

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

**Condensed Consolidated Interim Financial Information (Unaudited)  
30 June 2017**

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

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

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

*Introduction*

We have reviewed the accompanying condensed consolidated statement of financial position of Mobile Telecommunications Company K.S.C.P ("the Company") and its subsidiaries (together called "the Group") as at 30 June 2017 and the related condensed consolidated statements of profit or loss, profit or loss and other comprehensive income for three-month and six-month periods then ended and the related condensed consolidated statements of changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 - Interim Financial Reporting. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

*Scope of Review*

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

*Basis of Qualified Conclusion*

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

*Qualified Conclusion*

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

# Deloitte.

Mobile Telecommunications Company K.S.C.P  
Kuwait

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

### *Emphasis of matter*

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

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

Furthermore, based on our review, the condensed consolidated Interim financial information is in agreement with the books of account of the Company. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Companies Law No. 1 of 2016 and its Executive Regulations or of the Company's Memorandum of Incorporation and Articles of Association, as amended, during the six-month period ended 30 June 2017 that might have had a material effect on the business of the Company or on its financial position.



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

Kuwait  
6 August 2017

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

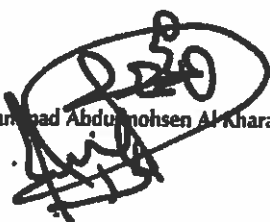
**Condensed Consolidated Statement of Financial Position as at 30 June 2017 (Unaudited)**

		Unaudited 30 June 2017	Audited 31 December 2016	Unaudited 30 June 2016
	Note			KD '000
<b>Assets</b>				
<b>Current assets</b>				
Cash and bank balances	3	154,849	208,752	311,739
Trade and other receivables		479,533	450,386	437,672
Inventories		19,313	16,418	15,317
Investment securities at fair value through profit or loss		996	964	992
		<u>654,691</u>	<u>676,520</u>	<u>765,720</u>
<b>Non-current assets</b>				
Investment securities available for sale		18,315	22,134	24,590
Investments in associates and joint ventures	4	190,162	190,396	199,932
Due from associates		397,306	381,661	363,256
Other assets		15,044	15,598	15,485
Property and equipment	15	753,911	798,156	887,922
Intangible assets and goodwill		959,173	1,007,237	1,152,711
		<u>2,333,911</u>	<u>2,415,182</u>	<u>2,643,896</u>
<b>Total Assets</b>		<u>2,988,602</u>	<u>3,091,702</u>	<u>3,409,616</u>
<b>Liabilities and Equity</b>				
<b>Current liabilities</b>				
Trade and other payables		564,662	570,920	718,480
Due to banks	5	381,402	219,154	219,738
		<u>946,064</u>	<u>790,074</u>	<u>938,218</u>
<b>Non-current liabilities</b>				
Due to banks	5	670,209	830,193	785,146
Other non-current liabilities		36,436	48,953	38,572
		<u>706,645</u>	<u>879,146</u>	<u>823,718</u>
<b>Equity</b>				
<b>Attributable to the Company's shareholders</b>				
Share capital	6	432,706	432,706	432,706
Share premium		1,707,164	1,707,164	1,707,164
Treasury shares	8	(567,834)	(567,834)	(567,834)
Legal reserve		216,353	216,353	216,353
Foreign currency translation reserve		(1,131,206)	(1,100,094)	(773,181)
Treasury shares reserve		1,967	1,967	1,967
Investment fair valuation reserve		4,068	3,484	994
Hedge reserve		(320)	(120)	(525)
Retained earnings		517,242	571,503	473,994
		<u>1,180,140</u>	<u>1,265,129</u>	<u>1,491,638</u>
<b>Non-controlling interests</b>		<u>155,753</u>	<u>157,353</u>	<u>156,042</u>
<b>Total equity</b>		<u>1,335,893</u>	<u>1,422,482</u>	<u>1,647,680</u>
<b>Total Liabilities and Equity</b>		<u>2,988,602</u>	<u>3,091,702</u>	<u>3,409,616</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 6 August 2017.

Mohannad Mohannad Abdulmohsen Al Kharafi  
Chairman



Bader Nasser Al Kharafi  
Vice Chairman & Chief Executive Officer



**Condensed Consolidated Statement of Profit or Loss – six months ended 30 June 2017 (Unaudited)**

	Note	Three months ended 30 June		Six months ended 30 June	
		2017	2016	2017	2016
		KD'000		KD'000	
Revenue		261,129	274,964	508,070	551,884
Cost of sales		(76,200)	(67,706)	(143,708)	(133,644)
<b>Gross profit</b>		<b>184,929</b>	<b>207,258</b>	<b>364,362</b>	<b>418,240</b>
Operating and administrative expenses		(79,777)	(75,050)	(148,543)	(162,048)
Depreciation and amortization		(47,405)	(55,300)	(97,322)	(109,990)
Provision for impairment – trade and other receivables		(768)	-	(4,178)	(1,376)
<b>Operating profit</b>		<b>56,979</b>	<b>76,908</b>	<b>114,319</b>	<b>144,826</b>
Interest income		9,362	1,328	11,737	3,633
Investment income	9	174	(1,520)	427	(1,636)
Share of results of associates and joint ventures	4	157	(9,969)	1,045	(18,455)
Other (expense)/income		(1,010)	2,326	(2,162)	3,900
Finance costs		(10,383)	(8,061)	(19,847)	(15,625)
Provision for impairment loss on property and equipment	15	(21,292)	-	(21,292)	-
Loss from currency revaluation		(6,641)	(6,719)	(12,482)	(17,265)
Net monetary gain	15	24,019	-	24,019	-
<b>Profit before contribution to KFAS, NLST, ZAKAT, income taxes and Board of Directors' remuneration</b>		<b>51,365</b>	<b>54,293</b>	<b>95,764</b>	<b>99,378</b>
Contribution to Kuwait foundation for Advancement of Sciences		(340)	(251)	(620)	(469)
National Labour Support Tax and Zakat		(1,799)	(2,000)	(3,382)	(3,723)
Income tax expenses		(3,847)	(5,161)	(7,696)	(10,298)
Board of Directors' remuneration		(69)	(69)	(138)	(138)
<b>Profit for the period</b>		<b>45,310</b>	<b>46,812</b>	<b>83,928</b>	<b>84,750</b>
<b>Attributable to:</b>					
Shareholders of the Company		44,057	44,713	82,286	81,964
Non-controlling interests		1,253	2,099	1,642	2,786
		<b>45,310</b>	<b>46,812</b>	<b>83,928</b>	<b>84,750</b>
<b>Earnings per share</b>	10				
Basic – Fils		11	11	21	21

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

**Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income –  
six months ended 30 June 2017 (Unaudited)**

	Three months ended		Six months ended	
	30 June		30 June	
	2017	2016	2017	2016
	KD'000		KD'000	
<b>Profit for the period</b>	45,310	46,812	83,928	84,750
<b>Other comprehensive income</b>				
<i>Other comprehensive income transferred or reclassifiable to condensed consolidated statement of profit or loss in subsequent periods:</i>				
Exchange differences on translating foreign operations	(35,751)	2,492	(32,572)	(17,730)
Net unrealised gains/(loss) on available for sale investments	199	(215)	908	565
Net realised loss transferred to condensed consolidated statement of profit or loss on available for sale investments (net of impairment losses)	(227)	1,875	(324)	1,875
Cash flow hedges	(41)	92	(200)	(309)
	<u>(35,820)</u>	<u>4,244</u>	<u>(32,188)</u>	<u>(15,599)</u>
<b>Total comprehensive income for the period</b>	<u>9,490</u>	<u>51,056</u>	<u>51,740</u>	<u>69,151</u>
<b>Total comprehensive income attributable to:</b>				
Shareholders of the Company	9,359	49,000	51,558	67,557
Non-controlling interests	131	2,056	182	1,594
	<u>9,490</u>	<u>51,056</u>	<u>51,740</u>	<u>69,151</u>

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

Condensed Consolidated Statement of Changes in Equity – six months ended 30 June 2017 (Unaudited)

	Equity attributable to Company's shareholders										Non-controlling interests	Total
	Share capital	Share premium	Treasury shares	Legal reserve	Foreign currency translation reserve	Treasury shares reserve	Investment fair valuation reserve	Hedge reserve	Retained earnings			
Balance at 1 January 2017	432,706	1,707,164	(567,834)	216,353	(1,100,094)	1,967	3,484	(120)	571,503		157,353	1,422,482
Cash dividends (2016)	-	-	-	-	-	-	-	-	(136,547)		(1,782)	(138,229)
Total comprehensive income for the period	-	-	-	-	(31,112)	-	584	(200)	82,286		182	51,740
Balance at 30 June 2017	432,706	1,707,164	(567,834)	216,353	(1,131,206)	1,967	4,068	(320)	517,242		155,753	1,335,893
Balance at 1 January 2016	432,706	1,707,164	(567,834)	216,353	(756,643)	1,967	(1,446)	(216)	510,641		185,398	1,728,090
Cash dividends (2015)	-	-	-	-	-	-	-	-	(117,041)		(31,735)	(148,776)
Purchase of non-controlling interests	-	-	-	-	-	-	-	-	(999)		967	(32)
Equity issue transaction costs	-	-	-	-	-	-	-	-	(571)		(182)	(753)
Total comprehensive income for the period	-	-	-	-	(16,538)	-	2,440	(309)	81,964		1,594	69,151
Balance at 30 June 2016	432,706	1,707,164	(567,834)	216,353	(773,181)	1,967	994	(525)	473,994		156,042	1,647,680

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

**Condensed Consolidated Statement of Cash Flows – six months ended 30 June 2017 (Unaudited)**

	Six months ended 30 June	
	2017	2016
	<u>KD'000</u>	
<b>Cash flows from operating activities</b>		
Profit for the period before income tax	91,624	95,048
Adjustments for:		
Depreciation and amortization	97,322	109,990
Interest income	(11,737)	(3,633)
Investment income	(427)	1,636
Share of loss of associates and joint ventures	(1,045)	18,455
Provision for impairment loss on property and equipment	21,292	-
Finance costs	19,847	15,625
Loss on currency revaluation	12,482	17,265
Net monetary gain	(24,019)	-
Operating profit before working capital changes	<u>205,339</u>	<u>254,386</u>
Increase in trade and other receivables	(49,752)	(31,516)
(Increase)/decrease in inventories	(2,889)	12,511
Decrease in trade and other payables	(4,906)	(87,062)
Cash generated from operations	<u>147,792</u>	<u>148,319</u>
Paid to Kuwait Foundation for Advancement of Sciences	(250)	(500)
National Labour Support Tax and Zakat paid	(5,049)	(2,599)
Income tax paid	(9,325)	(14,698)
<i>Net cash from operating activities</i>	<u>133,168</u>	<u>130,522</u>
<b>Cash flows from investing activities</b>		
Deposits maturing after three months and bank balances blocked (note 3)	(7,418)	61
Net cash outflow on acquisition of non-controlling interest/a subsidiary	-	(26)
Purchase of investments	(3,963)	(668)
Proceeds from sale of investments	8,068	3,009
Acquisition of property and equipment (net)	(42,378)	(56,973)
Acquisition of intangible assets (net)	(7,650)	(26,416)
Interest received	12,359	3,573
Dividend received	246	701
<i>Net cash used in investing activities</i>	<u>(40,736)</u>	<u>(76,739)</u>
<b>Cash flows from financing activities</b>		
Proceeds from bank borrowings	219,824	100,764
Repayment of bank borrowings	(208,768)	(55,669)
Loan to an associate	(5,776)	(14,592)
Dividends paid to Company's shareholders	(134,319)	(115,938)
Dividends paid to minority shareholders of subsidiaries	(1,718)	(1,908)
Finance costs paid	(20,850)	(11,534)
<i>Net cash used in financing activities</i>	<u>(151,607)</u>	<u>(98,877)</u>
Net decrease in cash and cash equivalents	(59,175)	(45,094)
Effect of foreign currency translation	(2,146)	(2,905)
Cash and cash equivalents at beginning of period	<u>177,150</u>	<u>228,266</u>
<b>Cash and cash equivalents at end of period (Note 3)</b>	<u>115,829</u>	<u>180,267</u>

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

Notes to the Condensed Consolidated Interim Financial Information - 30 June 2017 (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 2016 - Kuwait and 8 other countries; 30 June 2016 - Kuwait and 8 other countries) under licenses from the Governments of the countries in which they operate; purchase, deliver, install, manage and maintain mobile telephone and paging systems; and invest surplus funds in investment securities.

**2. Basis of preparation**

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

The accounting policies used in the preparation of the condensed consolidated interim financial information are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2016. Amendments to IFRSs, which are effective for annual accounting periods starting from 1 January 2017, did not have any material impact on the accounting policies, financial position or performance of the Group.

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

Had IAS 29 been applied, and the opening retained earnings as at 1 January 2015 been restated, it would have been higher by approximately KD 324 million and non-monetary assets comprising of Zain Sudan's Property and Equipment, Intangible assets and Capital WIP as of that date higher by the same amount. This would have then required the Group to test the restated carrying value of its investment in Zain Sudan and the related goodwill for impairment losses, if any, to be recognized in the consolidated statement of profit or loss. Even if this had resulted in goodwill being determined as fully impaired at that time, the net overall impact on the Group's consolidated statement of financial position is that net equity and the above non-monetary assets related to Zain Sudan as of 30 June 2017 would have been higher by KD 75 million (31 December 2016 – KD 90 million; 30 June 2016: KD 134 million). Furthermore, the profit for the period ended 30 June 2017 would have been lower by KD 10.65 million (30 June 2016: KD 27 million).

This condensed consolidated interim financial information does not contain all of the information and disclosures required for complete financial statements prepared in accordance with International Financial Reporting Standards. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Results for the interim period are not necessarily indicative of the results that may be expected for the year ending 31 December 2017, including the impact of the matter stated above regarding application of IAS 29. For further information, refer to the audited consolidated financial statements and notes thereto for the year ended 31 December 2016.

*Al Khatem/Atheer*

The unrest in Iraq since June 2014 has had an impact on the Group's operations and has resulted in forced shut down of or restricted access to some sites with the result that Atheer may be unable to exercise effective control over assets with a net book value of approximately KD 1.966 million. While noting the general uncertainty on this matter, the Group currently, does not expect that it could materially affect the Group's operations or effective control over its property and equipment in the foreseeable future.

Notes to the Condensed Consolidated Interim Financial Information - 30 June 2017 (Unaudited)

*Financial support to associate and group companies*

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

3. Cash and bank balances

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

	<u>Unaudited</u> 30 June 2017	<u>Audited</u> 31 December 2016	<u>Unaudited</u> 30 June 2016
	<u>KD '000</u>		
Cash on hand and at banks	100,732	153,852	264,366
Short-term deposits with banks	53,826	54,608	46,748
Government certificates of deposits held by subsidiaries	291	292	625
	<u>154,849</u>	<u>208,752</u>	<u>311,739</u>
Bank balances blocked (refer note 13)	-	-	(128,241)
Cash at bank under lien	(8,469)	(770)	(2,606)
Deposits with maturity exceeding three months	(30,260)	(30,540)	-
Government certificates of deposits with maturities exceeding three months held by subsidiaries	(291)	(292)	(625)
Cash and cash equivalent in the condensed consolidated statements of cash flows	<u>115,829</u>	<u>177,150</u>	<u>180,267</u>

4. Investments in associates and joint ventures

4.1 Investments in associates

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

	<u>Unaudited</u> 30 June 2017	<u>Audited</u> 31 December 2016	<u>Unaudited</u> 30 June 2016
	<u>KD '000</u>		
Current assets	302,660	269,701	279,880
Non-current assets	1,843,516	1,896,961	1,812,143
Current liabilities	973,155	540,621	417,938
Non-current liabilities	882,065	1,334,971	1,355,397
Net asset of SMTC	290,956	291,070	318,688
Revenue	305,791	563,968	280,605
Profit/(loss)	4,324	(78,804)	(46,512)
Total comprehensive income for the period	(540)	259	(833)
Proportion of Group's ownership interest in SMTC	37.045%	37.045%	37.045%
Group's share of SMTC's net assets	107,785	107,827	118,058
Goodwill	12,400	12,515	12,355
Carrying amount of Group's interest in SMTC	<u>120,185</u>	<u>120,342</u>	<u>130,413</u>

As at 30 June 2017 the fair value of the Group's investment in SMTC, being its quoted market share price on the Saudi Stock Exchange, was KD 160.548 million (31 December 2016 – KD 145.958 million; 30 June 2016: KD 136.514 million).

**Notes to the Condensed Consolidated Interim Financial Information - 30 June 2017 (Unaudited)**

**4.2 Interest in a joint venture**

This represents Group's KD 69.977 million (31 December 2016 - KD 70.054 million; 30 June 2016: KD 69.519 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). The Group's share of loss for the period in the joint venture amounting to KD 0.0776 million (30 June 2016 - Loss KD 1.227 million) has been recognized in the condensed consolidated statement of profit or loss. The carrying value of this joint venture and its results for the period was determined by Group management using the equity method based on management information provided by Wana Corporate.

**5. Due to banks**

	<u>Unaudited</u> 30 June 2017	<u>Audited</u> 31 December 2016	<u>Unaudited</u> 30 June 2016
	KD '000		
<i>Company</i>			
Short term loans	182,580	172,338	157,600
Long term loans	716,828	722,638	677,867
	<u>899,408</u>	<u>894,976</u>	<u>835,467</u>
<i>Zain Sudan</i>			
Short term Murabaha financing	899	765	2,600
<i>Zain - Bahrain</i>			
Long term loans	4,628	7,834	10,834
<i>Atheer - Iraq</i>			
Bank overdraft	-	-	13,844
Long term loans	146,676	145,772	142,139
	<u>1,051,611</u>	<u>1,049,347</u>	<u>1,004,884</u>

The closing balance includes a non-cash movement arising from foreign currency gain of KD 8.792 million (31 December 2016 - loss of KD 6.100 million; 30 June 2016 - gain of KD 5.089 million).

The current and non-current amounts are as follows:

	<u>Unaudited</u> 30 June 2017	<u>Audited</u> 31 December 2016	<u>Unaudited</u> 30 June 2016
	KD '000		
Current liabilities	381,402	219,154	219,738
Non-current liabilities	670,209	830,193	785,146
	<u>1,051,611</u>	<u>1,049,347</u>	<u>1,004,884</u>

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

	<u>Unaudited</u> 30 June 2017	<u>Audited</u> 31 December 2016	<u>Unaudited</u> 30 June 2016
	KD '000		
US dollar	941,816	930,623	880,969
Kuwaiti dinar	104,269	110,125	110,481
Others	5,526	8,599	13,434
	<u>1,051,611</u>	<u>1,049,347</u>	<u>1,004,884</u>

The effective interest rate as at 30 June 2017 was 2.01% to 12.00% (31 December 2016 - 1.75% to 12.00%; 30 June 2016 - 1.4211% to 12.00%) per annum.

Notes to the Condensed Consolidated Interim Financial Information - 30 June 2017 (Unaudited)

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 US\$ 260 million (KD 79.326 million) from the US\$ 500 million revolving credit facility that was availed in January 2017. As of 30 June 2017 US\$ 150 million (KD 45.390 million) was outstanding on this facility.
- availed new short term loan amounting to KD 30.510 million (US\$ 100 million) from a commercial bank.
- drew down US\$ 79.412 million (KD – 24.030 million) from a new long-term loan facility amounting to US\$ 97.136 million.
- repaid loans amounting to KD 189.891 million during the period. This includes US\$ 460 million (KD 140.318 million) from the US\$ 800 million revolving credit facility availed in February 2014. As of 30 June 2017 – US\$ 120 million (KD 36.312 million) (31 December 2016 – KD 177.132 million) (30 June 2016 – KD 138.690 million) was outstanding on this facility.

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

*Zain – Bahrain*

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

*Atheer*

Long term loans include:

- US\$ 400 million loan availed in 2011 from a syndicate of international development finance institutions and foreign banks. This is repayable in twenty four equal installments by January 2018. As of 30 June 2017, US\$ 49.720 million (KD 15.045 million) (31 December 2016 - KD 25.373 million; 30 June 2016 – KD 35.106 million) was outstanding from this facility;
- US\$ 300 million (KD 90.780 million) loan from a commercial bank that was rolled over as a long term loan maturing in December 2019;
- US\$ 55 million (KD 16.643 million) long-term loan repayable by March 2020 availed from a commercial bank in 2015.
- US\$ 30 million (KD 9.078 million) long-term loan repayable by December 2019 availed from a commercial bank in 2016.
- US\$ 50 million (KD 15.130 million) long-term loan repayable by December 2020 availed from a commercial bank in 2017.

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

**6. Share capital**

The authorized, issued and fully paid up share capital as of 30 June 2017 is 4,327,058,909 shares (31 December 2016 – 4,327,058,909; 30 June 2016 - 4,327,058,909) of 100 fils each.

Notes to the Condensed Consolidated Interim Financial Information - 30 June 2017 (Unaudited)

7. Dividend

The annual general meeting of shareholders for the year ended 31 December 2016 held on 12 March 2017 (31 December 2015 - 23 March 2016) approved distribution of cash dividends of 35 fils (31 December 2015 - 30 fils) per share amounting to KD 136,547,000 (31 December 2015 - KD 117,041,000) to be paid to the registered shareholders as of the date of annual general meeting.

8. Treasury shares

These shares were acquired based on an authorization granted to the Board of Directors by the shareholders and in accordance with Ministerial Decrees No. 10 of 1987 and No. 11 of 1988 and are carried at cost. Reserves equivalent to the cost of treasury shares held are not distributable.

	Unaudited 30 June 2017	Audited 31 December 2016	Unaudited 30 June 2016
Number of shares	425,711,648	425,711,648	425,711,648
Percentage of issued shares	9.84%	9.84%	9.84%
Market value (KD '000)	198,502	157,602	150,805
Cost (KD '000)	567,834	567,834	567,834

9. Investment income

	Three months ended 30 June (Unaudited)		Six months ended 30 June (Unaudited)	
	2017	2016	2017	2016
	KD'000		KD'000	
(Loss)/profit from investment securities "at fair value through profit or loss"	(49)	(60)	27	(176)
Realised gains/(loss) from investment securities 'available for sale'	58	(2,161)	2,627	(2,161)
Impairment loss on available for sale investments	-	-	(2,473)	-
Dividend income	165	701	246	701
	<u>174</u>	<u>(1,520)</u>	<u>427</u>	<u>(1,636)</u>

10. Earnings per share

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

	Three months ended 30 June (Unaudited)		Six months ended 30 June (Unaudited)	
	2017	2016	2017	2016
	KD'000		KD'000	
Profit for the period attributable to shareholders	44,057	44,713	82,286	81,964
	Shares	Shares	Shares	Shares
Weighted average number of shares in issue outstanding during the period	3,901,347,261	3,901,347,261	3,901,347,261	3,901,347,261
	Fils	Fils	Fils	Fils
Earnings per share – Basic	11	11	21	21

11. Segmental information

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

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

Notes to the Condensed Consolidated Interim Financial Information - 30 June 2017 (Unaudited)

	30 June 2017					Total KD '000	
	Kuwait	Jordan	Sudan	Iraq	Bahrain		Others
<b>Segment revenues</b>	167,221	73,407	64,957	159,144	30,524	12,817	508,070
<b>Net profit before interest and tax</b>	38,861	21,146	12,882	9,562	1,305	(289)	83,467
Interest income	5	107	341	65	13	78	609
Finance costs	-	(2,454)	-	(6,376)	(145)	(1,927)	(10,902)
Income tax expense	-	(4,314)	(2,725)	-	-	(339)	(7,378)
<b>Unallocated items:</b>	<b>38,866</b>	<b>14,485</b>	<b>10,498</b>	<b>3,251</b>	<b>1,173</b>	<b>(2,477)</b>	<b>65,796</b>
Investment income							427
Share of results of associates and joint ventures							1,045
Others							16,660
<b>Profit for the period</b>							<b>83,928</b>
<b>Segment assets including goodwill</b>	<b>315,498</b>	<b>312,794</b>	<b>255,868</b>	<b>1,046,984</b>	<b>85,429</b>	<b>117,122</b>	<b>2,133,695</b>
<b>Unallocated items:</b>							
Investment securities at fair value through profit or loss							996
Investment securities available for sale							18,315
Investment in associates and joint ventures							190,162
Dues from associates							397,306
Others							248,128
<b>Consolidated assets</b>							<b>2,988,602</b>
<b>Segment liabilities</b>	<b>96,896</b>	<b>148,951</b>	<b>57,193</b>	<b>197,287</b>	<b>28,680</b>	<b>222,479</b>	<b>751,486</b>
Due to banks	-	-	899	146,676	4,628	-	152,203
<b>Unallocated items:</b>	<b>96,896</b>	<b>148,951</b>	<b>58,092</b>	<b>343,963</b>	<b>33,308</b>	<b>222,479</b>	<b>903,689</b>
Due to banks							899,408
Others							(150,388)
<b>Consolidated liabilities</b>							<b>1,652,709</b>
<b>Net consolidated assets</b>	<b>5,671</b>	<b>6,707</b>	<b>21,197</b>	<b>13,341</b>	<b>640</b>	<b>115</b>	<b>1,335,893</b>
Capital expenditure incurred during the period							47,671
Unallocated							1,890
<b>Total capital expenditure</b>							<b>49,561</b>
Depreciation and amortization							96,643
Unallocated							679
<b>Total depreciation and amortization</b>	<b>24,844</b>	<b>14,043</b>	<b>7,390</b>	<b>37,810</b>	<b>7,761</b>	<b>4,795</b>	<b>97,322</b>

Notes to the Condensed Consolidated Interim Financial Information - 30 June 2017 (Unaudited)

	30 June 2016					Total KD '000	
	Kuwait	Jordan	Sudan	Iraq	Bahrain		Others
<b>Segment revenues</b>	165,110	71,600	114,613	161,615	25,847	13,099	551,884
<b>Net profit before interest and tax</b>	43,465	21,621	25,265	13,567	1,692	(214)	105,396
Interest income	44	196	2,263	53	34	75	2,665
Finance costs	-	(2,305)	-	(6,291)	(250)	(1,618)	(10,464)
Income tax expense	-	(4,478)	(5,001)	-	-	(473)	(9,952)
<b>Unallocated items:</b>	<b>43,509</b>	<b>15,034</b>	<b>22,527</b>	<b>7,329</b>	<b>1,476</b>	<b>(2,230)</b>	<b>87,645</b>
Investment income							(1,636)
Share of results of associates and joint ventures							(18,455)
Others							17,196
<b>Profit for the period</b>							<b>84,750</b>
<b>Segment assets including goodwill</b>	284,198	322,166	567,378	1,201,045	92,570	75,490	2,542,847
<b>Unallocated items:</b>							992
Investment securities at fair value through profit or loss							24,590
Investment securities available for sale							199,932
Investment in associates and joint ventures							363,256
Dues from associates							277,999
Others							<b>3,409,616</b>
<b>Consolidated assets</b>	94,648	158,116	78,416	338,899	31,427	189,435	890,941
<b>Segment liabilities</b>	-	-	2,600	155,983	10,834	-	169,417
Due to banks	94,648	158,116	81,016	494,882	42,261	189,435	1,060,358
<b>Unallocated items:</b>							835,467
Due to banks							(133,889)
Others							<b>1,761,936</b>
<b>Consolidated liabilities</b>	17,657	7,725	20,874	14,220	6,597	5,989	73,062
<b>Net consolidated assets</b>	34,235	13,156	14,716	36,456	8,187	2,675	109,425
Capital expenditure incurred during the period							565
Unallocated							<b>109,990</b>
<b>Total capital expenditure</b>							
Depreciation and amortization							
Unallocated							
<b>Total depreciation and amortization</b>							

Notes to the Condensed Consolidated Interim Financial Information - 30 June 2017 (Unaudited)

12. Related party transactions

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

Transactions

	Three months ended 30 June (Unaudited)		Six months ended 30 June (Unaudited)	
	2017	2016	2017	2016
	KD'000		KD'000	
Management fee (included in other income)	1,090	-	1,090	-
Interest income on loans to an associate	8,885	-	8,885	-

Key management compensation

	Three months ended 30 June (Unaudited)		Six months ended 30 June (Unaudited)	
	2017	2016	2017	2016
	KD'000		KD'000	
Salaries and other short term employee benefits	735	704	1,488	1,407
Post-employment benefits	112	188	224	337

13. Commitments and contingencies

	Unaudited	Audited	Unaudited
	30 June 2017	31 December 2016	30 June 2016
	KD '000		
Capital expenditure	69,430	46,021	94,522
Capital expenditure - share of an associate	42,183	57,773	77,428
Uncalled share capital of investee companies	4,917	2,430	6,822
Letters of credit	908	-	-
Letters of guarantee	450,641	456,800	459,961

The above include guarantees amounting to KD 400.416 million (31 December 2016 - KD 405.615 million; 30 June 2016 - KD 409.415 million) relating to loans and other vendor financing availed by SMTC.

The Company is a guarantor for credit facilities amounting to KD 10.579 million (31 December 2016 - KD 10.677 million; 30 June 2016 - KD 10.541 million) granted to a founding shareholder in SMTC. The Company believes that the collaterals provided by the founding shareholder to the bank, covers the credit facilities.

Penalties and Fee claims in Iraq

In 2011, the Iraqi Telecom Regulatory Authority, the Communications and Media Commission (CMC) claimed a total amount of US\$ 262 million (KD 79.281 million) from Atheer, citing non-compliance with certain license terms. These claims were resolved in favor of Atheer during the second quarter of 2015. However, in March 2016, the Executive Director of the CMC filed a complaint with the Hearing Panel of the CMC claiming US\$ 100 million (KD 30.26 million) relating to the matter, which had been ruled in favor of Atheer by the CMC Appeals Board 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 Board. On 15 January 2017, the CMC Appeals Board issued a decision in favor of CMC. Atheer challenged the 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 and 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, restraining 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, which is yet to be heard. Based on the report of its attorneys, the Group believes that the prospects of resolving this matter is in its favor.

**Notes to the Condensed Consolidated Interim Financial Information - 30 June 2017 (Unaudited)**

On 30 May 2016, the Director General of the CMC sent a letter to Atheer demanding that Atheer pay approximately US\$ 61 million (KD 18.458 million) in spectrum fees for the period commencing from 2010. CPA Order number 65 (establishing the CMC) and the License Agreement between Atheer and the CMC (dated 31 August 2007) clearly state that any fees that are assessed on Atheer cannot be backdated, and are required to be clearly stipulated to Atheer ahead of the period of their imposition and comply with international laws. In addition, the CMC Appeals Board had in the past decided the procedures for establishing such spectrum fees and the decision of the Director General on 30 May 2016 is in violation of the decision of the CMC Appeals Board. Accordingly, Atheer appealed this decision to the CMC Appeals Board on 28 June 2016. The CMC Appeals Board issued a decision against Atheer on 9 November 2016 rejecting Atheer's appeal. On 15 December 2016, Atheer filed a suit before the Commercial Court of First Instance in Baghdad challenging the legality of the decision to unilaterally impose the spectrum fees and to apply such decision retroactively. Atheer's challenges include contractual, legal and constitutional grounds. On 5 February 2017, Atheer obtained an order from the Commercial Court of First Instance to stop any enforcement proceedings by the CMC to collect the spectrum fee until the case is decided by the Court. In June 2017, the Court of First Instance turned down Atheer's challenge on the basis that the Court lacked jurisdiction to hear this dispute. Atheer has filed an appeal with the Court of Appeals. On the basis of the report of its attorneys, the Group believes that Atheer will prevail in this matter.

**Income and Capital Gains taxes in Iraq**

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

- In connection with the additional corporate income tax for the years 2004 to 2010 of US \$ 244 million (KD 73.834) 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 2004 to 2010, and pay 25% of the amount claimed and the balance US\$ 173 million (KD 52.350 million) in fifty equal monthly instalments from December 2016, net of amounts already paid. Atheer would reserve the right to file an objection for each of these years.
- Atheer to settle the capital gains tax claim for US\$ 93 million (KD 28.142 million) which is 50% of the original claim based on Iraq's Council of Ministers approval in November 2016.
- The block on Atheer's bank accounts and the lien on part of Group's shares in Al Khatem would be released.

Atheer paid the amounts agreed in December 2016 and secured the release of the block on its bank accounts and the lien on the Group's shares in Al Khatem. Atheer submitted its appeal against the US\$ 244 million (KD 73.834 million) tax claim in November 2016 objecting to the full amount of the claim. As of 30 June 2017, Atheer has an obligation to pay the balance of US\$ 149 million (KD 45.087 million) in forty-three 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. Based on the report of its attorneys, Atheer management expects a favorable outcome to the appeals submitted in June 2017. In March 2017, Atheer won the legal case relating to Iraqi tax claims it had filed against Orascom Telecom Iraq Corp. Ltd, the seller of Iraqna and received the claimed amount of US\$ 60 million (KD 18.282 million) and interest. Orascom filed for leave to appeal which was rejected in June 2017. Based on the report of its Attorneys the Group believes that the case is now finally concluded in favor of Atheer

Pella is a defendant in lawsuits amounting to KD 12.531 million (31 December 2016 – KD 8.893 million). Based on the report of its attorneys, the Group expects the outcome of these proceedings to be favorable to Pella.

Pella has initiated legal proceedings against the claim by regulatory authorities of KD 9.535 million (31 December 2016 - KD 9.622 million) for the years 2002 - 2005 on the grounds that it has already paid the amount that it was obligated to pay for those years. Based on the report of its attorneys, the Group expects the outcome to be favorable to Pella.

Pella has also initiated legal proceedings against the regulatory authorities claiming refund of excess license fee paid amounting to KD 11.673 million (31 December 2016 - KD 11.780 million) of earlier years.

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

Notes to the Condensed Consolidated Interim Financial Information - 30 June 2017 (Unaudited)

14. Financial instruments

14.1 Categories of financial assets and liabilities

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

	(Unaudited) 30 June 2017	(Audited) 31 December 2016	(Unaudited) 30 June 2016
	KD'000		
<b>Loans and receivables:</b>			
Cash and bank balances	154,849	208,752	311,739
Trade and other receivables	479,533	449,760	437,672
Due from associates	397,306	381,661	363,256
Other assets	12,188	12,216	12,060
Investment securities - at fair value through profit or loss	996	964	992
Investment securities -available for sale	18,315	22,134	24,590

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

14.2 Fair value hierarchy for financial instruments measured at fair value

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

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

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

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

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

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

30 June 2017

	Level 1	Level 2	Level 3	Total
	KD'000			
<b>Financial assets at fair value:</b>				
Investments securities at fair value through profit or loss	996	-	-	996
Investments securities available for sale	5,533	7,763	-	13,296
Total assets	6,529	7,763	-	14,292

31 December 2016

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

30 June 2016

	Level 1	Level 2	Level 3	Total
	KD'000			
<b>Financial assets at fair value:</b>				
Investments securities at fair value through profit or loss	992	-	-	992
Investments securities available for sale	15,526	6,856	-	22,382
Total assets	16,518	6,856	-	23,374

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Available for sale investments include unlisted securities amounting to KD 5.020 million (31 December 2016 – KD 1.973 million; 30 June 2016 – KD 2.208 million) carried at cost less impairment since it is not possible to reliably measure their fair value.

**Measurement at fair value**

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

**15. 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.

	Index	Conversion factor
30 June 2017	3,576	1
31 March 2017	2,431	1.47
31 December 2016	2,068	1.73
31 December 2015	357	10.02
31 December 2014	170	21.04
31 December 2013	154	23.12
31 December 2012	170	21.08

**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 21.292 million (30 June 2016 -: 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.

**16. Derivative financial instruments**

The table below shows the positive and negative fair values of derivative financial instruments, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of either market or credit risk. All derivative contracts are fair valued based on observable market data.

**At 30 June 2017:**

	Notional amounts by term to maturity					
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	Over 1 year
	KD '000					
<i>Derivatives held for hedging:</i>						
Cash flow hedges						
Profit rate swaps - share of an associate	-	320	108,483	-	-	108,483
	-	320	108,483	-	-	108,483

Notes to the Condensed Consolidated Interim Financial Information - 30 June 2017 (Unaudited)

At 31 December 2016:

	Notional amounts by term to maturity					Over 1 year KD '000
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3 -12 months	
<i>Derivatives held for hedging:</i>						
<i>Cash flow hedges</i>						
Profit rate swaps - share of an associate	-	120	130,161	-	-	130,161
	-	120	130,161	-	-	130,161

At 30 June 2016:

	Notional amounts by term to maturity					Over 1 year KD '000
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3 -12 months	
<i>Derivatives held for hedging:</i>						
<i>Cash flow hedges</i>						
Profit rate swaps - share of an associate	-	525	128,562	-	-	128,562
	-	525	128,562	-	-	128,562