2018 was 2.42% to 6.16% (2017 – 2.01% to 12.00%) 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.

Company

During the year, the Company:

- drew down loans amounting to KD 126.502 million (31 December 2017 - KD 301.565 million) from existing and new facilities. This included:
 - 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.
 - US\$ 81.53 million (KD 24.68 million) from a long-term loan facility amounting to US\$ 200 million.
- repaid loans amounting to KD 141.426 million (31 December 2017 – KD 454.428 million). This includes:
 - US\$ 177.5 million (KD 53.152 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.

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

SMTC

Long-term loans include:

- SAR 4,746 million (KD 384.346 million) syndicated murabaha facility availed from a consortium of banks. In June 2018, SMTC refinanced and extended the maturity of the syndicated Murabaha facility that was maturing in 2018 to a SAR 5,900 million (KD 477.841 million) facility maturing in June 2023 which includes a working capital facility of SAR 647.3 million (KD 52.425 million) for two years. During the third and fourth quarter of the year, SMTC made early voluntary payments amounting to SAR 1,125 million (KD 91.114 million).

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The murabaha facility is secured partially by a guarantee from the Company and a pledge of the Company's and some of the founding shareholders' shares in SMTC and assignment of certain contracts and receivables.

Under the murabaha financing agreement, SMTC can declare dividend or other distribution in cash or in kind to shareholders, provided SMTC is in compliance with all its obligations under the agreement.

- SAR 2,269 million (KD 183.776 million) long-term loan repayable by August 2019 availed from a commercial bank. This facility is guaranteed by the Company.

Zain – Bahrain

This represented balance outstanding on the long term Bahraini dinar denominated facilities, availed in 2013, at a fixed margin over Bahrain Inter Bank Overnight rate (BIBOR), which were fully repaid in the current year.

Atheer

Long term loans include:

- US\$ 250 million (KD 75.775 million) (31 December 2017 – US\$ 300 million equivalent to KD 90.54 million) loan from a commercial bank that was rolled over as a long term loan maturing in December 2019.
- US\$ 55 million (KD 16.671 million) (31 December 2017 – US\$ 55 million equivalent to KD 16.599 million) long-term loan repayable by March 2020 availed from a commercial bank in 2015.
- US\$ 50 million (KD 15.155 million) (31 December 2017 – US\$ 50 million equivalent to KD 15.09 million) long-term loan repayable by April 2020 availed from a commercial bank in 2017.
- US\$ 50 million (KD 15.155 million) long-term loan repayable by April 2021 availed from a commercial bank in 2018.
- US\$ 100 million (KD 30.31 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.

16. Other non-current liabilities

	<u>2018</u>	<u>2017</u>
	<u>KD '000</u>	
Payable to Ministry of Finance – Saudi Arabia (refer below)	234,749	-
Due to CITC for acquisition of spectrum	33,719	-
Customer deposits	5,238	5,570
Post-employment benefits	32,468	21,996
Others	30,151	10,916
	<u>336,325</u>	<u>38,482</u>

During 2013, SMTC signed an agreement with the Ministry of Finance – Kingdom of Saudi Arabia to defer payments that are due until 2021. These amounts will be repaid in seven installments starting June 2021.

17. Share capital and reserves

Share capital (par value of KD 0.100 per share)

	<u>2018</u>	<u>2017</u>
	<u>No. of shares</u>	<u>No. of shares</u>
<i>Authorised, Issued and fully paid up</i>	4,327,058,909	4,327,058,909

Legal reserve

In accordance with the Companies Law and the Company's Articles of Association, 10% of the profit for the year, subject to a maximum of 50% of the share capital (the "threshold"), has to be appropriated towards legal reserve. As permitted by the Companies Law and the Company's Articles of Association, the Company has discontinued appropriations since the legal reserve has reached the above threshold. This reserve can be utilized only for distribution of a maximum dividend of 5% in years when retained earnings are inadequate for this purpose.

Voluntary reserve

The Company's Articles of Association provide for the Board of Directors to propose appropriations to voluntary reserve up to a maximum of 50% of its share capital. During the year, the Board of Directors did not propose any transfer (2017 - Nil).

Foreign currency translation reserve

Losses increased during the year due to a significant decline in the exchange rates of the Sudanese pound and South Sudanese pound.

Other reserves

Other reserves includes hedge reserves loss amounting to KD 150 thousand.

Dividend – 2017

The annual general meeting of shareholders for the year ended 31 December 2017 held on 28 March 2018 approved distribution of cash dividends of 35 fils per share for the year 2017.

Proposed dividend

The Board of Directors, subject to the approval of shareholders, recommends distribution of a cash dividend of 30 fils per share (2017 - 35 fils per share) to the registered shareholders, after obtaining the necessary regulatory approvals.

18. 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.

19. Revenue

19.1 Disaggregated revenue information

The total revenue disaggregated by major service lines is:

	2018	2017
	KD '000	
Airtime, data and subscription	1,191,778	934,079
Trading income	125,835	95,468
	<u>1,317,613</u>	<u>1,029,547</u>

The total revenue disaggregated by primary geographical market and timing of revenue recognition is disclosed in Note 25.

The Group has recognized the following assets and liabilities related to contract with customers.

19.2 Contract balances

Contract assets

	31 December 2018	1 January 2018
	KD '000	
Assets relating to sale of handsets		
Current and non-current	87,083	56,198
Loss allowance	(4,081)	(5,979)
	<u>83,002</u>	<u>50,219</u>

Contract liabilities

	31 December 2018	1 January 2018
	KD '000	
Deferred revenue- prepaid customers	105,308	47,768
	<u>105,308</u>	<u>47,768</u>

As permitted under IFRS 15, the Group does not disclose transaction price allocated to the remaining performance obligations as it primarily provides services that corresponds directly with the value transferred to the customer.

20. Operating and administrative expenses

This includes staff costs of KD 106.955 million (2017 – KD 83.862 million).

21. Investment income

	2018	2017
	KD '000	
Gain on investments at fair value through profit or loss	3,677	10
Realized gains from available for sale investments	-	2,891
Impairment loss on available for sale investments	-	(2,369)
Dividend income	253	249
	<u>3,930</u>	<u>781</u>

22. National Labour Support Tax (NLST) and Zakat

	2018	2017
	KD '000	
NLST- Kuwait	2,396	3,077
Zakat- Kuwait	1,356	1,521
Zakat – KSHC	38	42
Zakat- Sudan	686	1,113
	<u>4,476</u>	<u>5,753</u>

NLST and Zakat in Kuwait represents taxes payable to Kuwait's Ministry of Finance under National Labour Support Law No. 19 of 2000 and Zakat Law No. 46 of 2006 respectively.

23. Income tax expenses

This represents the income and other taxes of subsidiaries and withholding taxes (refer note 25).

The tax rate applicable to the taxable subsidiary companies is in the range of 15% to 24% (2017: 15% to 24%) whereas the effective income tax rate for the year ended 31 December 2018 is in the range of 17% to 27% (2017: 16% to 23%). For the purpose of determining the taxable results for the year, the accounting profits were adjusted for tax purposes. The adjustments are based on the current understanding of the existing laws, regulations and practices of each overseas subsidiary companies jurisdiction.

24. Earnings per share

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

	2018	2017
	KD '000	
Profit for the year	196,500	159,817
	<u>Shares</u>	<u>Shares</u>
Weighted average number of shares in issue	<u>4,327,058,909</u>	<u>4,047,138,921</u>
	<u>Fils</u>	<u>Fils</u>
Basic earnings per share	45	39
Diluted earnings per share	45	39

25. Segment information

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

Based on the disclosure criterion, the Group has identified its telecommunications operations in Kuwait, Jordan, Sudan, Iraq, Bahrain and KSA as the basis for disclosing the segment information.

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	31 December 2018							Total KD '000
	Kuwait	Jordan	Sudan	Iraq	Bahrain	KSA	Others	
Segment revenues – airtime & data (Point over time)	265,842	144,269	94,861	342,427	40,597	282,929	20,853	1,191,778
Segment revenues - trading income (Point in time)	65,496	4,925	504	1,704	12,391	40,786	29	125,835
Net profit before interest and tax	82,105	33,800	16,863	32,749	4,126	74,357	40,971	284,971
Interest income	6	460	856	81	57	1,408	214	3,082
Finance costs	-	(5,912)	-	(12,329)	(40)	(39,501)	(40)	(57,822)
Income tax expenses	-	(6,414)	(4,263)	(5,554)	-	-	(2,954)	(19,185)
	<u>82,111</u>	<u>21,934</u>	<u>13,456</u>	<u>14,947</u>	<u>4,143</u>	<u>36,264</u>	<u>38,191</u>	<u>211,046</u>
<i>Unallocated items:</i>								
Investment income								3,930
Share of results of associates and joint venture								(2,444)
Others (including unallocated interest income, income tax and finance costs)								12,924
Profit for the period								225,456
Segment assets including allocated goodwill	358,820	311,598	123,718	1,027,961	76,222	2,159,097	83,655	4,141,071
<i>Unallocated items:</i>								
Investment securities at FVTPL								15,519
Investment securities at FVOCI								7,040
Investment in associates and joint venture								69,851
Others								254,238
Consolidated assets								4,487,719
Segment liabilities	115,021	136,482	45,869	158,297	19,771	1,238,847	77,213	1,791,500
Due to banks	-	4,275	-	153,066	-	568,126	-	725,467
	<u>115,021</u>	<u>140,757</u>	<u>45,869</u>	<u>311,363</u>	<u>19,771</u>	<u>1,806,973</u>	<u>77,213</u>	<u>2,516,967</u>
<i>Unallocated items:</i>								
Due to banks								721,069
Others								(393,595)
Consolidated liabilities								2,844,441
Net consolidated assets								1,643,278
Capital expenditure incurred during the period	34,377	23,592	32,904	52,337	929	70,709	5,714	220,562
Unallocated								6,546
Total capital expenditure								227,108
Depreciation and amortization	28,097	24,905	10,012	77,414	8,325	75,020	3,742	227,515
Unallocated								2,017
Total depreciation and amortization								229,532

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	31 December 2017						Total KD '000
	Kuwait	Jordan	Sudan	Iraq	Bahrain	Others	
Segment revenues	331,115	150,544	126,861	333,881	59,971	27,175	1,029,547
Net profit before interest and tax	80,330	40,279	24,420	21,658	3,652	3,752	174,091
Interest income	14	238	630	141	32	164	1,219
Finance cost	-	(5,221)	-	(13,055)	(226)	(3,930)	(22,432)
Income tax expense	-	(8,046)	(5,479)	-	-	3,742	(9,783)
	<u>80,344</u>	<u>27,250</u>	<u>19,571</u>	<u>8,744</u>	<u>3,458</u>	<u>3,728</u>	143,095
<i>Unallocated items:</i>							
Investment income							781
Share of results of associates and joint venture							127
Others							20,149
Profit for the year							164,152
Segment assets including allocated goodwill	339,782	312,895	217,878	1,027,967	84,996	94,302	2,077,820
<i>Unallocated items:</i>							
Investment securities at fair value through profit or loss							778
Investment securities available for sale							16,118
Investment in associates and joint venture							188,412
Due from associates							415,759
Others							334,784
Consolidated assets							3,033,671
Segment liabilities	85,418	136,571	46,576	185,239	29,221	213,471	696,496
Due to banks	-	-	-	136,220	1,501	-	137,721
	<u>85,418</u>	<u>136,571</u>	<u>46,576</u>	<u>321,459</u>	<u>30,722</u>	<u>213,471</u>	834,217
<i>Unallocated items:</i>							
Due to banks							732,480
Others							(142,630)
Consolidated liabilities							1,424,067
Net consolidated assets							1,609,604
Capital expenditure incurred during the year	25,357	18,283	40,421	35,297	6,115	516	125,989
Unallocated							16,239
Total capital expenditure							142,228
Depreciation and amortization	42,676	28,131	14,538	75,930	14,070	8,334	183,679
Unallocated							1,371
Total depreciation and amortization							185,050

26. Subsidiaries with significant non-controlling interests

The summarized financial information for the Group's subsidiaries that have significant non-controlling interests is set out below.

	SMTC		Al Khatem, Iraq		Zain Bahrain	
	2018	2017	2018	2017	2018	2017
	KD '000					
Current assets	319,472	-	148,060	136,875	25,471	27,131
Non-current assets	1,812,454	-	710,070	721,990	50,750	57,865
Current liabilities	(595,407)	-	(233,857)	(168,327)	(19,530)	(30,464)
Non-current liabilities	(1,211,566)	-	(77,506)	(153,132)	(241)	(257)
Equity attributable to:						
- Owners of the Company	120,379	-	415,430	408,402	31,273	29,732
- Non-controlling interests	204,574	-	131,337	129,004	25,177	24,543
Revenue	323,715	-	344,131	333,881	52,988	59,971
Profit for the year	36,264	-	14,946	8,745	4,143	3,457
Other comprehensive income	(6)	-	-	-	-	-
Total comprehensive income	36,258	-	14,946	8,745	4,143	3,457
Total comprehensive income attributable to:						
- Company's shareholders	13,432	-	11,276	6,646	2,295	1,894
- Non-controlling interests	22,826	-	3,670	2,099	1,848	1,563
	36,258	-	14,946	8,745	4,143	3,457
Cash dividend paid to non-controlling Interests	-	-	-	-	(611)	(630)
Net cash flow from operating activities	207,006	-	58,889	44,085	6,343	11,280
Net cash flow from/(used in) investing activities	26,990	-	(52,655)	(48,348)	(872)	(6,080)
Net cash flow used in financing activities	(119,506)	-	(14,942)	(20,852)	(2,948)	(7,995)
Effects of exchange rate changes on cash and cash equivalents	251	-	754	(256)	3	(24)
Net increase / (decrease) in cash flows	114,741	-	(7,954)	(25,371)	2,526	(2,819)

27. 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

	2018	2017
	KD '000	
Revenue	1,239	3,421
Cost of sales	1,363	1,565
Management fee (included in other income)	2,026	3,130
Interest income on loans to an associate	11,587	22,357

Key management compensation

Salaries and other short term employee benefits	3,552	2,951
Post-employment benefits	654	439

Balances

Trade receivables	-	16,553
Trade payables	193	9,851

28. Commitments and contingencies

	2018	2017
	KD '000	
Capital commitments	127,757	37,727
Capital commitments – share of associates	-	60,835
Uncalled share capital of investee companies	963	4,685
Letters of guarantee and credit	81,809	453,691

The above includes guarantees amounting to KD Nil (2017 - KD 396.316 million) relating to loans and other vendor financing availed by SMTC.

The Company is a guarantor for credit facilities amounting to KD 7.274 million (2017 – KD 10.551 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 CMC claimed an amount of US\$ 100 million from Atheer, citing non-compliance with certain license terms. After adverse decisions of the CMC Board of Appeals, Atheer took the matter to the Iraqi courts. Finally the Civil Committee at the Court of Cassation ruled that the fine has no legal basis and decided to drop the fine. Based on the report of its attorneys, Atheer believes that this decision is final and unchallengeable.

Income taxes in Iraq

In November 2016, Atheer signed an agreement with Iraq's Ministry of Finance under which, among other concessions, it obtained the right to submit its objection to the income tax claimed by the Income Tax Authority for the years from 2004 to 2010 amounting to US\$ 244 million (KD 73.956 million). According to the terms of the agreement, Atheer had to pay minimum 25% of the amount claimed and the balance US\$ 173 million (KD 52.436 million) in fifty equal monthly instalments from December 2016. Atheer would thus reserve the right to file an objection for each of these years.

Accordingly, Atheer submitted its objections against the US\$ 244 million tax claim in November 2016 objecting to the full amount of the claim, and commenced payment of the amount agreed. As of 31 December 2018, Atheer has an obligation to pay a balance of US\$ 86 million (KD 26.067 million) (31 December 2017: US\$ 128 million, equivalent to KD 38.63 million), net of previous payments in twenty-five instalments remaining.

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 12.371 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 9.533 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 11.671 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.

Operating lease commitments – Group as lessee

The Group leases various branches, offices and transmission sites under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2018	2017
	KD '000	
Not later than 1 year	62,531	19,682
Later than 1 year and no later than 5 years	109,474	23,005
Later than 5 years	61,701	11,840
	<u>233,706</u>	<u>54,527</u>

29. Financial risk management

The Group's financial assets have been categorized as follows:

	Amortized costs	At fair value through profit or loss	Fair value through comprehensive income
	KD '000		
31 December 2018			
Cash and bank balances	311,916	-	-
Trade and other receivables	374,094	-	-
Contract assets (current and non-current)	83,002	-	-
Investment securities	-	15,519	7,040
Other assets	1,039	-	-
	<u>770,051</u>	<u>15,519</u>	<u>7,040</u>
	Loans and receivables	At fair value through profit or loss	Available for sale
	KD '000		
31 December 2017			
Cash and bank balances	244,398	-	-
Trade and other receivables	362,349	-	-
Investment securities	-	778	16,118
Dues from associates	415,759	-	-
Other assets	12,072	-	-
	<u>1,034,578</u>	<u>778</u>	<u>16,118</u>

All financial liabilities as of 31 December 2018 and 31 December 2017 are categorized as 'other than at fair value through profit or loss'.

Financial risk factors

The Group's use of financial instruments exposes it to a variety of financial risks such as market risk, credit risk and liquidity risk. The Group continuously reviews its risk exposures and takes measures to limit it to acceptable levels. The Board of Directors has the overall responsibility for the establishment and oversight of the Group's risk management framework and developing and monitoring the risk management policies in close co-operation with the Group's operating units. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and Group's activities. The Group through its training and management standards and procedures aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The Group's Board Committee oversees how management monitors compliance with the risk management policies and procedures and reviews adequacy of the risk management framework in relation to the risks faced by the Group. The Board Committee is assisted in its oversight role by the Internal audit and the Group risk management department. The significant risks that the Group is exposed to are discussed below:

(a) Market risk

(i) Foreign exchange risk

Foreign currency risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

Group management has set up a policy that requires Group companies to manage their foreign exchange risk against their functional currency. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

The Group is primarily exposed to foreign currency risk as a result of foreign exchange gains/losses on translation of foreign currency denominated assets and liabilities such as trade and other receivables, trade and other payables and due to banks. The impact on the post tax consolidated profit arising from a 10% weakening/strengthening of the functional currency against the major currencies to which the Group is exposed is given below:

Currency	2018	2017
	KD `000	
US Dollar	49,348	14,572
Euro	158	33
SAR	-	1,412

(ii) Equity price risk

This is the risk that the value of financial instruments will fluctuate as a result of changes in market prices, whether these changes are caused by factors specific to individual instrument or its issuer or factors affecting all instruments, traded in the market. The Group is exposed to equity securities price risk because of investments held by the Group and classified in the consolidated statement of financial position as FVOCI (2017: AFS). The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

The Group's investments are primarily quoted on the Kuwait Stock Exchange. The effect on the consolidated profit as a result of changes in fair value of equity instruments classified as 'at fair value through profit or loss' and the effect on equity of equity instruments classified as 'available for sale' arising from a 5% increase/ decrease in equity market index, with all other variables held constant is as follows:

Market indices	2018		2017	
	Impact on net profit	Effect on equity	Impact on net profit	Effect on Equity
KD `000				
Kuwait Stock Exchange	±322	±51	±39	±395

Profit for the year would increase/decrease as a result of gains/losses on equity securities classified as 'at fair value through profit or loss'. Equity would increase/decrease as a result of gains/losses on equity securities classified as 'available for sale'.

(iii) Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's interest rate risk arises from short-term bank deposits and bank borrowings carried at amortized cost. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group's borrowings at variable rates are denominated mainly in US Dollars.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on consolidated statement of profit or loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions. The Group manages interest rate risk by monitoring interest rate movements and by using Interest Rate Swaps to hedge interest rate risk exposures. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied.

At 31 December 2018, if interest rates at that date had been 50 basis points higher/lower with all other variables held constant, consolidated profit for the year would have been lower/higher by KD 5.81 million (2017: KD 3.773 million).

b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. Financial assets, which potentially subject the Group to credit risk, consist principally of fixed and short notice bank deposits, trade and other receivables, contract assets and loans to associates.

The Group manages the credit risk on bank balances by placing fixed and short term bank deposits with high credit rating financial institutions. Credit risk with respect to trade receivables and contract assets is limited due to dispersion across large number of customers. Group manages credit risk of customers by continuously monitoring and using experienced collection agencies to recover past due outstanding amounts. Credit risk of distributors, roaming and interconnect operators, due from associates and others including third parties on whose behalf financial guarantees are issued by the Group is managed by periodic evaluation of their credit worthiness or obtaining bank guarantees in certain cases.

Expected credit loss (ECL) measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition wherein if a financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and if the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3.

Significant increase in credit risk

When determining whether the risk of default has increased significantly since initial recognition, the Group considers quantitative, qualitative information and backstop indicators and analysis based on the Group's historical experience and expert credit risk assessment, including forward-looking information. For customer, distributors, roaming and interconnect trade receivables significant increase in credit risk criteria does not apply since the group is using simplified approach which requires use of lifetime expected loss provision.

For amounts due from banks, the Group uses the low credit risk exemption as permitted by IFRS 9 based on the external rating agency credit grades. If the financial instrument is rated below BBB- (sub investment grade) on the reporting date, the Group considers it as significant increase in credit risk.

Financial instrument is determined to have low credit risk if:

- The financial instrument has a low risk of default,
- The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

Credit impaired assets

The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full, there is sufficient doubt about the ultimate collectability; or the customer is past due for more than 90 days.

Incorporation of forward looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group has performed historical analysis and identified Gross Domestic Product (GDP) of each geography in which they operate as the key economic variables impacting credit risk and ECL for each portfolio. Relevant macro-economic adjustments are applied to capture variations from economic scenarios. These reflect reasonable and supportable forecasts of future macro-economic conditions that are not captured within the base ECL calculations. Incorporating forward-looking information increases the degree of judgement required as to how changes in GDP will affect ECLs. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

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The following table contains an analysis of the maximum credit risk exposure of financial instruments for which an ECL allowance is recognized:

	31 Dec 18				1 Jan 18	
	ECL staging					
	Stage 1	Stage 2	Stage 3	Simplified approach		
	12-month	Lifetime	Lifetime	Lifetime	Total	Total
Cash and bank balances	242,124	73,691	-	-	315,815	244,398
Less: ECL	-	-	-	-	(3,899)	(6,497)
	242,124	73,691	-	-	311,916	237,901
Customers	-	-	-	236,919	236,919	107,109
Distributors	-	-	-	22,705	22,705	8,748
Contract assets	-	-	-	87,083	87,083	56,198
Less: ECL	-	-	-	(134,414)	(134,414)	(64,207)
	-	-	-	212,293	212,293	107,848
Roaming partners	-	-	-	14,382	14,382	13,180
Other operators (interconnect)	-	-	-	42,422	42,422	27,329
Less: ECL	-	-	-	(7,585)	(7,585)	(9,972)
	-	-	-	49,219	49,219	30,537
Due from associates	-	-	-	-	-	415,759
Less: ECL	-	-	-	-	-	(1,082)
	-	-	-	-	-	414,677
Other receivables	-	37,734	-	-	37,734	54,699
Less: ECL	-	(2,940)	-	-	(2,940)	(3,022)
	-	34,794	-	-	34,794	51,677
Financial guarantees	-	7,274	-	-	7,274	10,551
Less: ECL	-	(1,129)	-	-	(1,129)	(2,631)
	-	6,145	-	-	6,145	7,920

ECL allowance of trade and other receivables are assessed as follows:

	31 Dec 18	1 Jan 18
	KD '000	KD '000
Collectively assessed	134,414	64,207
Individually assessed	10,525	14,076
	144,939	78,283

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The following table shows the movement in the loss allowance that has been recognized for trade and other receivables:

	Collectively assessed	Individually assessed	Total
	KD '000	KD '000	KD '000
1 January 2018 under IAS 39	54,635	6,564	61,199
Adjustment on initial application of IFRS 9	13,463	6,574	20,037
1 January 2018 under IFRS 9	68,098	13,138	81,236
On business combination	54,684	474	55,158
Recoveries	556	-	556
Amounts written off	(3,834)	-	(3,834)
Foreign exchange gains and losses	(371)	(1,091)	(1,462)
Net increase in loss allowance	15,281	(1,996)	13,285
31 December 2018	<u>134,414</u>	<u>10,525</u>	<u>144,939</u>

For customer, distributor and contract assets the Group uses a provision matrix based on the historic default rates observed and adjusted for forward looking factors to measure ECL as given below.

Aging brackets of postpaid trade receivables	31 Dec 18			1 Jan 18 (Restated)		
	Estimated total gross carrying amount at default	Expected credit loss rate	Lifetime ECL	Estimated total gross carrying amount at default	Expected credit loss rate	Lifetime ECL
	KD '000	%	KD '000	KD '000	%	KD '000
Not due /< 30 days	148,737	3%	5,188	68,077	9%	6,297
31 – 60 days	20,323	5%	1,049	15,622	8%	1,241
61 – 90 days	8,395	20%	1,674	4,748	35%	1,646
91 – 180 days	16,045	35%	5,673	7,619	48%	3,635
> 181 days	153,207	79%	120,830	75,989	68%	51,388
	<u>346,707</u>		<u>134,414</u>	<u>172,055</u>		<u>64,207</u>

Credit quality of roaming, interconnect and other balances:

	31 Dec 18	1 Jan 18
Credit quality – Performing	85,710	84,277
Impaired	8,828	10,931
ECL	<u>(10,525)</u>	<u>(12,994)</u>
	<u>84,013</u>	<u>82,214</u>

The net increase in the loss allowance during the year is mainly attributed to the increase in gross exposures at default, on account of acquisition of SMTC.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

As of 31 December 2017, trade receivables of KD 100.432 million were neither past due nor impaired. Trade receivables of KD 62.701 million were past due but not impaired. These related to a number of independent customers for whom there is no recent history of default. These trade receivables were uncollateralized and were due as follows:

	31 Dec 17
	KD '000
Up to 3 months	14,119
3 – 6 months	12,380
6 – 12 months	7,650
More than 12 months	28,552
	<u>62,701</u>

As of 31 December 2017, trade receivables of KD 60.18 million were impaired against which the Group carries a provision of KD 60.18 million. The individually impaired receivables mainly relate to post-paid customers. It was assessed that a portion of the impaired receivables was expected to be recovered.

(c) Liquidity risk

Liquidity risk is the risk that the Group may not be able to meet its funding requirements. The Group manages this risk by maintaining sufficient cash and marketable securities, availability of funding from committed credit facilities and its ability to close out market positions on short notice. The Company's Board of Directors increases capital or borrowings based on ongoing review of funding requirements.

The Group has committed to provide working capital and other financial support to some of its affiliates (refer note 3). Other than cash and bank balance of KD 11.356 million (2017: KD 16.001 million) equivalent held in Sudanese pounds and KD 1.848 million (2017: KD 1.017 million) held in South Sudanese pounds, all other cash and bank balance are maintained in freely convertible currencies.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the consolidated statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	KD '000			
At 31 December 2018				
Bank borrowings	489,586	218,592	1,215,650	87,871
Trade and other payables	902,830	-	-	-
Other non-current liabilities	15,072	17,908	222,787	85,932
At 31 December 2017				
Bank borrowings	234,152	163,456	416,131	133,503
Trade and other payables	466,635	201	302	478
Other non-current liabilities	-	823	-	2,625

30. Derivative financial instruments

In the ordinary course of business, the Group uses derivative financial instruments to manage its exposure to fluctuations in interest and foreign exchange rates. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price of one or more underlying financial instruments, reference rate or index.

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.

	Notional amounts by term to maturity		
	Positive fair value	Negative fair value	Notional amount
	KD '000		
At 31 December 2018:			
<i>Derivatives held for hedging:</i>			
<i>Cash flow hedges</i>	-	1,749	241,350
Profit rate swaps			
At 31 December 2017:			
<i>Derivatives held for hedging:</i>			
<i>Cash flow hedges</i>			
Profit rate swaps - share of an associate	-	78	96,454

Interest rate swaps are contractual agreements between two parties to exchange interest based on notional value in a single currency for a fixed period of time. The Group uses interest rate swaps to hedge changes in interest rate risk arising from floating rate borrowings.

31. Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide return on investment to shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In managing capital, the Group considers the financial covenants in various loan agreements that require the Group to maintain specific levels of debt-equity and leverage ratios.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt.

The gearing ratios at the consolidated statement of financial position dates were as follows:

	2018	2017
	KD '000	
Total borrowings (refer note 15)	1,446,536	870,201
Less: Cash and bank balances (refer note 4)	<u>(311,916)</u>	<u>(244,398)</u>
Net debt	1,134,620	625,803
Total equity	1,643,278	1,609,604
Total capital	<u>2,777,898</u>	<u>2,235,407</u>
Gearing ratio	41%	28%

32. Fair value of financial instruments

The fair value hierarchy of the Group's financial instruments is as follows.

31 December 2018

	Level 1	Level 2	Level 3	Total
	KD '000			
Financial assets at fair value:				
Investments at fair value through profit or loss	3,829	11,690	-	15,519
Investments at fair value through other comprehensive income	1,012	875	5,153	7,040
Total assets	<u>4,841</u>	<u>12,565</u>	<u>5,153</u>	<u>22,559</u>

31 December 2017

	Level 1	Level 2	Level 3	Total
	KD '000			
Financial assets at fair value:				
Investments at fair value through profit or loss	778	-	-	778
Available for sale investments	3,347	7,925	-	11,272
Total assets	<u>4,125</u>	<u>7,925</u>	<u>-</u>	<u>12,050</u>

Available for sale investments include unlisted securities amounting to KD Nil (31 December 2017 – KD 4.846 million) carried at cost less impairment since it is not possible to reliably measure their fair value.

Fair values of the financial instruments carried at amortized cost approximate their carrying value. This is based on level 3 inputs, with the discount rate that reflects the credit risk of counterparties, being the most significant input.

During the year, there were no transfers between any of the fair value hierarchy levels.

33. Net monetary gain

Following management's assessment, the Group's subsidiary in South Sudan was accounted for as an entity operating in hyperinflationary economy since 2016.

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

	<u>Index</u>	<u>Conversion factor</u>
31 December 2018	6,306	1.00
31 December 2017	4,502	1.40
31 December 2016	2,068	3.05
31 December 2015	357	17.67
31 December 2014	170	37.09
31 December 2013	155	40.76

Based on the above, the Group determined net monetary gain to be local currency equivalent of KD 46.935 million (2017: KD 45.789 million) stated net of the foreign exchange loss on the monetary amount of the Group's net investment in South Sudan.

The Group then reduced the restated carrying value of property and equipment to its recoverable amount and recognized the resultant decline as an impairment loss of KD 9.648 million (31 December 2017: KD 37.826 million). The recoverable amount was computed at the fair value less cost of disposal determined using the current replacement cost, with level 3 inputs of the fair value hierarchy and service capacity assessment being the most significant unobservable input. 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.

34. Significant accounting judgments and estimates

In accordance with the accounting policies contained in IFRS and adopted by the Group, management makes the following judgments and estimations that may significantly affect amounts reported in these consolidated financial statements.

Judgments

Business combinations

To allocate the cost of a business combination management exercises significant judgment to determine identifiable assets, liabilities and contingent liabilities whose fair value can be reliably measured, to determine provisional values on initial accounting and final values of a business combination and to determine the amount of goodwill and the Cash Generating Unit to which it should be allocated.

Consolidation of entities in which the Group holds less than a majority of voting right (de facto control)

The Group considers that it controls SMTC though it owns less than 50% of the voting rights. In assessing whether the Group has de factor control management exercised significant judgment which takes into account many factors such as it being the single largest shareholder in SMTC, its majority representation in the Board, voting patterns of other dominant shareholders etc.

Identifying performance obligations in a bundled sale of equipment and installation services

The Group provides telecommunications services that are either sold separately or bundled together with the sale of equipment (hand sets) to a customer. The Group uses judgement in determining whether equipment and services are capable of being distinct. The fact that the Group regularly sells both equipment and services on a stand-alone basis indicates that the customer can benefit from both products on their own. Consequently, the Group allocated a portion of the transaction price to the equipment and the services based on relative stand-alone selling prices.

Principal versus agent considerations

Revenue from value added services (VAS) sharing arrangements depend on the analysis of the facts and circumstances surrounding these transactions. The determination of whether the Group is acting as an agent or principal in these transactions require significant judgement and depends on the following factors:

- The Group is primarily responsible for fulfilling the promise to provide the service.
- Whether the Group has inventory risk
- Whether the Group has discretion in establishing the price

Consideration of significant financing component in a contract

The Group sells bundled services on a monthly payment scheme over a period of one to two years.

In concluding whether there is a significant financing component in a contract requires significant judgements and is dependent on the length of time between the customers payment and the transfer of equipment to the customer, as well as the prevailing interest rates in the market. The Group has concluded that there is no significant financing component in its contract with customers after such assessment.

In determining the interest to be applied to the amount of consideration, the Group has concluded that the interest rate implicit in the contract (i.e., the interest rate that discounts the cash selling price of the equipment to the amount paid in advance) is appropriate because this is commensurate with the rate that would be reflected in a separate financing transaction between the entity and its customer at contract inception.

Assets held for sale

In 2017, the Board of Directors announced its decision to sell some of the telecom tower assets in Kuwait. This is considered to have met the criteria as held for sale for the following reasons:

- These assets are available for immediate sale and can be sold to the buyer in its current condition
- The actions to complete the sale were initiated and expected to be completed within one year from the date of initial classification
- A potential buyer has been identified and negotiations as at the reporting date are at an advance stage

These assets continued to be classified as non-current assets held for sale as the Group is committed to its plan to sell the assets and the delay was caused due to events and circumstances beyond the Group's control.

Classification of equity investments

On 1 January 2018, i.e, the date of initial application of IFRS 9, or 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.

Prior to 1 January 2018, the Group on acquisition of an investment decided whether it should be classified as "at fair value through profit or loss", "available for sale" or as "loans and receivables". In making that judgement the Group considered the primary purpose for which it was acquired and how it intended to manage and report its performance. Such judgment determined whether it was subsequently measured at cost or at fair value and if the changes in fair value of instruments were reported in the consolidated statement of profit or loss or directly in equity.

Impairment

Prior to 1 January 2018, when there is a significant or prolonged decline in the value of an "available for sale" quoted investment security management uses objective evidence to judge if it may be impaired. At each statement of financial position date, management assessed, whether there was any indication that non-financial assets may be impaired. The determination of impairment required considerable judgment and involved evaluating factors including, industry and market conditions.

Contingent liabilities

Contingent liabilities are potential liabilities that arise from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Provisions for liabilities are recorded when a loss is considered probable and can be reasonably estimated. The determination of whether or not a provision should be recorded for any potential liabilities or litigation is based on management's judgment.

Hyperinflation

The Group exercises significant judgement in determining the onset of hyperinflation in countries in which it operates and whether the functional currency of its subsidiaries, associates or joint venture is the currency of a hyperinflationary economy.

Various characteristics of the economic environment of each country are taken into account. These characteristics include, but are not limited to, whether:

- the general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency;
- prices are quoted in a relatively stable foreign currency;
- sales or purchase prices take expected losses of purchasing power during a short credit period into account;
- interest rates, wages and prices are linked to a price index; and
- the cumulative inflation rate over three years is approaching, or exceeds, 100%.

Management exercises judgement as to when a restatement of the financial statements of a Group entity becomes necessary.

Sources of estimation uncertainty

Fair values - unquoted equity investments and business combinations

The valuation techniques for unquoted equity investments and identifiable assets, liabilities and contingent liabilities arising in a business combination make use of estimates such as future cash flows, discount factors, yield curves, current market prices adjusted for market, credit and model risks and related costs and other valuation techniques commonly used by market participants where appropriate.

Provision for expected credit losses of customer, distributor receivables and contract assets

The Group uses a provision matrix to calculate ECLs for customer, distributor receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns. The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year, which can lead to an increased number of defaults the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in Note 29.

Prior to 1 January 2018, the Group estimated an allowance for doubtful receivables based on past collection history and expected cash flows from debts that were overdue.

Tangible and intangible assets

The Group estimates useful lives and residual values of tangible assets and intangible assets with definite useful lives. Changes in technology or intended period of use of these assets as well as changes in business prospects or economic industry factors may cause the estimate useful of life of these assets to change.

Taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes a liability for anticipated taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Any changes in the estimates and assumptions used as well as the use of different, but equally reasonable estimates and assumptions may have an impact on the carrying values of the deferred tax assets.

Impairment of non-financial assets

The Group annually tests non-financial assets for impairment to determine their recoverable amounts based on value-in-use calculations or at fair value less costs to sell. The value in use includes estimates on growth rates of future cash flows, number of years used in the cash flow model and the discount rates. The fair value less cost to sell estimate is based on recent/intended market transactions and the related EBITDA multiples used in such transactions.

35. 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:

	KD `000
Consideration transferred in cash	200
Acquisition date fair value of the previously held equity interest	133,720
Non-controlling interest share	181,483
	<u>315,403</u>
Less	
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	103,802
Trade and other receivables	138,937
Inventories	6,990
Property and equipment	504,878
Intangible assets	1,304,250
Other assets	44,161
Trade and other payables	(388,360)
Due to banks	(657,143)
Other non-current liabilities	(769,240)
Total identifiable net assets	<u>288,275</u>
Goodwill arising from business combination	27,128

The net cash on acquisition of the above subsidiary and others amounted to KD 101.993 million (2017: cash outflow of KD 0.516 million).

The above goodwill is attributable to the profitability of the acquired business. From the date of acquisition, SMTC contributed revenues of KD 323.715 million and profit for the period of KD 36.264 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 consolidated statement of profit or loss, net of amounts reclassified from other comprehensive income.