

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

**Condensed Consolidated Interim Financial Information (Unaudited)  
31 March 2018**

**C o n t e n t s**

|   | <b>Page</b> |
|---|-------------|
| Review Report   | 1 - 2       |
| Condensed Consolidated Statement of Financial Position (Unaudited)                            | 3           |
| Condensed Consolidated Statement of Profit or Loss (Unaudited)                                | 4           |
| Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income (Unaudited) | 5           |
| Condensed Consolidated Statement of Changes in Equity (Unaudited)                             | 6           |
| Condensed Consolidated Statement of Cash Flows (Unaudited)                                    | 7           |
| Notes to the Condensed Consolidated Interim Financial Information (Unaudited)                 | 8 – 26      |

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

**INDEPENDENT AUDITOR'S REVIEW REPORT TO THE BOARD OF DIRECTORS**

**Report on Review of Condensed Consolidated Interim Financial Information**

*Introduction*

We have reviewed the accompanying condensed consolidated statement of financial position of Mobile Telecommunications Company K.S.C.P. (the "Company") and its subsidiaries (together called "the Group") as at 31 March 2018 and the related condensed consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the three-month period then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 - Interim Financial Reporting. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

*Scope of Review*

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

*Basis of Qualified Conclusion*

As disclosed in note 2 to the condensed consolidated interim financial information, the Group has excluded the effects reported therein, of applying International Accounting Standard (IAS) 29: Financial Reporting in Hyperinflationary Economies that, we believe, should have been recorded in this condensed consolidated interim financial information with respect to its subsidiaries in Sudan, to conform to that standard.

*Qualified Conclusion*

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

*Emphasis of matter*


Without qualifying our conclusion, we draw attention to Note 15 to the condensed consolidated interim financial information, which discloses the uncertainty related to the outcome of various claims against the subsidiary in Iraq.

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

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE BOARD OF DIRECTORS (Continued)

## **Report on Other Legal and Regulatory Requirements**

Furthermore, based on our review, the condensed consolidated interim financial information is in agreement with the books of account of the Company. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Companies Law No. 1 of 2016 and its Executive Regulations or of the Company's Memorandum of Incorporation and Articles of Association during the three-month period ended 31 March 2018 that might have had a material effect on the business of the Company or on its financial position.



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

Kuwait  
10 May 2018

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

**Condensed Consolidated Statement of Financial Position as at 31 March 2018 (Unaudited)**

|   | Note | Unaudited<br>31 March<br>2018 | Audited<br>31 December<br>2017 | Unaudited<br>31 March<br>2017 |
|---|------|-------------------------------|--------------------------------|-------------------------------|
| <b>KD '000</b>                                    |      |                               |                                |                               |
| <b>Assets</b>                                     |      |                               |                                |                               |
| <b>Current assets</b>                             |      |                               |                                |                               |
| Cash and bank balances                            | 4    | 284,010                       | 244,398                        | 150,371                       |
| Trade and other receivables                       |      | 404,937                       | 455,801                        | 452,063                       |
| Contract assets                                   |      | 42,785                        | -                              | -                             |
| Inventories                                       |      | 19,921                        | 34,402                         | 24,716                        |
| Investment securities at FVTPL                    |      | 11,685                        | 778                            | 1,041                         |
| Non-current assets held for sale                  | 5    | 7,656                         | 7,656                          | -                             |
|   |      | <u>770,994</u>                | <u>743,035</u>                 | <u>628,191</u>                |
| <b>Non-current assets</b>                         |      |                               |                                |                               |
| Contract assets                                   |      | 12,995                        | -                              | -                             |
| Investment securities at FVOCI                    |      | 6,333                         | -                              | -                             |
| Investment securities available for sale          |      | -                             | 16,118                         | 18,569                        |
| Investments in associates and joint ventures      | 6    | 189,054                       | 188,412                        | 190,883                       |
| Due from associates                               |      | 421,939                       | 415,759                        | 391,916                       |
| Other assets                                      |      | 15,038                        | 15,131                         | 15,076                        |
| Property and equipment                            |      | 688,321                       | 743,586                        | 788,160                       |
| Intangible assets and goodwill                    |      | 864,938                       | 911,630                        | 986,815                       |
|   |      | <u>2,198,618</u>              | <u>2,290,636</u>               | <u>2,391,419</u>              |
|   |      | <u>2,969,612</u>              | <u>3,033,671</u>               | <u>3,019,610</u>              |
| <b>Total Assets</b>                               |      |                               |                                |                               |
| <b>Liabilities and Equity</b>                     |      |                               |                                |                               |
| <b>Current liabilities</b>                        |      |                               |                                |                               |
| Trade and other payables                          |      | 625,571                       | 467,616                        | 518,257                       |
| Deferred revenue                                  |      | 47,121                        | 47,768                         | 64,947                        |
| Due to banks                                      | 7    | 158,809                       | 199,564                        | 247,086                       |
|   |      | <u>831,501</u>                | <u>714,948</u>                 | <u>830,290</u>                |
| <b>Non-current liabilities</b>                    |      |                               |                                |                               |
| Due to banks                                      | 7    | 742,547                       | 670,637                        | 824,378                       |
| Other non-current liabilities                     |      | 38,668                        | 38,482                         | 38,541                        |
|   |      | <u>781,215</u>                | <u>709,119</u>                 | <u>862,919</u>                |
| <b>Equity</b>                                     |      |                               |                                |                               |
| <b>Attributable to the Company's shareholders</b> |      |                               |                                |                               |
| Share capital                                     | 8    | 432,706                       | 432,706                        | 432,706                       |
| Share premium                                     |      | 1,707,164                     | 1,707,164                      | 1,707,164                     |
| Legal reserve                                     |      | 216,353                       | 216,353                        | 216,353                       |
| Foreign currency translation reserve              |      | (1,286,552)                   | (1,189,469)                    | (1,096,577)                   |
| Treasury shares                                   | 10   | -                             | -                              | (567,834)                     |
| Treasury shares reserve                           |      | -                             | -                              | 1,967                         |
| Investment fair valuation reserve                 |      | 987                           | 3,251                          | 4,096                         |
| Share of reserves of associates                   |      | (240)                         | (326)                          | (279)                         |
| Retained earnings                                 |      | 132,228                       | 281,919                        | 473,185                       |
|   |      | <u>1,202,646</u>              | <u>1,451,598</u>               | <u>1,170,781</u>              |
| Non-controlling interests                         |      | 154,250                       | 158,006                        | 155,620                       |
|   |      | <u>1,356,896</u>              | <u>1,609,604</u>               | <u>1,326,401</u>              |
| <b>Total equity</b>                               |      | <u>2,969,612</u>              | <u>3,033,671</u>               | <u>3,019,610</u>              |
| <b>Total Liabilities and Equity</b>               |      | <u>2,969,612</u>              | <u>3,033,671</u>               | <u>3,019,610</u>              |

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

This condensed consolidated interim financial information was approved and authorized for issue by the Board of Directors on 10 May 2018.



**Ahmed Tahous Al Tahous  
Chairman**



**Bader Nasser Al Kharafi  
Vice Chairman & Chief Executive Officer**

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

**Condensed Consolidated Statement of Profit or Loss – Three months ended 31 March 2018  
(Unaudited)**

|   | Note | Three months ended<br>31 March |                |
|---|------|--------------------------------|----------------|
|   |      | 2018                           | 2017           |
|   |      | KD'000                         |                |
| Revenue   |      | 258,903                        | 246,941        |
| Cost of sales   |      | (91,195)                       | (67,508)       |
| <b>Gross profit</b>   |      | <b>167,708</b>                 | <b>179,433</b> |
| Operating and administrative expenses   |      | (79,757)                       | (68,766)       |
| Depreciation and amortization   |      | (38,539)                       | (49,917)       |
| Provision for impairment – trade and other receivables  |      | -                              | (3,410)        |
| Expected credit loss on financial assets  |      | (3,697)                        | -              |
| <b>Operating profit</b>   |      | <b>45,715</b>                  | <b>57,340</b>  |
| Interest income   |      | 7,224                          | 2,375          |
| Investment income   | 11   | 217                            | 253            |
| Share of results of associates and joint ventures   | 6    | (2,364)                        | 888            |
| Other (expense)/income  |      | (16,516)                       | (1,152)        |
| Finance costs   |      | (9,260)                        | (9,464)        |
| Provision for impairment loss on property and equipment   | 17   | (9,648)                        | -              |
| Loss from currency revaluation  |      | (2,624)                        | (5,841)        |
| Net monetary gain   | 17   | 34,206                         | -              |
| <b>Profit before contribution to KFAS, NLST, ZAKAT, income taxes and Board of Directors' remuneration</b> |      | <b>46,950</b>                  | <b>44,399</b>  |
| Contribution to Kuwait foundation for Advancement of Sciences (KFAS)                                      |      | (174)                          | (280)          |
| National Labour Support Tax (NLST) and Zakat  |      | (747)                          | (1,583)        |
| Income tax expenses   |      | (3,992)                        | (3,849)        |
| Board of Directors' remuneration  |      | (69)                           | (69)           |
| <b>Profit for the period</b>  |      | <b>41,968</b>                  | <b>38,618</b>  |
| <b>Attributable to:</b>   |      |                                |                |
| Shareholders of the Company   |      | 40,897                         | 38,229         |
| Non-controlling interests   |      | 1,071                          | 389            |
|   |      | <b>41,968</b>                  | <b>38,618</b>  |
| <b>Earnings per share</b>   | 12   |                                |                |
| Basic – Fils  |      | 9                              | 10             |

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

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

**Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income –  
Three months ended 31 March 2018 (Unaudited)**

|  | <b>Three months ended<br/>31 March</b> |               |
|--|--|---------------|
|  | <b>2018</b>                            | <b>2017</b>   |
|  | <b>KD'000</b>                          |               |
| <b>Profit for the period</b>   | 41,968                                 | 38,618        |
| <b>Other comprehensive income</b>  |  |               |
| <i>Items that will be reclassified to profit or loss</i>   |  |               |
| Exchange differences on translating foreign operations   | (98,954)                               | 3,179         |
| Net unrealised gains/(loss) on available for sale investments  | -                                      | 709           |
| Net realised loss transferred to condensed consolidated statement of profit or loss on available for sale investments (net of impairment losses) | -                                      | (97)          |
| Cash flow hedges   | 86                                     | (159)         |
|  | <u>(98,868)</u>                        | <u>3,632</u>  |
| <i>Items that will not be reclassified to profit or loss</i>   |  |               |
| Changes in the fair value of equity investments at FVOCI   | (46)                                   | -             |
| Total comprehensive (expense)/income for the period  | <u>(56,946)</u>                        | <u>42,250</u> |
| Total comprehensive (expense)/income attributable to:  |  |               |
| Shareholders of the Company  | (56,146)                               | 42,199        |
| Non-controlling interests  | (800)                                  | 51            |
|  | <u>(56,946)</u>                        | <u>42,250</u> |

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

**Condensed Consolidated Statement of Changes in Equity – Three months ended 31 March 2018 (Unaudited)**

|  | Equity attributable to Company's shareholders |                  |                  |   |                    |                               |  | Non -<br>controlling<br>interests | Total     |                                       |                      |
|--|---|------------------|------------------|---|--------------------|-------------------------------|--|-----------------------------------|-----------|---------------------------------------|----------------------|
|  | Share<br>capital                              | Share<br>premium | Legal<br>reserve | Foreign<br>currency<br>translation<br>reserve | Treasury<br>shares | Treasury<br>shares<br>reserve | Investment<br>fair<br>valuation<br>reserve |                                   |           | Share of<br>reserves of<br>associates | Retained<br>earnings |
|  | KD '000                                       |                  |                  |   |                    |                               |  |                                   |           |                                       |                      |
| Balance at 1 January 2018  | 432,706                                       | 1,707,164        | 216,353          | (1,189,469)                                   | -                  | -                             | 3,251                                      | (326)                             | 281,919   | 158,006                               | 1,609,604            |
| Transition adjustment on adoption of IFRS 9 and IFRS 15 at 1 January 2018 (Note 3) | -   | -                | -                | -   | -                  | -                             | (2,218)                                    | -                                 | (39,141)  | (1,357)                               | (42,716)             |
| Total comprehensive income for the period  | 432,706                                       | 1,707,164        | 216,353          | (1,189,469)                                   | -                  | -                             | 1,033                                      | (326)                             | 242,778   | 156,649                               | 1,566,888            |
| Transactions with shareholders of the Company, recognized directly in equity       | -   | -                | -                | (97,083)                                      | -                  | -                             | (46)                                       | 86                                | 40,897    | (800)                                 | (56,946)             |
| Cash dividends (2017)  | -   | -                | -                | -   | -                  | -                             | -  | -                                 | (151,447) | (1,599)                               | (153,046)            |
| Balance at 31 March 2018   | 432,706                                       | 1,707,164        | 216,353          | (1,286,552)                                   | -                  | -                             | 987  | (240)                             | 132,228   | 154,250                               | 1,356,896            |
| Balance at 1 January 2017  | 432,706                                       | 1,707,164        | 216,353          | (1,100,094)                                   | (567,834)          | 1,967                         | 3,484                                      | (120)                             | 571,503   | 157,353                               | 1,422,482            |
| Total comprehensive income for the period  | -   | -                | -                | 3,517   | -                  | -                             | 612  | (159)                             | 38,229    | 51                                    | 42,250               |
| Transactions with shareholders of the Company, recognized directly in equity       | -   | -                | -                | -   | -                  | -                             | -  | -                                 | (136,547) | (1,784)                               | (138,331)            |
| Cash dividends (2016)  | -   | -                | -                | -   | -                  | -                             | -  | -                                 | -         | -                                     | -                    |
| Balance at 31 March 2017   | 432,706                                       | 1,707,164        | 216,353          | (1,096,577)                                   | (567,834)          | 1,967                         | 4,096                                      | (279)                             | 473,185   | 155,620                               | 1,326,401            |

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

**Condensed Consolidated Statement of Cash Flows – Three months ended 31 March 2018**  
**(Unaudited)**

|   | <b>Three months ended</b> |                |
|---|---------------------------|----------------|
|   | <b>31 March</b>           |                |
|   | <b>2018</b>               | <b>2017</b>    |
|   | <b>KD'000</b>             |                |
| <b>Cash flows from operating activities</b>                             |                           |                |
| Profit for the period before income tax                                 | 45,960                    | 42,467         |
| Adjustments for:  |                           |                |
| Depreciation and amortization   | 38,539                    | 49,917         |
| Interest income   | (7,224)                   | (2,375)        |
| Investment income   | (217)                     | (253)          |
| Share of results of associates and joint ventures                       | 2,364                     | (888)          |
| Provision for impairment loss on property and equipment                 | 9,648                     | -              |
| Finance costs   | 9,260                     | 9,464          |
| Loss on currency revaluation  | 2,624                     | 5,841          |
| Net monetary gain   | (34,206)                  | -              |
| Gain on sale of property and equipment                                  | (24)                      | -              |
| Operating profit before working capital changes                         | 66,724                    | 104,173        |
| Increase in trade and other receivables                                 | (60,987)                  | (5,205)        |
| Decrease/(increase) in inventories                                      | 14,133                    | (8,220)        |
| Increase/(decrease) in trade and other payables                         | 30,382                    | (2,191)        |
| Cash generated from operations  | 50,252                    | 88,557         |
| Paid to KFAS  | (319)                     | (250)          |
| NLST and Zakat paid   | -                         | (3,341)        |
| Income tax paid   | (2,066)                   | (2,302)        |
| <i>Net cash from operating activities</i>                               | 47,867                    | 82,664         |
| <b>Cash flows from investing activities</b>                             |                           |                |
| Deposits maturing after three months and bank balances blocked (note 4) | 384                       | (8,221)        |
| Investments in securities   | (1,260)                   | (3,301)        |
| Proceeds from sale of investments                                       | 173                       | 7,527          |
| Increase in due from associates   | (5,348)                   | (4,373)        |
| Acquisition of property and equipment (net)                             | (19,172)                  | (21,864)       |
| Acquisition of intangible assets (net)                                  | (275)                     | (4,365)        |
| Interest received   | 1,666                     | 3,010          |
| Dividend received   | -                         | 81             |
| <i>Net cash used in investing activities</i>                            | (23,832)                  | (31,506)       |
| <b>Cash flows from financing activities</b>                             |                           |                |
| Proceeds from bank borrowings   | 110,316                   | 156,588        |
| Repayment of bank borrowings  | (72,122)                  | (132,309)      |
| Dividends paid to Company's shareholders                                | (318)                     | (128,117)      |
| Dividends paid to minority shareholders of subsidiaries                 | -                         | (1,117)        |
| Finance costs paid  | (8,846)                   | (12,910)       |
| <i>Net cash from/(used in) financing activities</i>                     | 29,030                    | (117,865)      |
| Net increase/(decrease) in cash and cash equivalents                    | 53,065                    | (66,707)       |
| Effect of foreign currency translation                                  | (6,572)                   | 105            |
| Transition adjustment on adoption of IFRS 9 (Note 3.3)                  | (6,497)                   | -              |
| Cash and cash equivalents at beginning of period                        | 206,432                   | 177,150        |
| <b>Cash and cash equivalents at end of period (note 4)</b>              | <b>246,428</b>            | <b>110,548</b> |

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

**Notes to the Condensed Consolidated Interim Financial Information - 31 March 2018 (Unaudited)**

**1. Incorporation and activities**

Mobile Telecommunications Company K.S.C.P (the "Company") is a Kuwaiti shareholding company incorporated in 1983. Its shares are traded on the Kuwait Stock Exchange. The registered office of the Company is at P. O. Box 22244, 13083 Safat, State of Kuwait.

The Company and its subsidiaries (the "Group") along with associates provide mobile telecommunication services in Kuwait and 8 other countries (31 December 2017 - Kuwait and 8 other countries; 31 March 2017 - Kuwait and 8 other countries) under licenses from the Governments of the countries in which they operate; purchase, deliver, install, manage and maintain mobile telephone and paging systems; and invest surplus funds in investment securities.

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

**2. Basis of preparation**

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

In 2015, the Group noted that the economy of the Republic of Sudan, where the Group has subsidiaries, may be hyperinflationary from the beginning of 2015. This was based on the general price index showing the cumulative three-year rate of inflation exceeding 100% at that time. However, International Accounting Standard, IAS 29: Financial Reporting in Hyperinflationary Economies, does not establish an absolute rate at which hyperinflation is deemed to arise and states that it is a matter of judgment when restatement of financial statements in accordance with this Standard becomes necessary. In addition, the Group noted that in the 2014 International Monetary Fund (IMF) Sudan country report, the cumulative projected three year inflation rate outlook for Sudan in 2017 to be around 57% and thus, applying IAS 29 in 2015, could entail going in and out of hyperinflation within a short period. Based on the above matters, the Group concluded that there was no definitive basis to apply IAS 29 at that time and to review it on an ongoing basis. This assessment is now confirmed by the consumer price inflation rates in 2017 and during 2018, which indicate that the economy of Sudan is no longer hyperinflationary. Currently, the general price index after February 2018 is not available.

Had IAS 29 been applied, and the opening retained earnings as at 1 January 2015 been restated, it would have been higher by approximately KD 324 million and non-monetary assets comprising of Zain Sudan's Property and Equipment, Intangible assets and Capital WIP as of that date higher by the same amount. This would have then required the Group to test the restated carrying value of its investment in Zain Sudan and the related goodwill for impairment losses, if any, to be recognized in the consolidated statement of profit or loss. Even if this had resulted in goodwill being determined as fully impaired at that time, the net overall impact on the Group's consolidated statement of financial position is that net equity and the above non-monetary assets related to Zain Sudan as of 31 March 2018 would have been higher by KD 32 million (31 December 2017 – KD 53 million; 31 March 2017: KD 85 million). Furthermore, the profit for the period ended 31 March 2018 would have been lower by KD 3.02 million (31 March 2017: KD 5.82 million).

This condensed consolidated interim financial information does not contain all of the information and disclosures required for complete financial statements prepared in accordance with International Financial Reporting Standards. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Results for the interim period are not necessarily indicative of the results that may be expected for the year ending 31 December 2018, including the impact of the matter stated above regarding application of IAS 29. For further information, refer to the audited consolidated financial statements and notes thereto for the year ended 31 December 2017.

**Changes in accounting policy and disclosures**

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

**Notes to the Condensed Consolidated Interim Financial Information - 31 March 2018 (Unaudited)**

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

*Financial support to associate and group companies*

The Group has committed to provide working capital and other financial support to certain subsidiaries including Mobile Telecommunications Company Saudi Arabia ("SMTC"), Zain Jordan, Al Khatem and Zain South Sudan whose working capitals are in deficit. Based on business plans, the Group does not expect these conditions will have a material adverse impact on the operations of these Group companies.

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

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

**3.1 IFRS 15 Revenue from Contracts with Customers**

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

The implementation of IFRS15 does not impact the quantum or the phasing of cash flows. The adjustments made are purely a timing difference between the cash flows and accounting recognition, with the difference recognized on balance sheet and reflected in the working capital changes and other cash flow line items.

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

*Handsets and telecommunication services*

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

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

*Upgrade rights*

The Group offers early upgrade rights for additional services. This requires the Group to determine the accounting, including whether a material right has been granted to the customer, if the right affects the transaction price, if modification accounting applies or if waived amounts are an incentive to enter into a new contract. A material right is an option to acquire additional goods or services at a price that does not reflect the good's or service's stand-alone selling price and is considered a separate performance obligation.

**Notes to the Condensed Consolidated Interim Financial Information - 31 March 2018 (Unaudited)**

*Connection fees*

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

*Customer retention discounts*

Even if customer retention discounts are not explicit in the contract, customary business practice could mean that fixed consideration is, in substance, variable. IFRS 15 requires an assessment as to whether the discount is variable consideration or a contract modification. This requires judgement and impacts the timing of revenue recognition. IFRS 15 requires an assessment as to whether promotional offers to current customers are contract modifications or marketing transactions.

*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 Company 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 over a period along with network services, IFRS 15 requires judgement to determine if the contract includes a significant financing component. If it does, then the transaction price is adjusted to reflect the time value of money.

*Commissions and other contract costs*

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

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

*Customer Loyalty Programs*

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

**3.2 IFRS 9 – Financial Instruments**

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

**Classification of financial assets and financial liabilities**

The Group classifies its financial assets as follows:

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

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

**Notes to the Condensed Consolidated Interim Financial Information - 31 March 2018 (Unaudited)**

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

**Business model assessment**

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

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

**Contractual cash flow characteristics test**

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

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

*Financial assets at amortised cost*

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

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

*Financial assets at FVOCI*

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

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

*Financial asset at FVTPL*

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

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

**Notes to the Condensed Consolidated Interim Financial Information - 31 March 2018 (Unaudited)**

**Impairment of financial assets**

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

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

*General approach*

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

*Simplified approach*

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

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

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

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

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

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

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

**Notes to the Condensed Consolidated Interim Financial Information - 31 March 2018 (Unaudited)**

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

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

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

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

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

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

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

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

**Notes to the Condensed Consolidated Interim Financial Information - 31 March 2018 (Unaudited)**

**3.4 Impact of adoption of IFRS 9 and 15 on the condensed consolidated interim statement of financial position**

(a) The following table summarizes the impact on statement of financial position as at 31 March 2018:

|   | <b>KD '000</b>         |                 |                | <b>Amounts<br/>without<br/>adoption of<br/>IFRS 15<br/>and IFRS 9</b> |
|---|------------------------|-----------------|----------------|---|
|   | <b>As<br/>reported</b> | <b>IFRS 15</b>  | <b>IFRS 9</b>  |   |
| <b>Current assets</b>                             |                        |                 |                |   |
| Cash and bank balances                            | 284,010                | -               | 6,682          | 290,692   |
| Trade and other receivables                       | 404,937                | 76,943          | 13,983         | 495,863   |
| Contract assets                                   | 42,785                 | (46,698)        | 3,913          | -   |
| Inventories                                       | 19,921                 | -               | -              | 19,921  |
| Investment securities at FVTPL                    | 11,685                 | -               | (10,117)       | 1,568   |
| Non-current assets held for sale                  | 7,656                  | -               | -              | 7,656   |
|   | <u>770,994</u>         | <u>30,245</u>   | <u>14,461</u>  | <u>815,700</u>  |
| <b>Non-current assets</b>                         |                        |                 |                |   |
| Contract assets                                   | 12,995                 | (14,546)        | 1,551          | -   |
| Investment securities at FVOCI                    | 6,333                  | -               | (6,333)        | -   |
| Investment securities available for sale          | -                      | -               | 16,450         | 16,450  |
| Investments in associates and joint ventures      | 189,054                | (3,645)         | (242)          | 185,167   |
| Due from associates                               | 421,939                | -               | 1,082          | 423,021   |
| Other assets                                      | 15,038                 | -               | -              | 15,038  |
| Property and equipment                            | 688,321                | -               | -              | 688,321   |
| Intangible assets and goodwill                    | 864,938                | 3,873           | -              | 868,811   |
|   | <u>2,198,618</u>       | <u>(14,318)</u> | <u>12,508</u>  | <u>2,196,808</u>  |
| <b>Total Assets</b>                               | <u>2,969,612</u>       | <u>15,927</u>   | <u>26,969</u>  | <u>3,012,508</u>  |
| <b>Current liabilities</b>                        |                        |                 |                |   |
| Trade and other payables                          | 625,571                | (3)             | (2,098)        | 623,470   |
| Deferred revenue                                  | 47,121                 | -               | -              | 47,121  |
| Due to banks                                      | 158,809                | -               | -              | 158,809   |
|   | <u>831,501</u>         | <u>(3)</u>      | <u>(2,098)</u> | <u>829,400</u>  |
| <b>Non-current liabilities</b>                    |                        |                 |                |   |
| Due to banks                                      | 742,547                | -               | -              | 742,547   |
| Other non-current liabilities                     | 38,668                 | -               | -              | 38,668  |
|   | <u>781,215</u>         | <u>-</u>        | <u>-</u>       | <u>781,215</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                                     | 216,353                | -               | -              | 216,353   |
| Foreign currency translation reserve              | (1,286,552)            | -               | -              | (1,286,552)   |
| Investment fair valuation reserve                 | 987                    | -               | 2,671          | 3,658   |
| Share of reserves of associates                   | (240)                  | -               | -              | (240)   |
| Retained earnings                                 | 132,228                | 15,803          | 25,074         | 173,105   |
|   | <u>1,202,646</u>       | <u>15,803</u>   | <u>27,745</u>  | <u>1,246,194</u>  |
| Non-controlling interests                         | 154,250                | 127             | 1,322          | 155,699   |
| <b>Total equity</b>                               | <u>1,356,896</u>       | <u>15,930</u>   | <u>29,067</u>  | <u>1,401,893</u>  |
| <b>Total Liabilities and Equity</b>               | <u>2,969,612</u>       | <u>15,927</u>   | <u>26,969</u>  | <u>3,012,508</u>  |

**Notes to the Condensed Consolidated Interim Financial Information - 31 March 2018 (Unaudited)**

- (b) The following table summarizes the impact on the condensed consolidated statement of profit or loss for the three months period ended 31 March 2018:

|   | <b>KD '000</b>     |                |                | <b>Amounts without adoption of IFRS 15 and IFRS 9</b> |
|---|--------------------|----------------|----------------|---|
|   | <b>As reported</b> | <b>IFRS 15</b> | <b>IFRS 9</b>  |   |
| Revenue   | 258,903            | 4,594          | -              | 263,497   |
| Cost of sales   | (91,195)           | 1,286          | -              | (89,909)  |
| <b>Gross profit</b>   | <b>167,708</b>     | <b>5,880</b>   | <b>-</b>       | <b>173,588</b>  |
| Operating and administrative expenses   | (79,757)           | -              | -              | (79,757)  |
| Depreciation and amortization   | (38,539)           | (2,517)        | -              | (41,056)  |
| Provision for impairment - trade and other receivables  | -                  | -              | (4,702)        | (4,702)   |
| Expected credit loss on financial assets  | (3,697)            | -              | 3,697          | -   |
| <b>Operating profit</b>   | <b>45,715</b>      | <b>3,363</b>   | <b>(1,005)</b> | <b>48,073</b>   |
| Interest income   | 7,224              | -              | -              | 7,224   |
| Investment income   | 217                | -              | (453)          | (236)   |
| Share of results of associates and joint ventures   | (2,364)            | -              | -              | (2,364)   |
| Other (expense)/income  | (16,516)           | -              | -              | (16,516)  |
| Finance costs   | (9,260)            | -              | -              | (9,260)   |
| Provision for impairment loss on property and equipment   | (9,648)            | -              | -              | (9,648)   |
| Loss from currency revaluation  | (2,624)            | -              | -              | (2,624)   |
| Net monetary gain   | 34,206             | -              | -              | 34,206  |
| <b>Profit before contribution to KFAS, NLST, ZAKAT, income taxes and Board of Directors' remuneration</b> | <b>46,950</b>      | <b>3,363</b>   | <b>(1,458)</b> | <b>48,855</b>   |
| Contribution to KFAS  | (174)              | (34)           | 15             | (193)   |
| NLST and Zakat  | (747)              | (118)          | 51             | (814)   |
| Income tax expenses   | (3,992)            | 8              | -              | (3,984)   |
| Board of Directors' remuneration  | (69)               | -              | -              | (69)  |
| <b>Profit for the period</b>  | <b>41,968</b>      | <b>3,219</b>   | <b>(1,392)</b> | <b>43,795</b>   |

**3.5 Significant judgments and estimates**

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

*Classification of equity investment securities*

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

*Measurement of the expected credit loss allowance*

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

**Notes to the Condensed Consolidated Interim Financial Information - 31 March 2018 (Unaudited)**

**4. Cash and bank balances**

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

|   | <b>Unaudited</b> | <b>Audited</b>     | <b>Unaudited</b> |
|---|------------------|--------------------|------------------|
|   | <b>31 March</b>  | <b>31 December</b> | <b>31 March</b>  |
|   | <b>2018</b>      | <b>2017</b>        | <b>2017</b>      |
|   | <b>KD '000</b>   |                    |                  |
| Cash on hand and at banks   | 118,830          | 125,484            | 92,178           |
| Short-term deposits with banks  | 171,693          | 118,673            | 57,889           |
| Government certificates of deposits held by subsidiaries  | 169              | 241                | 304              |
|   | <u>290,692</u>   | <u>244,398</u>     | <u>150,371</u>   |
| Expected credit loss  | (6,682)          | -                  | -                |
|   | <u>284,010</u>   | <u>244,398</u>     | <u>150,371</u>   |
| <br>  |                  |                    |                  |
| Cash at bank under lien   | (7,483)          | (7,545)            | (9,049)          |
| Deposits with maturity exceeding three months   | (29,930)         | (30,180)           | (30,470)         |
| Government certificates of deposits with maturities exceeding three months held by subsidiaries | (169)            | (241)              | (304)            |
| Cash and cash equivalent in the condensed consolidated statements of cash flows                 | <u>246,428</u>   | <u>206,432</u>     | <u>110,548</u>   |

**5. Non-current assets held for sale**

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

**6. Investments in associates and joint ventures**

**6.1 Investments in associates**

This represents the Group's share of investments in SMTC accounted for using the equity method:

|   | <b>Unaudited</b> | <b>Audited</b>     | <b>Unaudited</b> |
|---|------------------|--------------------|------------------|
|   | <b>31 March</b>  | <b>31 December</b> | <b>31 March</b>  |
|   | <b>2018</b>      | <b>2017</b>        | <b>2017</b>      |
|   | <b>KD '000</b>   |                    |                  |
| Current assets                                      | 273,240          | 302,248            | 314,865          |
| Non-current assets                                  | 1,803,440        | 1,784,895          | 1,867,221        |
| Current liabilities                                 | 867,172          | 924,335            | 537,287          |
| Non-current liabilities                             | 920,637          | 876,084            | 1,352,329        |
| Net asset of SMTC                                   | <u>288,871</u>   | <u>286,724</u>     | <u>292,470</u>   |
| <br>  |                  |                    |                  |
| Revenue   | 134,794          | 604,913            | 156,018          |
| Profit/(loss)                                       | (6,182)          | 955                | 3,698            |
| Other comprehensive income                          | 232              | (577)              | (429)            |
| Total comprehensive income/(expense) for the period | <u>(5,950)</u>   | <u>378</u>         | <u>3,269</u>     |
| <br>  |                  |                    |                  |
| Proportion of Group's ownership interest in SMTC    | 37.045%          | 37.045%            | 37.045%          |
| <br>  |                  |                    |                  |
| Group's share of SMTC's net assets                  | 107,012          | 106,217            | 108,346          |
| Goodwill  | 12,265           | 12,367             | 12,486           |
| Carrying amount of Group's interest in SMTC         | <u>119,277</u>   | <u>118,584</u>     | <u>120,832</u>   |

**Notes to the Condensed Consolidated Interim Financial Information - 31 March 2018 (Unaudited)**

SMTC is in negotiation with lenders to refinance the syndicated murabaha debt that fully matures in 2018.

As at 31 March 2018 the fair value of the Group's investment in SMTC, being its quoted market share price on the Saudi Stock Exchange, was KD 123.743 million (31 December 2017 - KD 127.186 million; 31 March 2017: KD 155.336 million).

**6.2 Interest in a joint venture**

This represents Group's KD 69.754 million (31 December 2017 - KD 69.828 million; 31 March 2017: KD 70.051 million) interest in the joint venture, Zain Al Ajial S.A. that owns 31% of the equity shares and voting rights of Wana Corporate (a Moroccan joint stock company that is specialized in the telecom sector in that country).

**7. Due to banks**

|                               | <u>Unaudited</u><br><u>31 March</u><br><u>2018</u> | <u>Audited</u><br><u>31 December</u><br><u>2017</u> | <u>Unaudited</u><br><u>31 March</u><br><u>2017</u><br><u>KD '000</u> |
|-------------------------------|--|---|--|
| <i>Company</i>                |  |   |  |
| Short term loans              | 109,790  | 110,540   | 202,618  |
| Long term loans               | 646,325  | 621,940   | 722,817  |
|                               | <u>756,115</u>                                     | <u>732,480</u>                                      | <u>925,435</u>   |
| <i>Zain Sudan</i>             |  |   |  |
| Short term Murabaha financing | -  | -   | 1,426  |
| <i>Zain - Bahrain</i>         |  |   |  |
| Long term loans               | 744  | 1,501   | 7,061  |
| <i>Atheer - Iraq</i>          |  |   |  |
| Bank overdraft                | 14,302   | -   | -  |
| Long term loans               | 130,195  | 136,220   | 137,542  |
|                               | <u>901,356</u>                                     | <u>870,201</u>                                      | <u>1,071,464</u>   |

The closing balance includes a non-cash movement arising from foreign currency gain of KD 7.039 million (31 December 2017 - gain of KD 11.422 million; 31 March 2017 - loss of KD 2.162 million).

The current and non-current amounts are as follows:

|                         | <u>Unaudited</u><br><u>31 March</u><br><u>2018</u> | <u>Audited</u><br><u>31 December</u><br><u>2017</u> | <u>Unaudited</u><br><u>31 March</u><br><u>2017</u><br><u>KD '000</u> |
|-------------------------|--|---|--|
| Current liabilities     | 158,809  | 199,564   | 247,086  |
| Non-current liabilities | 742,547  | 670,637   | 824,378  |
|                         | <u>901,356</u>                                     | <u>870,201</u>                                      | <u>1,071,464</u>   |

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

|               | <u>Unaudited</u><br><u>31 March</u><br><u>2018</u> | <u>Audited</u><br><u>31 December</u><br><u>2017</u> | <u>Unaudited</u><br><u>31 March</u><br><u>2017</u><br><u>KD '000</u> |
|---------------|--|---|--|
| US dollar     | 880,612  | 836,587   | 953,029  |
| Kuwaiti dinar | 20,000   | 32,113  | 109,947  |
| Others        | 744  | 1,501   | 8,488  |
|               | <u>901,356</u>                                     | <u>870,201</u>                                      | <u>1,071,464</u>   |

**Notes to the Condensed Consolidated Interim Financial Information - 31 March 2018 (Unaudited)**

The effective interest rate as at 31 March 2018 was 2.13% to 5.1% (31 December 2017 - 2.01% to 12%; 31 March 2017 - 1.75% to 12%) per annum.

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

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

During the period, the Company:

- drew down loans amounting to KD 95.776 million. This includes:
  - US\$ 200 million (KD 59.860 million) from an existing US\$ 200 million revolving credit facility.
  - US\$ 120 million (KD 35.916 million) from an existing US\$ 500 million revolving credit facility.
- repaid loans amounting to KD 66.339 million. This includes:
  - US\$ 170 million (KD 50.881 million) from an existing US\$ 200 million revolving credit facility.
  - KD 12.112 million to fully repay the term loan that was availed from a local commercial bank in 2014.

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

**Zain - Bahrain**

This represents balance outstanding on the long term Bahraini Dinar denominated facilities, availed in 2013, at a fixed margin over Bahrain Inter Bank Overnight rate (BIBOR). These were four year amortising facilities with maturities in September 2018.

**Atheer**

Long term loans include:

- Term loan from a commercial bank amounting to US\$ 300 million (KD 89.79 million) (31 December 2017: KD 90.54 million; 31 March 2017: KD 91.41 million) that is repayable by 17 December 2019.
- Term loan from a commercial bank amounting to US\$ 55 million (KD 16.462 million) (31 December 2017: KD 16.599 million; 31 March 2017: KD 16.76 million) which is repayable by 31 March 2020.
- Term loan from a commercial bank amounting to US\$ 30 million (KD 8.979 million) (31 December 2017: KD 9.054 million; 31 March 2017: KD 9.141 million) which is repayable by 27 December 2019.
- Term loan from a commercial bank amounting to US\$ 50 million (KD 14.965 million) (31 December 2017: KD 15.09 million; 31 March 2017: Nil) which is repayable by 30 April 2020.

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

**8. Share capital**

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

**9. Dividend**

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

**Notes to the Condensed Consolidated Interim Financial Information - 31 March 2018 (Unaudited)**

**10. Treasury shares**

|                             | <b>Unaudited</b> | <b>Audited</b>     | <b>Unaudited</b> |
|-----------------------------|------------------|--------------------|------------------|
|                             | <b>31 March</b>  | <b>31 December</b> | <b>31 March</b>  |
|                             | <b>2018</b>      | <b>2017</b>        | <b>2017</b>      |
| Number of shares            | -                | -                  | 425,711,648      |
| Percentage of issued shares | -                | -                  | 9.84%            |
| Market value (KD '000)      | -                | -                  | 199,172          |
| Cost (KD '000)              | -                | -                  | 567,834          |

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

**11. Investment income**

|   | <b>Three months ended</b>   |             |
|---|-----------------------------|-------------|
|   | <b>31 March (Unaudited)</b> |             |
|   | <b>2018</b>                 | <b>2017</b> |
|   | <b>KD'000</b>               |             |
| Profit from investment securities at FVTPL                            | 217                         | 77          |
| Realised gains/(loss) from investment securities 'available for sale' | -                           | 2,568       |
| Impairment loss on available for sale investments                     | -                           | (2,473)     |
| Dividend income   | -                           | 81          |
|   | <u>217</u>                  | <u>253</u>  |

**12. Earnings per share**

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

|  | <b>Three months ended</b>   |               |
|--|-----------------------------|---------------|
|  | <b>31 March (Unaudited)</b> |               |
|  | <b>2018</b>                 | <b>2017</b>   |
|  | <b>KD'000</b>               |               |
| Profit for the period attributable to shareholders                       | 40,897                      | 38,229        |
|  | <b>Shares</b>               | <b>Shares</b> |
| Weighted average number of shares in issue outstanding during the period | 4,327,058,909               | 3,901,347,261 |
|  | <b>Fils</b>                 | <b>Fils</b>   |
| Earnings per share – Basic   | 9                           | 10            |

**13. Segmental information**

The Company and its subsidiaries operate in a single business segment, telecommunications and related services in Kuwait and other countries. This forms the basis of the geographical segments.

Based on the quantitative thresholds, the Group has identified its operations in Kuwait, Jordan, Sudan, Iraq and Bahrain as the basis for disclosing the segment information.

Notes to the Condensed Consolidated Interim Financial Information - 31 March 2018 (Unaudited)

|  | 31 March 2018 |                |               |                |               | Total<br>KD '000 |
|--|---------------|----------------|---------------|----------------|---------------|------------------|
|  | Kuwait        | Jordan         | Sudan         | Iraq           | Bahrain       |                  |
| <b>Segment revenues - airtime, data and subscription (Point over time)</b> | 73,388        | 34,737         | 25,461        | 82,157         | 10,205        | 231,357          |
| <b>Segment revenues - trading income (Point in time)</b>                   | 22,670        | 1,088          | 133           | 419            | 3,198         | 27,546           |
| <b>Net profit before interest and tax</b>                                  | 18,905        | 8,221          | 5,145         | 6,321          | 889           | 64,166           |
| Interest income  | -             | 110            | 122           | 31             | 11            | 322              |
| Finance costs  | -             | (1,392)        | -             | (2,918)        | (18)          | (4,350)          |
| Income tax expense   | -             | (1,566)        | (1,126)       | (1,022)        | -             | (3,837)          |
|  | <u>18,905</u> | <u>5,373</u>   | <u>4,141</u>  | <u>2,412</u>   | <u>882</u>    | <u>56,301</u>    |
| <i>Unallocated items:</i>  |               |                |               |                |               |                  |
| Investment income  |               |                |               |                |               | 217              |
| Share of results of associates and joint ventures                          |               |                |               |                |               | (2,364)          |
| Others (including unallocated interest income and finance costs)           |               |                |               |                |               | (12,186)         |
| <b>Profit for the period</b>   |               |                |               |                |               | <u>41,968</u>    |
| <b>Segment assets including goodwill</b>                                   | 308,554       | 313,931        | 158,813       | 996,693        | 78,631        | 1,943,894        |
| <i>Unallocated items:</i>  |               |                |               |                |               |                  |
| Investment securities at FVTPL   |               |                |               |                |               | 11,685           |
| Investment securities at FVOCI   |               |                |               |                |               | 6,333            |
| Investment in associates and joint ventures                                |               |                |               |                |               | 189,054          |
| Dues from associates   |               |                |               |                |               | 421,939          |
| Others   |               |                |               |                |               | 396,707          |
| <b>Consolidated assets</b>   |               |                |               |                |               | <u>2,969,612</u> |
| <b>Segment liabilities</b>   | 83,844        | 160,613        | 36,139        | 154,290        | 25,373        | 673,137          |
| Due to banks   | -             | -              | -             | 144,497        | 744           | 145,241          |
|  | <u>83,844</u> | <u>160,613</u> | <u>36,139</u> | <u>298,787</u> | <u>26,117</u> | <u>818,378</u>   |
| <i>Unallocated items:</i>  |               |                |               |                |               |                  |
| Due to banks   |               |                |               |                |               | 756,115          |
| Others   |               |                |               |                |               | 38,223           |
| <b>Consolidated liabilities</b>  |               |                |               |                |               | <u>1,612,716</u> |
| <b>Net consolidated assets</b>   |               |                |               |                |               | <u>1,356,896</u> |
| Capital expenditure incurred during the period                             |               |                |               |                |               | 20,914           |
| Unallocated  |               |                |               |                |               | 921              |
| <b>Total capital expenditure</b>   |               |                |               |                |               | <u>21,835</u>    |
| Depreciation and amortization  |               |                |               |                |               | 37,997           |
| Unallocated  |               |                |               |                |               | 542              |
| <b>Total depreciation and amortization</b>                                 |               |                |               |                |               | <u>38,539</u>    |

Notes to the Condensed Consolidated Interim Financial Information - 31 March 2018 (Unaudited)

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

**Notes to the Condensed Consolidated Interim Financial Information - 31 March 2018 (Unaudited)**

**14. Related party transactions**

The Group has entered into transactions with related parties on terms approved by management. Transactions and balances with related parties (in addition to those disclosed in other notes) are as follows:

**Transactions**

|   | <b>Three months ended<br/>31 March (Unaudited)</b> |             |
|---|--|-------------|
|   | <b>2018</b>  | <b>2017</b> |
|   | <b>KD'000</b>                                      |             |
| Revenue                                   | 573  | 1,181       |
| Cost of sales                             | 399  | 481         |
| Management fee (included in other income) | 967  | -           |
| Interest income on loans to an associate  | 5,692  | -           |

**Key management compensation**

|   | <b>Three months ended<br/>31 March (Unaudited)</b> |             |
|---|--|-------------|
|   | <b>2018</b>  | <b>2017</b> |
|   | <b>KD'000</b>                                      |             |
| Salaries and other short term employee benefits | 877  | 753         |
| Post-employment benefits                        | 112  | 112         |

**Balances**

|                   | <b>Unaudited<br/>31 March<br/>2018</b> | <b>Audited<br/>31<br/>December<br/>2017</b> | <b>Unaudited<br/>31 March<br/>2017</b> |
|-------------------|--|---|--|
|                   | <b>KD '000</b>                         |   |  |
| Trade receivables | 16,868                                 | 16,553                                      | 12,859                                 |
| Trade payables    | 10,563                                 | 9,851                                       | 10,619                                 |

**15. Commitments and contingencies**

|  | <b>Unaudited<br/>31 March<br/>2018</b> | <b>Audited<br/>31<br/>December<br/>2017</b> | <b>Unaudited<br/>31 March<br/>2017</b> |
|--|--|---|--|
|  | <b>KD '000</b>                         |   |  |
| Capital expenditure                          | 32,205                                 | 37,727                                      | 54,127                                 |
| Capital expenditure - share of an associate  | 61,260                                 | 60,835                                      | 42,445                                 |
| Uncalled share capital of investee companies | 4,415                                  | 4,685                                       | 5,375                                  |
| Letters of guarantee and credit              | 444,324                                | 453,691                                     | 454,244                                |

The above include guarantees amounting to KD 390.141 million (31 December 2017 - KD 396.316 million; 31 March 2017 - KD 401.807 million) relating to loans and other vendor financing availed by SMTC.

The Company is a guarantor for credit facilities amounting to KD 7.183 million (31 December 2017 - KD 10.551 million; 31 March 2017 - KD 10.653 million) granted by a bank to a founding shareholder in SMTC. The Company believes that the collaterals provided by the founding shareholder to the bank, covers the credit facilities.

#### Penalties and Fee claims in Iraq

In 2011, the Communications and Media Commission (CMC) claimed an amount of US\$ 100 million (KD 29.93 million) from Atheer, citing non-compliance with certain license terms. This claim was resolved in favor of Atheer during the second quarter of 2015. However, in March 2016, the Executive Director of the CMC filed a complaint with the Hearing Panel of the CMC claiming US\$ 100 million (KD 29.93million) relating to the matter which had been ruled in favor of Atheer by the Appeals Board of the CMC on three previous occasions. On 13 July 2016, the Hearing Panel of the CMC issued a decision in favor of CMC. On 8 September 2016, Atheer filed an appeal against this decision with the CMC Appellate Panel. On 15 January 2017, the CMC Appeals Board issued a decision in favor of CMC. Atheer challenged this decision of the CMC Appeals Board in the Court of First Instance arguing that the provisions of Order No. 65 (governing telecom activities in Iraq), that immunizes CMC Appeals Board decisions from being appealed or challenged, is unconstitutional. Atheer also requested the Court to issue an order preventing the CMC from collecting the amount of claim or enforcing the CMC Appeals Board decision until the matter is decided by the Court. The Court of First Instance issued orders in February and April 2017 to stop any enforcement proceedings by the CMC to collect the amount of claim until the case is decided by the Court. On 27 April 2017, the Court of First Instance issued a decision in favor of CMC. In May 2017, Atheer filed an appeal with the Court of Appeals against this decision. In November 2017, the Court of Appeals issued a decision in favor of Atheer. However, CMC challenged such decision by filing an appeal with the Court of Cassation which issued a decision on 15 November 2017 reversing the decision of the Court of Appeals and returning the file to the Court of Appeals for a decision. On 28 December 2017, the Court of Appeals issued a decision which upheld the decision of Court of First Instance dated 27 April 2017. Atheer filed a challenge to this decision with the Court of Cassation on 11 January 2018. On 12 March 2018, the Court of Cassation decided in favour of Atheer and ruled that the Court of Appeals erred and should have examined the basis on which the CMC imposed the fine, taking into account the views of the expert appointed by the CMC. The case was remanded to the Court of Appeals to take a decision. The Court of Appeals instructed the CMC to provide all grounds and basis relied on in the decision to impose the fine, supported by all documentary evidence that would provide the basis of CMC to impose such fine. Based on the report of its attorneys, Atheer believes that the prospects of resolving this matter is in its favor.

#### Income and Capital Gains taxes in Iraq

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

- In connection with the additional corporate income tax for the years 2004 to 2010 of US\$ 244 million (KD 73.03 million) claimed by the Iraq General Commission for Taxes (IGCT), Atheer would have the right to submit its objection to the income tax claimed by the Income Tax Authority for the years from 2004 to 2010, and to pay minimum 25% of the amount claimed and the balance US\$ 173 million (KD 51.779 million) in fifty equal monthly instalments from December 2016, net of amount already paid. Atheer would reserve the right to file an objection for each of these years;
- Atheer to settle the capital gains tax claim for US\$ 93 million (KD 27.835 million) which is 50% of the original claim based on Iraq's Council of Ministers approval in November 2016;
- The block on Atheer's bank accounts and the lien on part of Group's share in Al Khatem would be released.

Atheer paid the amounts agreed in December 2016 and secured the release of the block on its bank accounts and the lien on Group's shares in Al Khatem. Atheer submitted its objections against the US\$ 244 million (KD 73.030 million) tax claim in November 2016 objecting to the full amount of the claim. As of 31 March 2018, Atheer has an obligation to pay the balance of US\$ 117 million; equivalent to KD 35.019 million (31 December 2017: KD 38.63 million) net of previous payments in thirty four instalments.

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

**Notes to the Condensed Consolidated Interim Financial Information - 31 March 2018 (Unaudited)**

Pella is a defendant in lawsuits amounting to KD 12.354 million (31 December 2017 – KD 12.474 million). Based on the report of its attorneys, the Group expects the outcome of these proceedings to be favorable to Pella. Pella has initiated legal proceedings against the claim by regulatory authorities of KD 9.412 million (31 December 2017 - KD 9.504 million) for the years 2002 - 2005 on the grounds that it has already paid the amount that it was obligated to pay for those years. Pella has also initiated legal proceedings against the regulatory authorities claiming refund of excess license fee paid amounting to KD 11.523 million (31 December 2017 - KD 11.934 million) of earlier years. Based on the report of its attorneys, the Group expects the outcome to be favorable to Pella.

In addition, legal proceedings have been initiated by and against the Group in some jurisdictions. On the basis of information currently available and the advice of the legal advisors, Group management is of the opinion that the outcome of these proceedings is unlikely to have a material adverse effect on the consolidated financial position or the consolidated performance of the Group.

**16. Financial instruments**

**16.1 Categories of financial assets and liabilities**

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

|  | <b>(Unaudited)<br/>31 March<br/>2018</b> | <b>(Audited)<br/>31<br/>December<br/>2017</b> | <b>(Unaudited)<br/>31 March<br/>2017</b> |
|--|--|---|--|
|  | <b>KD'000</b>                            |   |  |
| <b>Ammortised costs/Loans and receivables:</b> |  |   |  |
| Cash and bank balances                         | 284,010                                  | 244,398                                       | 150,371                                  |
| Trade and other receivables                    | 404,546                                  | 455,472                                       | 452,063                                  |
| Contract assets (current and non-current)      | 56,283                                   | -   | -  |
| Due from associates                            | 421,939                                  | 415,759                                       | 391,916                                  |
| Other assets                                   | 11,972                                   | 12,072  | 12,188                                   |
| Investment securities -FVTPL                   | 11,685                                   | 778   | 1,041                                    |
| Investment securities - FVOCI                  | 6,333                                    | -   | -  |
| Investments securities available for sale      | -  | 16,118  | 18,569                                   |

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

**16.2 Fair value hierarchy for financial instruments measured at fair value**

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

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

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

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

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

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

**Notes to the Condensed Consolidated Interim Financial Information - 31 March 2018 (Unaudited)**

**31 March 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 securities at FVTPL        | 3,718          | 7,967          | -              | 11,685       |
| Investments securities at FVOCI        | 1,097          | 394            | 4,842          | 6,333        |
| Total assets                           | 4,815          | 8,361          | 4,842          | 18,018       |

**31 December 2017**

|   | <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 securities at FVTPL           | 778            | -              | -              | 778          |
| Investments securities available for sale | 3,347          | 7,925          | -              | 11,272       |
| Total assets                              | 4,125          | 7,925          | -              | 12,050       |

**31 March 2017**

|   | <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 securities at FVTPL           | 1,041          | -              | -              | 1,041        |
| Investments securities available for sale | 6,404          | 7,142          | -              | 13,546       |
| Total assets                              | 7,445          | 7,142          | -              | 14,587       |

**Measurement at fair value**

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

**17. Hyperinflation – Zain South Sudan**

**Net monetary gain**

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

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.

|                  | <b>Index</b> | <b>Conversion factor</b> |
|------------------|--------------|--------------------------|
| 31 March 2018    | 5,785        | 1.0                      |
| 31 December 2017 | 4,502        | 1.2                      |
| 31 December 2016 | 2,068        | 2.8                      |
| 31 December 2015 | 357          | 16.2                     |
| 31 December 2014 | 170          | 34.0                     |
| 31 December 2013 | 155          | 37.3                     |
| 31 December 2012 | 170          | 34.1                     |

**Notes to the Condensed Consolidated Interim Financial Information - 31 March 2018 (Unaudited)**

**Provision for impairment loss on property and equipment**

The Group assessed that the carrying value of its network assets at Zain South Sudan exceeds their recoverable amount as determined by their fair value less cost of disposal and estimated an impairment loss of KD 9.648 million (31 March 2017 - KD Nil). The fair value was determined using the current replacement cost approach based on level 3 inputs of the fair value hierarchy with the service capacity of the assets being the most significant unobservable input. The current use was determined to be highest and best use. The impairment loss is subject to reassessment at the end of each reporting period to determine if it no longer exists or may have decreased in which case it is reversible to that extent.

**18. Derivative financial instruments**

The table below shows the positive and negative fair values of derivative financial instruments, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of either market or credit risk. All derivative contracts are fair valued based on observable market data.

**At 31 March 2018:**

|  | Notional amounts by term to maturity |                     |                 |                 |              |             |
|--|--------------------------------------|---------------------|-----------------|-----------------|--------------|-------------|
|  | Positive fair value                  | Negative fair value | Notional amount | Within 3 months | 3 -12 months | Over 1 year |
|  |                                      |                     |                 |                 |              | KD '000     |

*Derivatives held for hedging:*

*Cash flow hedges*

Profit rate swaps - share of an associate

|   |   |         |         |   |   |
|---|---|---------|---------|---|---|
| 6 | - | 101,420 | 101,420 | - | - |
|---|---|---------|---------|---|---|

**At 31 December 2017:**

|  | Notional amounts by term to maturity |                     |                 |                 |              |             |
|--|--------------------------------------|---------------------|-----------------|-----------------|--------------|-------------|
|  | Positive fair value                  | Negative fair value | Notional amount | Within 3 months | 3 -12 months | Over 1 year |
|  |                                      |                     |                 |                 |              | KD '000     |

*Derivatives held for hedging:*

*Cash flow hedges*

Profit rate swaps - share of an associate

|   |    |        |   |        |   |
|---|----|--------|---|--------|---|
| - | 78 | 96,454 | - | 96,454 | - |
|---|----|--------|---|--------|---|

**At 31 March 2017:**

|  | Notional amounts by term to maturity |                     |                 |                 |              |             |
|--|--------------------------------------|---------------------|-----------------|-----------------|--------------|-------------|
|  | Positive fair value                  | Negative fair value | Notional amount | Within 3 months | 3 -12 months | Over 1 year |
|  |                                      |                     |                 |                 |              | KD '000     |

*Derivatives held for hedging:*

*Cash flow hedges*

Profit rate swaps - share of an associate

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