

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

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

**31 December 2019**

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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 2019, 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 2019, 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 describes the uncertainty related to the outcome of a claim against the Group's 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.

##### *a) Revenue recognition*

The Group has recognized revenue from telecom services amounting to KD 1,661 million for the year ended 31 December 2019. There is an inherent risk around the accuracy of telecom services revenue recognition because of the complexity of the related Information Technology ("IT") environment, the processing of large volumes of data through a number of different IT systems and the combination of different products, prices and price changes. 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 2.18 and the related disclosures are disclosed in note 19 and note 25 to the consolidated financial statements.

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

Our audit procedures included an evaluation of the relevant IT systems, with the assistance of our internal IT specialists, and the design and implementation of internal controls related to revenue recognition. We also tested the operating effectiveness of controls over the 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 the determination of standalone selling prices and their allocation to identified performance obligations in accordance with IFRS 15 Revenue from Contracts with Customers. We also assessed the disclosures in the financial statements relating to this matter against the requirements of IFRSs.

### *b) Impairment of Goodwill*

As at 31 December 2019, goodwill is carried at KD 608 million which represents 12.8% of the total assets. The impairment test of goodwill performed by 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 telecommunications 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 2.11 and related disclosure is in note 12 to the consolidated financial statements.

We evaluated the design and implementation of controls over the impairment assessment process. With the support of our internal 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 against the requirements of IFRSs.

### *c) Adoption of IFRS 16 Leases*

The Group applied IFRS 16, which replaced IAS 17 Leases and the related interpretations from the date of its initial application of 1 January 2019, which resulted in changes to accounting policies. The Group has elected not to restate comparative information in accordance with the transitional provisions contained within IFRS 16. The first time adoption of the standard as at 1 January 2019, resulted in the recognition of, right of use assets and lease liabilities with a total impact on retained earnings as disclosed in Note 2.2.1 to the consolidated financial statements.

We have considered this as a key audit matter because the adoption and implementation of IFRS 16 resulted in significant changes to the consolidated financial statements of the Group, along with changes to processes, systems and controls and also because of the number of judgements which have been applied and the estimates made in determining the impact of IFRS 16,. The accounting policy for leases is set out in note 2.17 to the consolidated financial statements and the impact on initial recognition is set out in note 2.25.

Our audit procedures included understanding the process followed by the Group in adopting of IFRS 16 and the identification of internal controls including entity level controls adopted by the Group for the accounting, processes and systems under the new accounting standard. We assessed the design and implementation of key controls pertaining to the application of IFRS 16. Our substantive tests included, verifying the completeness of underlying lease contracts considered for application of IFRS 16 as on the date of transition; verifying on a sample basis the accuracy of recognised right of use assets and lease liabilities both on the transition date as well as the reporting date, the incremental borrowing rates used for discounting the future lease payments, whether the lease term used is the enforceable lease term as defined in IFRS 16, the key judgments and estimates applied by the management and whether the disclosures, including those relating to the transition to IFRS 16, is in accordance with the requirements of IFRS 16.

### **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 2019. 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 2019 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.



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

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.

- 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.
- 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.

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

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 year 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 2019 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  
12 February 2020

Consolidated Statement of Financial Position as at 31 December 2019

	Note(s)	2019	2018 Restated
			KD '000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and bank balances	4	296,985	311,916
Trade and other receivables	5	555,398	521,534
Contract assets	19.2	66,889	66,062
Inventories	6	48,513	45,957
Investment securities at fair value through profit or loss	7	8,540	15,519
Assets of disposal group classified as held for sale	8	17,611	7,656
		<u>993,936</u>	<u>968,644</u>
<b>Non-current assets</b>			
Contract assets	19.2	28,134	16,940
Investment securities at FVOCI	7	6,360	7,040
Investments in associates and joint venture	9	72,612	69,851
Other non-current assets		64,669	68,755
Right of use of assets	10	181,052	-
Property and equipment	11	1,229,291	1,193,222
Intangible assets and goodwill	12	2,160,039	2,192,218
		<u>3,742,157</u>	<u>3,548,026</u>
<b>Total Assets</b>		<u>4,736,093</u>	<u>4,516,670</u>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Trade and other payables	13	857,512	952,638
Deferred revenue	19.2	98,495	105,308
Liabilities of disposal group classified as held for sale	8	5,397	-
Income tax payables	14	61,775	11,863
Due to banks	15	180,274	412,971
Lease liabilities	16	42,795	-
		<u>1,246,248</u>	<u>1,482,780</u>
<b>Non-current liabilities</b>			
Due to banks	15	1,218,450	1,033,565
Lease liabilities	16	144,278	-
Other non-current liabilities	17	448,518	336,325
		<u>1,811,246</u>	<u>1,369,890</u>
<b>Equity</b>			
<b>Attributable to the Company's shareholders</b>			
Share capital	18	432,706	432,706
Share premium		1,707,164	1,707,164
Legal reserve	18	216,354	216,353
Foreign currency translation reserve	18	(1,371,841)	(1,367,018)
Investment fair valuation reserve		(1,088)	864
Other reserves		(3,044)	(4)
Retained earnings		318,509	287,143
		<u>1,298,760</u>	<u>1,277,208</u>
Non-controlling interests	26	379,839	386,792
<b>Total equity</b>		<u>1,678,599</u>	<u>1,664,000</u>
<b>Total Liabilities and Equity</b>		<u>4,736,093</u>	<u>4,516,670</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 2019**

		<b>2019</b>	<b>2018</b>
	Note(s)	<b>KD '000</b>	
Revenue	19.1	1,660,890	1,317,613
Cost of sales		(459,135)	(375,517)
Operating and administrative expenses	20.a	(434,436)	(409,996)
Depreciation and amortization	10,11,12	(375,954)	(229,532)
Expected credit loss on financial assets (ECL)		(38,886)	(13,188)
Interest income		7,098	18,320
Investment income	21	1,007	3,930
Share of results of associates and joint venture	9	2,762	(2,444)
Other income/ (expenses)	20.b	38,955	(41,696)
Gain on business combination	35	-	30,931
Finance costs		(110,723)	(69,173)
Provision for impairment loss on property and equipment	33	-	(9,648)
Loss from currency revaluation		(13,058)	(14,764)
Net monetary gain	33	5,074	46,935
<b>Profit before contribution to KFAS, NLST, Zakat, income taxes and Board of Directors' remuneration</b>		283,594	251,771
Contribution to Kuwait Foundation for Advancement of Sciences		(2,200)	(1,667)
National Labour Support Tax and Zakat	22	(7,082)	(4,476)
Income tax expenses and other levies	23	(25,253)	(19,752)
Board of Directors' remuneration		(510)	(420)
<b>Profit for the year</b>		<b>248,549</b>	<b>225,456</b>
<b>Attributable to:</b>			
Shareholders of the Company		216,928	196,500
Non-controlling interests		31,621	28,956
		<b>248,549</b>	<b>225,456</b>
<b>Earnings per share (EPS)</b>			
Basic and diluted – Fils	24	50	45

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 2019**

	<b>2019</b>	<b>2018</b>
		<b>KD '000</b>
<b>Profit for the year</b>	248,549	225,456
<b>Other comprehensive income:</b>		
<i>Other comprehensive income transferred or reclassifiable to consolidated statement of profit or loss in subsequent periods:</i>		
Exchange differences on translating foreign operations	(5,029)	(160,697)
Other reserves	(8,206)	(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>235,314</u>	<u>47,934</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	<u>(1,952)</u>	<u>(857)</u>
<b>Total comprehensive income for the year</b>	<u><u>233,362</u></u>	<u><u>47,077</u></u>
<b>Attributable to:</b>		
Shareholders of the Company	207,113	18,416
Non-controlling interests	<u>26,249</u>	<u>28,661</u>
	<u><u>233,362</u></u>	<u><u>47,077</u></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 2019**

	Equity attributable to Company' shareholders						Retained earnings	Non-controlling interests	Total equity
	Share capital	Share premium	Legal reserve	Foreign currency translation reserve	Investment fair valuation reserve	Other reserves			
									<b>KD '000</b>
Balance at 31 December 2018	432,706	1,707,164	216,353	(1,367,018)	864	(4)	287,143	366,070	1,643,278
Adjustment on purchase price allocation (note 35)	-	-	-	-	-	-	-	20,722	20,722
Balance at 31 December 2018 (restated)	432,706	1,707,164	216,353	(1,367,018)	864	(4)	287,143	386,792	1,664,000
Transition adjustment on adoption of IFRS 16 at 1 January 2019 (note 2.2.1)	-	-	-	-	-	-	(21,282)	(17,456)	(38,738)
Transition adjustment on adoption of IFRIC 23 at 1 January 2019 (note 2.2.2)	-	-	-	-	-	-	(34,279)	(10,861)	(45,140)
Balance as at 1 January 2019 (restated)	432,706	1,707,164	216,353	(1,367,018)	864	(4)	231,582	358,475	1,580,122
Total comprehensive income for the year	-	-	-	(4,823)	(1,952)	(3,040)	216,928	26,249	233,362
On business combinations	-	-	-	-	-	-	(188)	188	-
Transfer to reserves	-	-	1	-	-	-	(1)	-	-
Cash dividends (2018) (note 18)	-	-	-	-	-	-	(129,812)	-	(129,812)
Cash dividends to minority shareholders of subsidiaries (2018)	-	-	-	-	-	-	-	(5,073)	(5,073)
Balance at 31 December 2019	<u>432,706</u>	<u>1,707,164</u>	<u>216,354</u>	<u>(1,371,841)</u>	<u>(1,088)</u>	<u>(3,044)</u>	<u>318,509</u>	<u>379,839</u>	<u>1,678,599</u>
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	-	-	-	-	(2,218)	-	(39,141)	(1,357)	(42,716)
Balance as at 1 January 2018 (restated)	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>864</u>	<u>(4)</u>	<u>287,143</u>	<u>366,070</u>	<u>1,643,278</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 2019**

	Note(s)	<b>2019</b>	<b>2018</b>
		<b>KD '000</b>	
<b>Cash flows from operating activities</b>			
Profit for the year before income tax, KFAS, NLST, and Zakat		283,084	251,351
Adjustments for:			
Depreciation and amortization	10,11,12	375,954	229,532
ECL on financial assets		38,886	13,188
Interest income		(7,098)	(18,320)
Investment income	21	(1,007)	(3,930)
Share of results of associates and joint venture	9	(2,762)	2,444
Other income/ (expenses)	20.b	(38,955)	41,696
Gain on business combination	35	-	(30,931)
Finance costs		110,723	69,173
Provision for impairment loss on property and equipment	11,33	-	9,648
Loss from currency revaluation		13,058	14,764
Net monetary gain	33	(5,074)	(46,935)
Loss on sale of property and equipment		1,400	202
Operating profit before working capital changes		768,209	531,882
Increase in trade and other receivables		(99,916)	(84,716)
Increase in inventories		(243)	(3,730)
Increase in trade and other payables and deferred revenue		4,495	70,706
<i>Cash generated from operations</i>		<u>672,545</u>	<u>514,142</u>
<i>Payments:</i>			
Income tax		(16,614)	(10,629)
Kuwait Foundation for Advancement of Sciences (KFAS)		(771)	(319)
National Labour Support Tax and Zakat		(3,349)	(5,492)
<i>Net cash from operating activities</i>		<u>651,811</u>	<u>497,702</u>
<b>Cash flows from investing activities</b>			
Deposits maturing after three months and cash at bank under lien	4	(7,403)	30,286
Proceeds from sale of investment securities		7,916	1,919
Investments in securities		(325)	(4,132)
Increase in dues from associates		-	(7,039)
Acquisition of property and equipment (net)		(282,799)	(173,837)
Acquisition of intangible assets (net)		(33,417)	(43,977)
Net cash on acquisition of subsidiaries		(11,703)	101,993
Interest received		5,749	6,028
Dividends received		383	253
<i>Net cash used in investing activities</i>		<u>(321,599)</u>	<u>(88,506)</u>
<b>Cash flows from financing activities</b>			
Proceeds from bank borrowings	15	540,727	203,019
Repayment of bank borrowings	15	(587,387)	(288,901)
Repayment of lease liabilities		(59,114)	-
Dividends paid to Company's shareholders		(129,705)	(151,017)
Dividends paid to minority shareholders of subsidiaries		(5,047)	(1,569)
Finance costs paid – due to banks		(112,438)	(52,966)
<i>Net cash used in financing activities</i>		<u>(352,964)</u>	<u>(291,434)</u>
<b>Net (decrease)/ increase in cash and cash equivalents</b>			
		(22,752)	117,762
Effects of exchange rate changes on cash and cash equivalents		418	(13,461)
Transition adjustment on adoption of IFRS 9		-	(6,497)
Cash and cash equivalents at beginning of year		304,236	206,432
Cash and cash equivalents at end of year	4	<u>281,902</u>	<u>304,236</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 2018 - 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 12 February 2020 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 (KD), 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 2016 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 2019.

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.

#### 2.2.1. Impact of adoption of IFRS 16 Leases

In the current year, the Group applied IFRS 16 Leases that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

The Group has opted for the modified retrospective application permitted by IFRS 16 upon adoption of the new standard. The Group did not restate any comparative information, instead the cumulative effect of applying the standard is recognised as an adjustment to the opening balance of retained earnings at the date of initial application.

The accounting policies of this new standard are disclosed in note 2.17. The impact of the adoption of IFRS 16 on the Group's consolidated financial statements is described below.

##### (a) Impact of the new definition of a lease

The Group has made 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 be applied to those leases entered or changed before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

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

##### (b) Impact on Lessee Accounting

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

Applying IFRS 16, for all leases (except as noted below), the Group:

- Recognises right-of-use assets for property leases on a retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.
- Recognises lease liabilities at the present value of the remaining lease payments, discounted using the incremental borrowing rate as of 1 January 2019.
- Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
- separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cash flows.

Lease incentives (e.g. rent free period) are 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 incentive, amortised as a reduction of rental expenses on a straight line basis.

Payments associated with leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Low-value assets comprise Information Technology (IT) equipment and small items of office furniture.

Notes to the Consolidated Financial Statements – 31 December 2019

The Group has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17.

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

c) Financial impact of initial application of IFRS 16

The lessees incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on 1 January 2019 ranges from 3.5% to 21%.

The following table shows the operating lease commitments disclosed applying IAS 17 at 31 December 2018, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognized in the statement of financial position at the date of initial application.

	<b>KD'000</b>
<b>Operating lease commitments disclosed as at 31 December 2018</b>	233,706
Discounted using the lessee's incremental borrowing rate of at the date of initial application	205,774
<b>Lease liability recognised as at 1 January 2019</b>	205,774
Current and non-current amounts are as follows:	
Current lease liabilities	44,132
Non-current lease liabilities	161,642
	205,774

Net impact from the adoption of IFRS 16 on opening statement of financial position as at 1 January 2019 is as follows:

	<b>KD'000</b>		
	<b>31 December 2018</b>	<b>Increase/ (decrease)</b>	<b>1 January 2019</b>
Right of use of assets (including held for sale assets)	-	199,571	199,571
Trade and other receivables	537,999	(32,730)	505,269
Lease liabilities (including held for sale liabilities)	-	205,774	205,774
Accrued expenses	-	(195)	(195)
Retained earnings	287,143	(21,282)	265,861
Non-controlling interests	366,070	(17,456)	348,614

**2.2.2. Impact of adoption of IFRIC 23 Uncertainty over Income Tax Treatments**

The Group has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Group 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 Group 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 Group should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

The Group has not restated comparative information, instead recognised the cumulative effect of initially applying the Interpretation as an adjustment to the opening balance of retained earnings.

Accordingly the management determined an additional tax liability of KD 45.140 million for the years 2011 to 2018 which was adjusted to opening retained earnings as on 1st January 2019.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2019 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 Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

<b><u>New and revised IFRSs</u></b>	<b><u>Effective for annual periods beginning on or after</u></b>
Definition of Material - Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	January 1, 2020
The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'	
Definition of a Business – Amendments to IFRS 3 <i>Business Combinations</i>	January 1, 2020
The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. IASB also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'.	
The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.	
Amendments to references to the Conceptual Framework in IFRS Standards.	January 1, 2020
Amendments to references to the Conceptual Framework in IFRS Standards related 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.	
IFRS 7 Financial Instruments: Disclosures and IFRS 9 — Financial Instruments	January 1, 2020
Amendments regarding pre-replacement issues in the context of the IBOR reform	
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 an investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

The management does not expect the adoption of the Standards and Interpretations listed above to have a material impact on the consolidated financial statements of the Group in future periods.

### **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.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (one year from acquisition date), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that 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, trade and other receivables, investments, trade and other payables, lease liabilities, due to banks and derivatives.

### **Classification**

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.

### **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”.

### **Recognition/derecognition**

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.

If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification is recognised in profit or loss as the modification gain or loss within other gains and losses.

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”.

#### *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, 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.

Change in fair value and Dividend income are recorded in consolidated statement of profit or loss. Dividend income is recognized, according to the terms of the contract, 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.

### **Impairment**

The Group apply forward looking 'Expected Credit Loss' (ECL) model, under IFRS 9 to calculate impairment.

Group recognizes ECL for cash and bank balances, other receivables using the general approach and uses the simplified approach for trade receivables and 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.

To measure the expected credit losses, trade receivables 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.

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

### **Derivative financial instruments and hedging activities**

As permitted by IFRS 9 the Group has elected to continue to apply the hedge accounting requirements of IAS 39. 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, Indefeasible Rights of Use (IRU), reacquired rights 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. Software rights are amortized on a straight line basis over a period of five to eight years.

### *Reacquired rights*

These represents rights which were previously granted to the acquiree to use one or more of the recognized or unrecognized assets of the acquirer, but reacquired as part of a business combination. These reacquired rights are measured on the basis of the remaining contractual term of the related contract regardless of whether market participants would consider potential contractual renewals of the contract or other binding arrangement in determining its fair value.

A reacquired right is an identifiable intangible asset and is recognized separately from goodwill and are amortised over the remaining contractual period in which the right was granted.

### *IRUs*

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 and equipment, right of use of assets 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**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Group supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

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 Accounting for leases

*Policy applicable from 1 January 2019*

*The Group as a lessee*

The Group assesses whether contract is or contains a lease, at inception of the Contract. The Group recognizes a right of use asset and a corresponding lease liability on the date on which the lessor makes the asset available for use by the Group (the commencement date).

On that date, the Group measures the right of use at cost, which comprises of:

- the amount of the initial measurement of the lease liability.
- any lease payments made at or before the commencement date, less any lease incentives received
- any initial direct costs, and
- an estimate of costs to be incurred to restoring the underlying asset to the condition required by the terms and conditions of the lease as a consequence of having used the underlying asset during a particular period; this is recognised as part of the cost of the right of use asset when the Group incurs the obligation for those costs, which may be at the commencement date or as a consequence of having used the asset during a particular period.

At the commencement date, the Group measures the lease liability at the present value of the lease payments that are not paid at that date. On that date, the lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Payments associated with leases of short term leases and low-value assets are recognized on a straight-line basis as an expense in profit or loss.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

### Subsequent Measurement

After the commencement date, the Group measures the right-of-use asset at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight line basis over the shorter of the asset's useful life and the lease term. The Group determines whether a right of use asset is impaired and recognizes any impairment loss identified in the statement of profit or loss. The depreciation starts at the commencement date of the lease.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for an identified impairment loss as described in note 2.12.

After the commencement date, the Group measures lease liability by increasing the carrying amount to reflect interest on the lease liability and reducing the carrying amount to reflect the lease payment made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Each lease payment is allocated between the liability and the finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The constant periodic rate of interest is the discount rate used at the initial measurement of lease liability.

For a contracts that contain a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

#### Sale and leaseback

The Group enters into sale and leaseback transactions whereby it sells certain assets to a third-party and immediately leases them back. Where sale proceeds received are judged to reflect the fair value, any gain or loss arising on disposal is recognised in the statement of profit or loss, to the extent that it relates to the rights that have been transferred. Gains and losses that relate to the rights that have been retained are included in the carrying amount of the right of use asset recognised at commencement of the lease. Where sale proceeds received are not at the fair value, any below market terms are recognised as a prepayment of lease payments, and above market terms are recognised as additional financing provided by the lessor.

#### ***Where the Group is the lessor***

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

When a contract includes lease and non-lease components, the Company applies IFRS 15 to allocate consideration under the contract to each component.

#### ***Policy applicable before 1 January 2019***

##### *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.

Where the Group is lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

**2.18 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. The contract's transaction price is allocated to each performance obligation based on their relative stand-alone selling price. This results in reallocation of a portion of revenue from trading revenue to service revenue and correspondingly creation of a contract assets. 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*

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.

**2.19 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.

**2.20 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.

**2.21 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 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.

## **2.22 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.

## **2.23 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.

## **2.24 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.

2.25 Impact of adoption of IFRS 16 – Transition

(a) The following table summarizes the impact on statement of financial position as at 31 December 2019:

	KD'000		
	As reported	IFRS 16 adjustments	Amounts without adoption of IFRS 16
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and bank balances	296,985	-	296,985
Trade and other receivables	555,398	32,424	587,822
Contract assets	66,889	-	66,889
Inventories	48,513	-	48,513
Investment securities at fair value through profit or loss	8,540	-	8,540
Assets of disposal group classified as held for sale	17,611	(9,955)	7,656
	<u>993,936</u>	<u>22,469</u>	<u>1,016,405</u>
<b>Non-current assets</b>			
Contract assets	28,134	-	28,134
Investment securities at FVOCI	6,360	-	6,360
Investments in associates and joint venture	72,612	-	72,612
Other non-current assets	64,669	-	64,669
Right of use of assets	181,052	(181,052)	-
Property and equipment	1,229,291	-	1,229,291
Intangible assets and goodwill	2,160,039	-	2,160,039
	<u>3,742,157</u>	<u>(181,052)</u>	<u>3,561,105</u>
<b>Total Assets</b>	<u>4,736,093</u>	<u>(158,583)</u>	<u>4,577,510</u>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Trade and other payables	857,512	4,296	861,808
Deferred revenue	98,495	-	98,495
Liabilities of disposal group classified as held for sale	5,397	(5,397)	-
Income tax payables	61,775	-	61,775
Due to banks	180,274	-	180,274
Lease liabilities	42,795	(42,795)	-
	<u>1,246,248</u>	<u>(43,896)</u>	<u>1,202,352</u>
<b>Non-current liabilities</b>			
Due to banks	1,218,450	-	1,218,450
Lease liabilities	144,278	(144,278)	-
Other non-current liabilities	448,518	-	448,518
	<u>1,811,246</u>	<u>(144,278)</u>	<u>1,666,968</u>
<b>Equity</b>			
<b>Attributable to the Company's shareholders</b>			
Share capital	432,706	-	432,706
Share premium	1,707,164	-	1,707,164
Legal reserve	216,354	-	216,354
Foreign currency translation reserve	(1,371,841)	-	(1,371,841)
Investment fair valuation reserve	(1,088)	-	(1,088)
Other reserves	(3,044)	-	(3,044)
Retained earnings	318,509	14,314	332,823
	<u>1,298,760</u>	<u>14,314</u>	<u>1,313,074</u>
Non-controlling interests	379,839	15,277	395,116
<b>Total equity</b>	<u>1,678,599</u>	<u>29,591</u>	<u>1,708,190</u>
<b>Total Liabilities and Equity</b>	<u>4,736,093</u>	<u>(158,583)</u>	<u>4,577,510</u>

Notes to the Consolidated Financial Statements – 31 December 2019

- (b) The following table summarizes the impact on the consolidated statement of profit or loss for the year ended 31 December 2019:

	Year ended 31 December 2019		
	As reported	IFRS 16 adjustments	Amounts without adoption of IFRS 16
Revenue	1,660,890	-	1,660,890
Cost of sales	(459,135)	-	(459,135)
Operating and administrative expenses	(434,436)	(73,061)	(507,497)
Depreciation and amortization	(375,954)	50,837	(325,117)
Expected credit loss on financial assets (ECL)	(38,886)	-	(38,886)
Interest income	7,098	-	7,098
Investment income	1,007	-	1,007
Share of results of associates and joint venture	2,762	-	2,762
Other income	38,955	(118)	38,837
Finance costs	(110,723)	13,273	(97,450)
Loss from currency revaluation	(13,058)	-	(13,058)
Net monetary gain	5,074	-	5,074
<b>Profit before contribution to KFAS, NLST, ZAKAT, income taxes and Board of Directors' remuneration</b>	<b>283,594</b>	<b>(9,069)</b>	<b>274,525</b>
Contribution to Kuwait foundation for Advancement of Sciences	(2,200)	-	(2,200)
National Labour Support Tax and Zakat	(7,082)	-	(7,082)
Income tax expenses and other levies	(25,253)	(78)	(25,331)
Board of Directors' remuneration	(510)	-	(510)
<b>Profit for the year</b>	<b>248,549</b>	<b>(9,147)</b>	<b>239,402</b>
<b>Attributable to:</b>			
Shareholders of the Company	216,928	(6,968)	209,960
Non-controlling interests	31,621	(2,179)	29,442
	<b>248,549</b>	<b>(9,147)</b>	<b>239,402</b>

**3. Subsidiaries and Associates/Joint Venture**

The principal subsidiaries and associates/joint venture are:

<b>Subsidiary</b>	<b>Country of incorporation</b>	<b>Percentage of ownership</b>	
		<b>2019</b>	<b>2018</b>
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")	Kingdom of Saudi Arabia	37.045%	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	86.7%	84.66%

**Associate/Joint Venture**

Zain Al Ajial S.A (Wana Corporate S.A is an associate of this joint venture)	Morocco	50%	50%
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Pella owns 100% of Jordan Mobile Telecommunications Services Co. JSC – "JMTS".

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 (KSA) respectively. MTCL manages the state owned cellular mobile telecommunications network in Lebanon. Mada Jordan provides WiMAX services in Jordan.

**Lebanon**

The Group's Network Management Agreement (NMA) with the Government of Lebanon to manage the state owned cellular mobile telecommunications network was not renewed on its expiry on 31 December 2019. The Group was requested to continue to manage the network for another sixty days from the approval of the above by the Presidency of the Council of Ministers, to facilitate the handover to the Government. Accordingly the financial statements of MTCL included in this consolidated financial statements is prepared on a non-going concern basis.

**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 from that period.

The initial accounting of this business combination was carried out using provisional values of identifiable assets, liabilities and contingent liabilities. The Group restated comparative figures as disclosed in note 35 to give effect to adjustments arising from the purchase price allocation (PPA) completed during the year.

**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:

	<b>2019</b>	<b>2018</b>
	<b>KD '000</b>	
Cash on hand and at banks	132,576	141,699
Short-term deposits with banks	180,931	174,014
Government certificates of deposits held by subsidiaries	108	102
	<u>313,615</u>	<u>315,815</u>
Expected credit loss	(16,630)	(3,899)
	<u>296,985</u>	<u>311,916</u>
Cash at bank under lien	(14,975)	(7,578)
Government certificates of deposits with maturities exceeding three months held by subsidiaries	(108)	(102)
	<u>281,902</u>	<u>304,236</u>

**5. Trade and other receivables**

	<b>2019</b>	<b>2018</b>
	<b>KD '000</b>	
Trade receivables:		
Customers	294,906	236,919
Distributors	43,909	22,705
Other operators (interconnect)	48,004	42,422
Roaming partners	10,408	14,382
ECL	(164,272)	(137,918)
	<u>232,955</u>	<u>178,510</u>
Other receivables:		
Accrued income	4,884	5,285
Staff	1,719	1,546
Deposits and other receivables	30,286	36,188
Prepayments and advances	132,126	147,344
Others (refer note below)	155,499	155,601
ECL	(2,071)	(2,940)
	<u>322,443</u>	<u>343,024</u>
	<u>555,398</u>	<u>521,534</u>

In 2011, the Group paid US\$ 473 million (equivalent to KD 143.383 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 London Arbitration 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 arbitration award in and outside KSA. However in January 2020 Riyadh Appeal Court issued a decision dismissing the Company's application to enforce the arbitral award in KSA. The Company has submitted a motion for reconsideration to the Riyadh Appeal court through the Riyadh Enforcement Court, while continuing to pursue enforcement outside KSA.

In 2010, the Group paid US\$ 40 million (equivalent to KD 12.116 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 KSA. These amounts are secured by an agreement to transfer to the Group, the founding shareholder's shares in SMTC.

Notes to the Consolidated Financial Statements – 31 December 2019

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

	<b>2019</b>	<b>2018</b>
	<b>KD '000</b>	
Kuwaiti Dinar	68,424	58,447
US Dollar	288,542	301,440
Bahraini Dinar	12,588	12,534
Sudanese Pound	5,582	4,427
Jordanian Dinar	21,401	21,578
Iraqi Dinar	40,486	32,912
Saudi Riyals	115,125	87,219
Others	3,250	2,977
	<u>555,398</u>	<u>521,534</u>

**6. Inventories**

	<b>2019</b>	<b>2018</b>
	<b>KD '000</b>	
Handsets and accessories	53,545	50,547
Provision for obsolescence	(5,032)	(4,590)
	<u>48,513</u>	<u>45,957</u>

**7. Investment securities**

	<b>2019</b>	<b>2018</b>
	<b>KD '000</b>	
<i>Current investments</i>		
<i>At fair value through profit or loss</i>		
Quoted equities	-	2,224
Funds -mandatorily at FVTPL	4,738	5,830
Other funds	3,802	7,465
	<u>8,540</u>	<u>15,519</u>
<i>Non-current investments</i>		
<i>At fair value through other comprehensive income</i>		
Quoted equities- designated at inception	1,240	1,012
Funds	2,092	875
Unquoted equities - designated at inception	3,028	5,153
	<u>6,360</u>	<u>7,040</u>

Investment securities are denominated in the following currencies:

	<b>2019</b>	<b>2018</b>
	<b>KD '000</b>	
Kuwaiti Dinar	6,321	6,266
US Dollar	8,036	13,578
Other currencies	543	2,715
	<u>14,900</u>	<u>22,559</u>

**8. Assets and liabilities of disposal group classified as held for sale**

This represents the carrying value of telecom tower assets amounting to KD 7.656 million (31 December 2018 – KD 7.656 million) and right of use of assets amounting to KD 9.955 million (31 December 2018 – Nil) in Kuwait and its related lease liabilities amounting to KD 5.397 million (31 December 2018 – Nil), classified as disposal group held for sale from September 2017, on the basis that management is committed to a plan to sell these assets to a Tower Company. The transaction is expected to close in 2020, subject to customary closing conditions. The Company will be the anchor tenant on commercial terms on each of the towers being sold.

On 11 February 2020, the Company completed the sale and lease back for a total sale consideration of US\$ 130 million ( KD 39.377 million) after completing all regulatory approvals. The Company will also assume a minority shareholding in this newly formed Tower Company. Total gain from this transaction on sale of all tower assets is estimated to be around KD 13 million.

**9. Investments in associates and joint venture**

**Investments in associate**

**SMTC**

Based on an event in July 2018, the Group concluded that it is able to control SMTC through its majority representation on the board of directors. Accordingly, the Group changed the accounting effective in July 2018. Refer note 35. The Group's share of loss for the period ended 30 June 2018 was KD 3.405 million.

**Interest in a joint venture**

This represents the Group's KD 72.593 million (31 December 2018 – KD 69.831 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 2.762 million (2018 – share of profit of KD 961 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.

**10. Right of use of assets**

The recognized right-of-use assets relate to the following types of assets:

	<b>KD'000</b>		
	<b>Land and building</b>	<b>Cellular and other equipment</b>	<b>Total</b>
Balance as of 1 January 2019	163,924	29,852	193,776
Add: Additions	51,488	1,189	52,677
Less: Amortisation	(42,312)	(8,525)	(50,837)
Less: Retirement	(4,266)	(10,042)	(14,308)
Exchange adjustments	(175)	(81)	(256)
Closing balance as at 31 December 2019 (excluding assets of disposal group classified as held for sale)	<u>168,659</u>	<u>12,393</u>	<u>181,052</u>

Land and building comprises mainly of telecommunication sites on lease.

The Group does not have any lease contracts with variable lease payments which are not included in the measurement of the lease liabilities.

*The Group's leasing activities and how these are accounted for*

The Group mostly leases indoor and outdoor spaces for installation of its telecommunications sites. Rental contracts are typically made for fixed periods of 1 to 8 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

11. Property and equipment

	Land and buildings and leasehold improvements	Cellular and other equipment	Projects in progress	Total
	KD '000			
<b>Cost</b>				
<b>As at 31 December 2017</b>	77,382	1,510,115	101,205	1,688,702
On acquisition of subsidiaries	30,878	1,043,688	26,934	1,101,500
Additions	18,572	64,342	100,470	183,384
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 adjustment	(13,993)	(79,096)	(23,094)	(116,183)
<b>As at 31 December 2018</b>	<u>115,571</u>	<u>2,579,553</u>	<u>133,371</u>	<u>2,828,495</u>
On acquisition of subsidiaries	-	1,209	-	1,209
Additions	1,319	119,660	122,338	243,317
Transfers	836	130,460	(134,779)	(3,483)
Disposals/write off	(4,928)	(19,132)	(7,387)	(31,447)
Exchange adjustments	1,318	2,065	734	4,117
<b>As at 31 December 2019</b>	<u>114,116</u>	<u>2,813,815</u>	<u>114,277</u>	<u>3,042,208</u>
<b>Accumulated depreciation</b>				
<b>As at 31 December 2017</b>	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 adjustments	(1,125)	(39,099)	-	(40,224)
<b>As at 31 December 2018</b>	<u>51,181</u>	<u>1,584,092</u>	<u>-</u>	<u>1,635,273</u>
On acquisition of subsidiaries	-	1,153	-	1,153
Charge for the year	3,114	196,584	-	199,698
On disposals	(4,692)	(17,889)	-	(22,581)
Exchange adjustment	185	(811)	-	(626)
<b>As at 31 December 2019</b>	<u>49,788</u>	<u>1,763,129</u>	<u>-</u>	<u>1,812,917</u>
<b>Net book value</b>				
<b>As at 31 December 2019</b>	<u>64,328</u>	<u>1,050,686</u>	<u>114,277</u>	<u>1,229,291</u>
<b>As at 31 December 2018</b>	<u>64,390</u>	<u>995,461</u>	<u>133,371</u>	<u>1,193,222</u>

Exchange adjustments of 2019 and 2018 includes effect of hyperinflationary restatement of property and equipment in Zain South Sudan based on the respective price index changes.

**12. Intangible assets and goodwill**

	<b>Goodwill</b>	<b>Licences fees</b>	<b>Others</b>	<b>Total</b>
	<b>KD '000</b>			
<b>Cost</b>				
<b>As at 31 December 2017</b>	614,200	636,666	170,078	1,420,944
Impact on adoption of IFRS 15	-	-	(80,132)	(80,132)
<b>Restated balance as on 1 January 2018</b>	614,200	636,666	89,946	1,340,812
Additions	-	229	39,916	40,145
On acquisition of subsidiaries	40,215	1,946,296	77,392	2,063,903
Exchange adjustments	(33,352)	(1,581)	(2,788)	(37,721)
<b>As at 31 December 2018</b>	621,063	2,581,610	204,466	3,407,139
Adjustment on Purchase price allocation (note 35)	(12,193)	-	41,144	28,951
<b>As at 31 December 2018 (Restated)</b>	608,870	2,581,610	245,610	3,436,090
On acquisition of subsidiaries	16,623	-	-	16,623
Additions	-	59,340	9,520	68,860
Write off	-	(9,869)	(706)	(10,575)
Exchange adjustments	1,012	(1,831)	417	(402)
<b>As at 31 December 2019</b>	626,505	2,629,250	254,841	3,510,596
<b>Accumulated amortization/ Impairment</b>				
<b>As at 31 December 2017</b>	11,942	364,455	132,917	509,314
Impact on adoption of IFRS 15	-	-	(71,946)	(71,946)
<b>Restated balance as on 1 January 2018</b>	11,942	364,455	60,971	437,368
Charge for the year	-	70,876	9,510	80,386
On acquisition of subsidiaries	-	697,160	32,716	729,876
Exchange adjustments	-	(533)	(3,225)	(3,758)
<b>As at 31 December 2018</b>	11,942	1,131,958	99,972	1,243,872
Charge for the year	-	95,516	23,151	118,667
On Write off	-	(8,444)	(566)	(9,010)
Impairment	6,752	-	-	6,752
Exchange adjustments	-	(989)	(8,735)	(9,724)
<b>As at 31 December 2019</b>	18,694	1,218,041	113,822	1,350,557
<b>Net book value</b>				
<b>As at 31 December 2019</b>	607,811	1,411,209	141,019	2,160,039
<b>As at 31 December 2018</b>	596,928	1,449,652	145,638	2,192,218

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:

	<b>2019</b>	<b>2018 Restated</b>
	<b>KD '000</b>	
Pella	79,517	79,516
Zain Sudan	25,488	24,163
Atheer	468,691	456,127
SMTC	14,954	14,978
Others	19,161	22,144
	<u>607,811</u>	<u>596,928</u>

Others include KD 16.623 million relating to an acquisition of an Iraqi entity by a subsidiary of the Group during November 2019. The carrying value of assets and liabilities of this entity amounted to KD 37 thousand.

Goodwill of KD 12.875 million which was included as part of "Others" as at 31 December 2018, was allocated to Atheer as it is expected to benefit from the synergies of the combination.

Goodwill of KD 6.752 million related to Al Mouakhaa Lil Kadamat Al-Logistya Wal Al-Itisalat, Jordan, included as part of 'Others' as at 31 December 2018 was impaired during the year as a result of technology obsolescence.

#### *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.

The Group determines the recoverable amounts of all CGUs based on value in use other than for SMTC. For SMTC the recoverable amount is determined based on the fair value less cost to sell. The fair value of Group's holding in SMTC is determined with reference to the published quoted prices of SMTC.

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

<b>Key assumption</b>	<b>Basis used to determine value to be assigned to key assumption</b>
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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.
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Compounded annual growth in revenue of upto 11% (2018: 17%) for Zain Sudan, 9% (2018: 10%) for Atheer and 3.32% (2018: 3%) 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% (2018: 3%) for Zain Sudan, 3% (2018: 3%) for Atheer and 3% (2018: 4%) 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
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Discount rate	Discount rates of 19.46% (2018: 23.24%) for Zain Sudan, 11.88% (2018: 13.8%) for Atheer and 9.93% (2018: 11.2%) for Pella. Discount rates reflect specific risks relating to the relevant CGU.
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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.

*License and spectrum*

	End of ammortisation period	2019	2018
		<b>KD '000</b>	
License - KSA	2047	1,131,918	1,174,780
License - Iraq	2027	99,856	135,895
License - Jordan	2021 to 2029	70,571	81,004
Spectrum - KSA	2032 and 2033	92,714	53,346
Others		16,150	4,627
		<u>1,411,209</u>	<u>1,449,652</u>

*Iraq*

Telecom license includes the cost of license amounting to US\$ 1.25 billion (KD 378.625 million) issued by CMC to operate in Iraq for a period of 15 years from August 2007 and the cost of 3G license amounting to US\$ 307 million (KD 92.990 million) issued in December 2015, for a period up to August 2022. These costs were being amortised over the period of the respective licences.

According to the license agreement, Atheer has an option to apply to CMC for renewal of telecom license for a further period of five years after expiry in August 2020. On 22 August 2019, Atheer requested CMC to renew the license for a further period of five years. On 11 December 2019, CMC informed Atheer about the approval of Board of Commissioners to proceed with the legal procedures related to terms and conditions for such renewal. Management of Atheer believes that Atheer has an absolute right for a five year extension from 31 August 2022 to 30 August 2027. Accordingly, with effect from 11 December 2019, telecom license cost is prospectively amortised over a period ending on 30 August 2027.

*Spectrum*

During the year SMTC acquired spectrum in the frequency of 2X10 of 800 MHz for a total amount of SAR 840.50 million (equivalent to KD 67.996 million), payable in 14 equal installments of SAR 60 million (equivalent to 4.854 million) each starting from 2019.

**13. Trade and other payables**

	2019	2018 Restated
	<b>KD '000</b>	
Trade payables and accruals	647,754	688,458
Due to roaming partners	9,107	11,852
Due to other operators (interconnect)	10,217	10,926
Dues to regulatory authorities (refer below)	76,758	146,716
Taxes payable	51,632	40,068
Dividend payable	15,760	16,335
Provisions	2,756	2,758
Directors' remuneration	510	420
Other payables	43,018	35,105
	<u>857,512</u>	<u>952,638</u>

Dues to regulatory authorities includes amount of SAR 906.924 million (KD 73.388 million) (2018: SAR 1,759 million (KD 142.452 million)) payable by SMTC.

**14. Income tax payables**

Income tax payables mainly includes opening retained earnings adjustment amounting to KD 45.140 million in respect of transition adjustment on adoption of IFRIC 23 (refer note 2.2.2) and provision made (net of payment) during the year.

15. Due to banks

	<b>2019</b>	<b>2018</b>
	<b>KD '000</b>	
<i>Company</i>		
Short term loans	80,580	110,930
Long term loans	598,535	610,117
	<u>679,115</u>	<u>721,047</u>
<i>SMTC</i>		
Long term loans	542,804	568,126
	<u>542,804</u>	<u>568,126</u>
<i>Zain Jordan</i>		
Short term loans	6,622	4,275
	<u>6,622</u>	<u>4,275</u>
<i>Atheer</i>		
Long term loans	168,387	153,066
	<u>168,387</u>	<u>153,066</u>
<i>Others</i>		
Short term loans	1,786	-
Long term loans	10	22
	<u>1,796</u>	<u>22</u>
	<u>1,398,724</u>	<u>1,446,536</u>

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

	<b>2019</b>	<b>2018</b>
	<b>KD '000</b>	
Opening balance	1,446,536	870,201
On acquisition of a subsidiary (refer note 35)	-	657,143
Proceeds from bank borrowings	540,727	203,019
Repayment of bank borrowings	(587,387)	(288,901)
Effect of change in foreign exchange rates	(1,152)	5,074
	<u>1,398,724</u>	<u>1,446,536</u>

The current and non-current amounts are as follows:

	<b>2019</b>	<b>2018</b>
	<b>KD '000</b>	
Current liabilities	180,274	412,971
Non-current liabilities	1,218,450	1,033,565
	<u>1,398,724</u>	<u>1,446,536</u>

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

	<b>2019</b>	<b>2018</b>
	<b>KD '000</b>	
US Dollar	891,013	1,148,923
Kuwaiti Dinar	50,994	20,000
Saudi Riyals	448,302	273,315
Others	8,415	4,298
	<u>1,398,724</u>	<u>1,446,536</u>

The effective interest rate as at 31 December 2019 was 2.22% to 18% (2018 – 2.42% to 6.16%) 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 has;

- drawn down loans amounting to KD 276.689 million (31 December 2018 - KD 126.502 million) from existing and new facilities. This included:
  - US\$ 360 million (KD 109.377 million) from an existing US\$ 700 million revolving credit facility.
  - US\$ 250 million (KD 75.725 million) from an existing US\$ 250 million revolving credit facility.
  - US\$ 100 million (KD 30.29 million) from a long-term facility amounting to US\$ 100 million.
  - US\$ 50.447 million (KD 15.290 million) from a long-term facility amounting to US\$ 200 million.
  - KD 25 million long- term loan facility availed in the current year.
  - US\$ 49.363 million (KD 15.006 million) from a long- term loan facility amounting to US\$ 200 million.
- repaid loans amounting to KD 317.403 million (31 December 2018 – KD 141.426 million). This includes:
  - US\$ 366 million (KD 111.265 million) of a long-term facility amounting to US\$ 400 million.
  - US\$ 360 million (KD 109.066 million) of an existing US\$ 700 million revolving credit facility
  - US\$ 40 million (KD 12.124 million) of a long-term loan facility amounting to US\$ 317 million.
  - US\$ 100 million (KD 30.364 million) of a short-term loan facility amounting to US\$ 100 million.
  - US\$ 21.60 million (KD 6.545 million) of a long- term loan facility amounting to US\$ 200 million.
  - US\$ 100 million (KD 30.29 million) of a long-term loan facility amounting to US\$ 100 million.
  - US\$ 20.613 million (KD 6.259 million) of a long-term loan facility amounting to US\$ 100 million.

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 4,463 million (KD 362.502 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 477.605 million) facility (consisting of SAR 4.25 billion and an USD portion totaling to SAR 1.705 billion) maturing in June 2023 which includes a working capital facility of SAR 647.30 million (KD 52.40 million) (consisting of SAR 462.4 million and an USD portion totaling to SAR 184.9 million) for two years. This working capital facility has not yet been utilized. During the previous year, SMTC made early voluntary payments amounting to SAR 1,125 million (KD 91.114 million). During the second quarter of the current year, SMTC made a voluntary repayment amounting to SAR 300 million (KD 24.33 million).

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 2,250 million (KD 182.68 million) syndicated junior murabaha facility signed in June 2019 from a consortium of banks with a two year tenure with an option to extend for one more year. This facility was drawn-down in July 2019 to settle the existing SAR 2,269 million (KD 184.22 million) long-term commercial loan that matured. This facility is fully secured by a guarantee by the Company.

*Atheer*

Long term loans include:

- US\$ 100 million (KD 30.29 million) (31 December 2018 – US\$ 100 million equivalent to KD 30.31 million) term loan from a commercial bank that is repayable by 17 December 2024.
- US\$ 55 million (KD 16.66 million) (31 December 2018 – US\$ 55 million equivalent to KD 16.671 million) term loan from a commercial bank which is repayable by 31 March 2020.
- US\$ 50 million (KD 15.145 million) (31 December 2018 – US\$ 50 million equivalent to KD 15.155 million) term loan from a commercial bank repayable by 30 April 2020.
- US\$ 50 million (KD 15.145 million) (31 December 2018 – US\$ 50 million equivalent to KD 15.155 million) term loan from a commercial bank repayable by 09 April 2021.
- US\$ 150.917 million (KD 45.713 million) (31 December 2018 – US\$ 100 million equivalent to KD 30.31 million) term loan from a financial institution repayable by 31 May 2025.
- US\$ 150 million (KD 45.435 million) (31 December 2018 – US\$ 150 million equivalent to KD 45.465 million) revolving credit facilities from a commercial bank repayable by 17 December 2022.

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

**16. Lease liabilities**

	<b>2019</b>
	<b>KD '000</b>
Balance as of 1 January 2019	198,251
Additions	50,535
Accretion of interest	13,273
Payments	(56,720)
Retirements	(17,889)
Exchange adjustments	(377)
<b>Closing balance as at 31 December 2019</b>	<b>187,073</b>
(excluding liabilities of disposal group classified as held for sale)	
Current	42,795
Non-current	144,278
	<u>187,073</u>

Maturity analysis of lease liability is given in note 29 to the consolidated financial statements.

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

	<b>2019</b>
	<b>KD '000</b>
Saudi Riyals	119,456
US Dollar	34,668
Jordanian dinar	16,793
Bahraini dinar	8,498
Kuwaiti Dinar	5,911
Others	1,747
	<u>187,073</u>

**17. Other non-current liabilities**

	<b>2019</b>	<b>2018</b>
	<b>KD `000</b>	
Payable to Ministry of Finance – KSA (refer below)	289,580	234,749
Due to CITC for acquisition of spectrum	74,664	33,719
Customer deposits	3,763	5,238
Post-employment benefits	34,663	32,468
Others	45,848	30,151
	<u>448,518</u>	<u>336,325</u>

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

**18. Share capital and reserves**

*Share capital (par value of KD 0.100 per share)*

	<b>2019</b>	<b>2018</b>
	<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 has to be appropriated towards legal reserve until such time it reaches a minimum of 50% of the share capital (the "threshold"). The Company has made transfers to legal reserve during the year to exceed the minimum 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 (2018 - Nil).

*Foreign currency translation reserve*

Foreign currency translation reserve mainly represents foreign exchange translation losses arising from Zain Sudan and South Sudan.

*Other reserves*

Other reserves mainly includes hedge reserves loss amounting to KD 3,336 thousand (2018- KD 150 thousand).

*Dividend – 2018*

The annual general meeting of shareholders for the year ended 31 December 2018 held on 20 March 2019 approved distribution of cash dividends of 30 fils per share for the year 2018.

*Proposed dividend*

The Board of Directors, subject to the approval of shareholders, recommends distribution of a cash dividend of 33 fils per share (2018 - 30 fils per share) to the registered shareholders, after obtaining the necessary regulatory approvals.

**19. Revenue**

**19.1 Disaggregated revenue information**

The total revenue disaggregated by major service lines is:

	<b>2019</b>	<b>2018</b>
	<b>KD '000</b>	
Airtime, data and subscription	1,475,028	1,191,778
Trading income	185,862	125,835
	<u>1,660,890</u>	<u>1,317,613</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**

	<b>2019</b>	<b>2018</b>
	<b>KD '000</b>	
Assets relating to sale of handsets		
Current and non-current	98,081	87,083
Loss allowance	(3,058)	(4,081)
	<u>95,023</u>	<u>83,002</u>

**Contract liabilities**

	<b>2019</b>	<b>2018</b>
	<b>KD '000</b>	
Deferred revenue- prepaid customers	98,495	105,308
	<u>98,495</u>	<u>105,308</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. a) Operating and administrative expenses**

This includes staff costs of KD 129.026 million (2018 – KD 106.955 million).

**b) Other income/(expenses)**

Other income/ (expenses) mainly includes reversal of excess accruals amounting to KD 45.3 million (2018 charge of provision amounting to KD 29.7 million).

**21. Investment income**

	<b>2019</b>	<b>2018</b>
	<b>KD '000</b>	
Gain on investments at fair value through profit or loss	624	3,677
Dividend income	383	253
	<u>1,007</u>	<u>3,930</u>

**22. National Labour Support Tax (NLST) and Zakat**

	<b>2019</b>	<b>2018</b>
	<b>KD '000</b>	
NLST- Kuwait	3,490	2,396
Zakat- Kuwait	1,640	1,356
Zakat – KSHC	27	38
Zakat- Sudan	418	686
Zakat- KSA	1,507	-
	<u>7,082</u>	<u>4,476</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 and other levies**

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

	<b>2019</b>	<b>2018</b>
	<b>KD '000</b>	
Income tax	24,949	19,343
Other levies	304	409
	<u>25,253</u>	<u>19,752</u>

The tax rate applicable to the taxable subsidiary companies is in the range of 15% to 24% (2018: 15% to 24%) whereas the effective income tax rate for the year ended 31 December 2019 is in the range of 17% to 33% (2018: 17% to 27%). 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:

	<b>2019</b>	<b>2018</b>
	<b>KD '000</b>	
Profit for the year	216,928	196,500
	<u>Shares</u>	<u>Shares</u>
Weighted average number of shares in issue	<u>4,327,058,909</u>	<u>4,327,058,909</u>
	<u>Fils</u>	<u>Fils</u>
<b>Basic and diluted earnings per share</b>	50	45

**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.

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

**Notes to the Consolidated Financial Statements – 31 December 2019**

	31 December 2019							Total KD '000
	Kuwait	Jordan	Sudan	Iraq	Bahrain	KSA	Others	
<b>Segment revenues</b> – airtime & data (Point over time)	258,718	144,555	91,726	325,819	40,719	586,822	26,669	1,475,028
<b>Segment revenues</b> - trading income (Point in time)	74,733	6,089	628	1,348	9,925	93,065	74	185,862
<b>Net profit before interest and tax</b>	83,299	37,595	19,988	47,658	4,969	121,873	10,834	326,216
Interest income	269	338	1,061	1,322	230	2,135	418	5,773
Finance costs	(406)	(7,216)	(258)	(18,345)	(956)	(84,680)	(99)	(111,960)
Income tax expenses	-	(7,441)	(5,801)	(10,335)	-	-	(1,934)	(25,511)
	<u>83,162</u>	<u>23,276</u>	<u>14,990</u>	<u>20,300</u>	<u>4,243</u>	<u>39,328</u>	<u>9,219</u>	<u>194,518</u>
<i>Unallocated items:</i>								
Investment income								1,007
Share of results of associates and joint venture								2,762
Others (including unallocated interest income, income tax and finance costs)								50,262
<b>Profit for the year</b>								<u>248,549</u>
<b>Segment assets including allocated goodwill</b>	392,323	296,926	139,436	1,055,385	87,195	2,179,487	63,345	4,214,097
ROU asset	6,495	16,691	1,589	30,746	8,187	117,211	133	181,052
<i>Unallocated items:</i>								
Investment securities at FVTPL								8,540
Investment securities at FVOCI								6,360
Investment in associates and joint venture								72,612
Others (net of eliminations)								253,432
<b>Consolidated assets</b>								<u>4,736,093</u>
<b>Segment liabilities</b>	134,469	119,608	41,063	214,818	26,773	1,257,750	66,161	1,860,642
Lease liabilities (Current & non-current)	5,911	16,793	1,607	34,668	8,498	119,456	140	187,073
Due to banks		6,622	1,785	168,387	-	542,804	11	719,609
	<u>140,380</u>	<u>143,023</u>	<u>44,455</u>	<u>417,873</u>	<u>35,271</u>	<u>1,920,010</u>	<u>66,312</u>	<u>2,767,324</u>
<i>Unallocated items:</i>								
Due to banks								679,115
Others								(388,945)
<b>Consolidated liabilities</b>								<u>3,057,494</u>
<b>Net consolidated assets</b>								<u>1,678,599</u>
Capital expenditure incurred during the year	65,998	15,309	15,578	40,376	16,234	154,580	6,000	314,075
Unallocated (net of eliminations)								(1,898)
<b>Total capital expenditure</b>								<u>312,177</u>
Depreciation and amortization	35,357	24,792	8,087	77,628	8,642	154,427	10,477	319,410
Amortization of ROU assets	3,461	3,231	185	6,975	3,144	32,981	860	50,837
Unallocated								5,707
<b>Total depreciation and amortization</b>								<u>375,954</u>

Depreciation and amortization related to other operating segments includes impairment of Goodwill amounting to KD 6.752 thousand. (Refer note 12)

Mobile Telecommunications Company K.S.C.P.

Notes to the Consolidated Financial Statements – 31 December 2019

	31 December 2018							Total KD '000
	Kuwait	Jordan	Sudan	Iraq	Bahrain	KSA	Others	
<b>Segment revenues</b> – airtime & data (Point over time)	265,842	144,269	94,861	342,427	40,597	282,929	20,853	1,191,778
<b>Segment revenues</b> - trading income (Point in time)	65,496	4,925	504	1,704	12,391	40,786	29	125,835
<b>Net profit before interest and tax</b>	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>	211,046
<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
<b>Profit for the year</b>								<b><u>225,456</u></b>
<b>Segment assets including allocated goodwill</b>	358,820	311,598	123,718	1,027,961	76,222	2,188,048	83,655	4,170,022
<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
<b>Consolidated assets</b>								<b><u>4,516,670</u></b>
<b>Segment liabilities</b>	115,021	136,482	45,869	158,297	19,771	1,247,076	77,213	1,799,729
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>1,815,202</u>	<u>77,213</u>	2,525,196
<i>Unallocated items:</i>								
Due to banks								721,069
Others								(393,595)
<b>Consolidated liabilities</b>								<b><u>2,852,670</u></b>
<b>Net consolidated assets</b>								<b><u>1,664,000</u></b>
Capital expenditure incurred during the year	34,377	23,592	32,904	52,337	929	70,709	5,714	220,562
Unallocated								6,546
<b>Total capital expenditure</b>								<b><u>227,108</u></b>
Depreciation and amortization	28,097	24,905	10,012	77,414	8,325	75,020	3,742	227,515
Unallocated								2,017
<b>Total depreciation and amortization</b>								<b><u>229,532</u></b>

**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	
	2019	2018	2019	2018	2019	2018
	KD '000					
Current assets	275,505	319,472	183,125	148,060	28,301	25,471
Non-current assets	1,969,074	1,812,454	733,288	710,070	67,081	50,750
Current liabilities	(365,481)	(595,407)	(259,677)	(233,857)	(23,270)	(19,530)
Non-current liabilities	(1,547,096)	(1,211,566)	(158,196)	(77,506)	(14,066)	(241)
Equity attributable to:						
- Owners of the Company	122,990	120,379	377,854	415,430	32,158	31,273
- Non-controlling interests	209,012	204,574	120,686	131,337	25,889	25,177
Revenue	679,887	323,715	327,167	344,131	50,644	52,988
Profit for the year	39,328	36,264	20,300	14,946	4,243	4,143
Other comprehensive income	(8,206)	(6)	-	-	-	-
Total comprehensive income	31,122	36,258	20,300	14,946	4,243	4,143
Total comprehensive income attributable to:						
- Company's shareholders	11,529	13,432	14,498	11,276	2,351	2,295
- Non-controlling interests	19,593	22,826	5,802	3,670	1,892	1,848
	31,122	36,258	20,300	14,946	4,243	4,143
Cash dividend paid to non-controlling Interests	-	-	(3,666)	-	(629)	(611)
Net cash flow from operating activities	322,871	207,006	113,242	58,889	17,949	6,343
Net cash flow from/(used in) investing activities	(163,079)	26,990	(49,041)	(52,655)	(8,926)	(872)
Net cash flow used in financing activities	(180,800)	(119,506)	(23,988)	(14,942)	(4,213)	(2,948)
Effects of exchange rate changes on cash and cash equivalents	(73)	251	(151)	754	(12)	3
Net increase/(decrease) in cash flows	(21,008)	114,741	36,547	(7,954)	4,181	1,912

**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:

	<b>2019</b>	<b>2018</b>
	<b>KD '000</b>	
<b>Transactions</b>		
Revenue	640	1,239
Cost of sales	1,814	1,363
Management fee (included in other income)	-	2,026
Interest income on loans to an associate	-	11,587
<b>Key management compensation</b>		
Salaries and other short term employee benefits	3,937	3,552
Post-employment benefits	1,403	654
<b>Balances</b>		
Trade receivables	3,169	-
Trade payables	4,521	193

**28. Commitments and contingencies**

	<b>2019</b>	<b>2018</b>
	<b>KD '000</b>	
Capital commitments	233,097	127,757
Uncalled share capital of investee companies	348	963
Letters of guarantee and credit	90,660	81,809

The Company is a guarantor for credit facilities amounting to KD 7.269 million (2018 – KD 7.274 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.

*Income taxes in Iraq*

During the period 2012 to 2014, Atheer received additional income tax claims for the years 2004 to 2010 from Iraq General Commission for Taxes (IGCT). In November 2016, Atheer signed an agreement with Iraq's Ministry of Finance under which it obtained the right to submit its objection to these additional income tax claimed by the IGCT amounting to US\$ 244 million (KD 74.176 million) and submitted its objections against the full amount of the tax claim.

On 15 October 2019, the Appeals Committee of IGCT issued its decision to reduce the amount of claim to USD 109.75 million (KD 33.364 million). This decision can be challenged by IGCT before the Court of Cassation within 15 days of Appeals Committee decision. There is no indication that any appeal has been submitted by IGCT against this decision as of the date of issue of these consolidated financial statements. As on 31 December 2019 Atheer has already settled this claim under earlier payment terms agreed with Iraq's Ministry of Finance in 2016.

*Pella - Jordan*

Pella is a defendant in lawsuits amounting to KD 33.747 million (31 December 2018 – KD 12.371 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 a claim of KD 9.527 million (31 December 2018 - KD 9.533 million) by a regulatory authority for the years 2002 - 2005 on the grounds that it has already paid the amount that it was obligated to pay for those years. Based on the report of its attorneys, the Group expects the outcome to be favorable to Pella. Pella has also initiated legal proceedings against the regulatory authorities claiming refund of excess license fee paid amounting to KD 9.641 million (31 December 2018 - KD 11.671 million) of earlier years. The outcome of the above matter cannot be assessed at this stage, as it is dependent on several legal, regulatory and other technical aspects.

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.

**29. Financial risk management**

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

	<b>Amortized costs</b>	<b>At fair value through profit or loss</b>	<b>Fair value through comprehensive income</b>
	<b>KD '000</b>		
<b>31 December 2019</b>			
Cash and bank balances	296,985	-	-
Trade and other receivables	423,272	-	-
Investment securities	-	8,540	6,360
	<u>720,257</u>	<u>8,540</u>	<u>6,360</u>
	<b>Amortized costs</b>	<b>At fair value through profit or loss</b>	<b>Fair value through comprehensive income</b>
	<b>KD '000</b>		
<b>31 December 2018</b>			
Cash and bank balances	311,916	-	-
Trade and other receivables	374,094	-	-
Investment securities	-	15,519	7,040
	<u>686,010</u>	<u>15,519</u>	<u>7,040</u>

All financial liabilities as of 31 December 2019 and 31 December 2018 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	2019	2018
	KD '000	
US Dollar	32,924	49,348
Euro	956	158
Other	102	-

(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. 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	2019		2018	
	Impact on net profit	Effect on equity	Impact on net profit	Effect on Equity
KD '000				
Kuwait Stock Exchange	±230	±62	±322	±51

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 2019, 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 6.994 million (2018: KD 5.81 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.

Notes to the Consolidated Financial Statements – 31 December 2019

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

	ECL staging				KD '000 Total
	Stage 1	Stage 2	Stage 3	Simplified approach	
	12-month	Lifetime	Lifetime	Lifetime	
<b>At 31 December 2019</b>					
<b>Cash and bank balances</b>	239,832	40,141	33,642	-	313,615
Less: ECL	(93)	(1,287)	(15,250)	-	(16,630)
	<u>239,739</u>	<u>38,854</u>	<u>18,392</u>	<u>-</u>	<u>296,985</u>
<b>Customers</b>	-	-	-	294,906	294,906
<b>Distributors</b>	-	-	-	43,909	43,909
<b>Contract assets</b>	-	-	-	98,081	98,081
Less: ECL	-	-	-	(158,662)	(158,662)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>278,234</u>	<u>278,234</u>
<b>Roaming partners</b>	-	-	-	10,408	10,408
<b>Other operators (interconnect)</b>	-	-	-	48,004	48,004
Less: ECL	-	-	-	(8,668)	(8,668)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>49,744</u>	<u>49,744</u>
<b>Other receivables</b>	-	34,633	-	-	34,633
Less: ECL	-	(2,071)	-	-	(2,071)
	<u>-</u>	<u>32,562</u>	<u>-</u>	<u>-</u>	<u>32,562</u>
<b>Financial guarantees</b>	-	7,269	-	-	7,269
Less: ECL	-	(1,050)	-	-	(1,050)
	<u>-</u>	<u>6,219</u>	<u>-</u>	<u>-</u>	<u>6,219</u>
<b>At 31 December 2018</b>					
<b>Cash and bank balances</b>	242,124	73,691	-	-	315,815
Less: ECL	-	-	-	-	(3,899)
	<u>242,124</u>	<u>73,691</u>	<u>-</u>	<u>-</u>	<u>311,916</u>
<b>Customers</b>	-	-	-	236,919	236,919
<b>Distributors</b>	-	-	-	22,705	22,705
<b>Contract assets</b>	-	-	-	87,083	87,083
Less: ECL	-	-	-	(134,414)	(134,414)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>212,293</u>	<u>212,293</u>
<b>Roaming partners</b>	-	-	-	14,382	14,382
<b>Other operators (interconnect)</b>	-	-	-	42,422	42,422
Less: ECL	-	-	-	(7,585)	(7,585)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>49,219</u>	<u>49,219</u>
<b>Other receivables</b>	-	37,734	-	-	37,734
Less: ECL	-	(2,940)	-	-	(2,940)
	<u>-</u>	<u>34,794</u>	<u>-</u>	<u>-</u>	<u>34,794</u>
<b>Financial guarantees</b>	-	7,274	-	-	7,274
Less: ECL	-	(1,129)	-	-	(1,129)
	<u>-</u>	<u>6,145</u>	<u>-</u>	<u>-</u>	<u>6,145</u>

The net increase in the loss allowance for cash and bank balances is mainly attributed to movement of balance of KD 33.642 million from Stage 2 to Stage 3 following a credit downgrade by external rating agencies.

Notes to the Consolidated Financial Statements – 31 December 2019

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

	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>KD '000</b>	
Collectively assessed	158,662	134,414
Individually assessed	10,739	10,525
	<u>169,401</u>	<u>144,939</u>

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

	<b>Collectively assessed</b>	<b>Individually assessed</b>	<b>Total KD '000</b>
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>
Recoveries	362	-	362
Amounts written off	(1,112)	(648)	(1,760)
Foreign exchange gains and losses	(93)	(281)	(374)
Net increase in loss allowance	25,091	1,143	26,234
31 December 2019	<u>158,662</u>	<u>10,739</u>	<u>169,401</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	<b>31 December 2019</b>			<b>31 December 2018</b>		
	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
	<b>KD '000</b>	<b>%</b>	<b>KD '000</b>	<b>KD '000</b>	<b>%</b>	<b>KD '000</b>
Not due / < 30 days	186,560	2%	4,240	148,737	3%	5,188
31 – 60 days	27,585	5%	1,219	20,323	5%	1,049
61 – 90 days	8,674	18%	1,999	8,395	20%	1,674
91 – 180 days	21,343	37%	7,833	16,045	35%	5,673
> 181 days	192,734	74%	143,371	153,207	79%	120,830
	<u>436,896</u>		<u>158,662</u>	<u>346,707</u>		<u>134,414</u>

Credit quality of roaming, interconnect and other balances:

	<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>KD '000</b>	
Credit quality – Performing	85,874	85,710
Impaired	7,171	8,828
ECL	<u>(10,739)</u>	<u>(10,525)</u>
	<u>82,306</u>	<u>84,013</u>

The net increase in the loss allowance during the year is mainly attributed to the increase in gross exposures at default.

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.

(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 the total cash and bank balances of KD 33.713 million (2018 - KD 13.204 million) equivalent held in Sudan, South Sudan and Lebanon, all other cash and bank balances 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.

	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>
	<b>KD '000</b>			
<b>At 31 December 2019</b>				
Bank borrowings	282,530	219,772	1,150,672	22,855
Trade and other payables	805,883	-	-	-
Other non-current liabilities	22,089	91,137	248,263	101,380
Lease liabilities	61,976	66,185	74,792	75,694
<b>At 31 December 2018</b>				
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

**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.

<b>At 31 December 2019:</b>	<b>Notional amounts by term to maturity</b>		
	<b>Positive fair value</b>	<b>Negative fair value</b>	<b>Notional amount</b>
	<b>KD '000</b>		
<i>Derivatives held for hedging:</i>			
<i>Cash flow hedges</i>			
Profit rate swaps (maturing after one year)	-	10,350	241,142
<b>At 31 December 2018:</b>			
<i>Derivatives held for hedging:</i>			
<i>Cash flow hedges</i>			
Profit rate swaps (maturing after one year)	-	1,749	241,350

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:

	<b>2019</b>	<b>2018 Restated</b>
	<b>KD `000</b>	
Total borrowings including lease liabilities (refer note 15 and 16)	1,585,797	1,446,536
Less: Cash and bank balances (refer note 4)	(296,985)	(311,916)
Net debt	1,288,812	1,134,620
Total equity	1,678,599	1,664,000
Total capital	2,967,411	2,798,620
<b>Gearing ratio</b>	43%	41%

**32. Fair value of financial instruments**

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

**31 December 2019**

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>KD `000</b>			
<b>Financial assets at fair value:</b>				
Investments at fair value through profit or loss	736	7,804	-	8,540
Investments at fair value through other comprehensive income	1,240	2,091	3,029	6,360
Total assets	1,976	9,895	3,029	14,900

**31 December 2018**

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>KD `000</b>			
<b>Financial assets at fair value:</b>				
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	4,841	12,565	5,153	22,559

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:

	Index	Conversion factor
31 December 2019	10,577	1.00
31 December 2018	6,306	1.68
31 December 2017	4,502	2.35
31 December 2016	2,068	5.11
31 December 2015	357	29.62
31 December 2014	170	62.21
31 December 2013	155	68.24

Based on the above, the Group determined net monetary gain to be local currency equivalent to KD 5.074 million (2018: KD 46.935 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 Nil (31 December 2018: KD 9.648 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-facto control, the 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. If the Group had concluded that the ownership interest was insufficient to give the Group control in SMTC, it would instead have been classified as an associate and the Group would have accounted for it using the equity method of accounting.

*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 2018, 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 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.

*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.

#### *Determining the lease term*

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension and termination options are included in a number of leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of the termination options held are exercisable both by the Group and the respective lessor. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

#### *Discounting of lease payments*

The lease payments are discounted using the Company's incremental borrowing rate ("IBR"). Management has applied judgments and estimates to determine the IBR at the commencement of lease.

### **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.

#### *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's current tax provision as disclosed in note 14 relates to management's assessment of the amount of tax payable on open tax positions where the liabilities remain to be agreed with the tax authorities. Uncertain tax items for which a provision of KD 54.806 million is made, relate principally to the interpretation of tax legislation. Due to the uncertainty associated with such tax items, there is a possibility that, on conclusion of open tax matters at a future date, the final outcome may differ significantly.

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. Comparatives**

- a. 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 initial accounting of the business combination and acquisition above was carried out using provisional values of identifiable assets, liabilities and contingent liabilities and the purchase price allocation (PPA) was completed during the current year. The Group restated comparative figures as disclosed below to give effect to adjustments arising from the PPA.

Statement of financial position

	<b>Goodwill</b>	<b>Other Intangible assets</b>	<b>Trade and other payables</b>	<b>Minority interest</b>	<b>Equity</b>
					<b>KD '000</b>
As at 31 December 2018 as previously reported	609,121	104,494	944,409	366,070	1,643,278
Adjustment due to change in provision values	<u>(12,193)</u>	<u>41,144</u>	<u>8,229</u>	<u>20,722</u>	<u>20,722</u>
As at 31 December 2018 (restated)	<u>596,928</u>	<u>145,638</u>	<u>952,638</u>	<u>386,792</u>	<u>1,664,000</u>

Intangible assets recognised represents the value of the right that the Group reacquired as part of the business combination.

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 had 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.

- b. During the year, the Group reclassified advances paid for acquisition of non- current assets from Trade and other receivables and capital work in progress to other non-current assets amounting to KD 56.802 million as at 31 December 2018 This reclassification did not have any impact on the consolidated net profit or equity of the Group.