

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

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

31 December 2017

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

Report on the Audit of the Consolidated Financial Statements

Qualified Opinion

We have audited the consolidated financial statements of Mobile Telecommunications Company K.S.C.P. ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

As disclosed in note 2.1 to the consolidated financial statements, the Group has excluded the effects reported therein of applying International Accounting Standard (IAS) 29: Financial reporting in Hyperinflationary Economies, that we believe, should have been recorded in these consolidated financial statements with respect to its subsidiaries in the Republic of the Sudan, to conform to that standard.

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

Emphasis of matter

We draw attention to note 29 to the consolidated financial statements, which discloses the uncertainty related to the outcome of various claims against the subsidiary in Iraq. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

a) Revenue recognition

The accuracy of telecom revenue recognition is an inherent industry risk because billing systems are complex and process large volumes of data through a number of different systems and involves a combination different products, prices and price changes. Due to this complexity, we have considered revenue recognition as a key audit matter. The accounting policy for revenue recognition is set out in note 2.19 to the consolidated financial statements.



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

We evaluated the relevant IT systems and the design of controls and tested the operating effectiveness of controls over the capture and recording of revenue transactions; authorization of rate changes and its input to the billing systems and the change control procedures in place around those systems. In addition, we tested the reconciliation of the revenue generated and recorded in those systems to the general ledger and performed substantive tests of revenue recorded.

b) Impairment of Goodwill

As at 31 December 2017, goodwill is carried at KD 602 million which represents 20% of the total assets. The impairment test of goodwill performed by the management is significant to our audit because the assessment of the recoverable amount of goodwill under the value-in-use basis is complex and requires considerable judgment on the part of management. Estimates of future cash flows are based on management's views of variables such as the growth in the telecom sector, economic conditions such as the economic growth and expected inflation rates and yield. Therefore, we identified the impairment testing of goodwill as a key audit matter.

We tested the key assumptions forming the Group's value-in-use calculation including the cash flow projections and discount rate. We compared actual historical cash flows with previous forecasts and whether any differences were within an acceptable range. We assessed the overall reasonableness of the cash flow forecasts and compared the discount rate and growth rate to market data. Additionally, we analyzed the sensitivities such as the impact on the valuation if the growth rate would be decreased, or the discount rate would be increased. We also assessed the adequacy of the Group's disclosures included in note 14 to the consolidated financial statements about those assumptions to which the outcome of the impairment test is more sensitive. The Group's policy on assessing impairment of goodwill is in note 2.12 to the consolidated financial statements.

c) Application of IAS 29 by South Sudanese subsidiary

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

The restatement of non-monetary items and historical financial information of the subsidiary in terms of the measuring unit current at the date of the consolidated statement of financial position and determination of the net monetary gain or loss is complex and requires the application of certain procedures and judgment on the part of management.

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

Other information

Management is responsible for the other information. The other information comprises of the information included in the Annual Report of the Group for the year ended 31 December 2017. The other information does not include the consolidated financial statements and our auditor's report thereon. We obtained the report of the Company's Board of Directors prior to the date of our auditor's report and we expect to obtain the remaining sections of the Group's Annual Report for the year ended 31 December 2017 after the date of our auditor's report.

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

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



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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



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

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

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

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of accounts have been kept by the Company and the consolidated financial statements, together with the contents of the report of the Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all the information that is required by the Companies Law No. 1 of 2016 and its Executive Regulations and by the Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 1 of 2016 and its Executive Regulations or of the Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2017 that might have had a material effect on the business of the Company or on its consolidated financial position.

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

Kuwait
7 February 2018

Mobile Telecommunications Company K.S.C.P

Consolidated Statement of Financial Position as at 31 December 2017

	Note	2017	2016
		KD '000	
ASSETS			
Current assets			
Cash and bank balances	4	244,398	208,752
Trade and other receivables	5	455,801	450,386
Inventories	6	34,402	16,418
Investment securities at fair value through profit or loss	7	778	964
Non-current assets held for sale	8	7,656	-
		<u>743,035</u>	<u>676,520</u>
Non-current assets			
Investment securities available for sale	7	16,118	22,134
Investments in associates and joint ventures	9,10	188,412	190,396
Dues from associates	11	415,759	381,661
Other assets	12	15,131	15,598
Property and equipment	13	743,586	798,156
Intangible assets and goodwill	14	911,630	1,007,237
		<u>2,290,636</u>	<u>2,415,182</u>
Total Assets		<u>3,033,671</u>	<u>3,091,702</u>
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	15	515,384	570,920
Due to banks	16	199,564	219,154
		<u>714,948</u>	<u>790,074</u>
Non-current liabilities			
Due to banks	16	670,637	830,193
Other non-current liabilities	17	38,482	48,953
		<u>709,119</u>	<u>879,146</u>
Equity			
Attributable to the Company's shareholders			
Share capital	18	432,706	432,706
Share premium		1,707,164	1,707,164
Legal reserve	18	216,353	216,353
Foreign currency translation reserve	18	(1,189,469)	(1,100,094)
Treasury shares	19	-	(567,834)
Treasury shares reserve		-	1,967
Investment fair valuation reserve		3,251	3,484
Share of reserves of associates		(326)	(120)
Retained earnings		281,919	571,503
		<u>1,451,598</u>	<u>1,265,129</u>
Non-controlling interests		158,006	157,353
Total equity		<u>1,609,604</u>	<u>1,422,482</u>
Total Liabilities and Equity		<u>3,033,671</u>	<u>3,091,702</u>

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

Mohannad Mohammad Abdulmohsen Al Kharafi
Chairman

Bader Nasser Al Kharafi
Vice Chairman & Chief Executive Officer

Mobile Telecommunications Company K.S.C.P

Consolidated Statement of Profit or Loss – Year ended 31 December 2017

	Note	2017	2016
		<u>KD '000</u>	
Revenue	20	1,029,547	1,087,774
Cost of sales		(290,891)	(266,764)
Gross profit		<u>738,656</u>	<u>821,010</u>
Operating and administrative expenses	21	(313,964)	(308,174)
Depreciation and amortization	13,14	(185,050)	(222,307)
Provision for impairment – trade and other receivables	5	(10,256)	(1,296)
Operating profit		<u>229,386</u>	<u>289,233</u>
Interest income		27,850	5,992
Investment income	22	781	(3,925)
Share of results of associates and joint ventures	9,10	127	(30,781)
Other (expense)/income		(12,207)	(22,793)
Finance costs		(40,100)	(32,598)
Provision for impairment loss on property and equipment	13	(37,826)	-
Loss from currency revaluation		(32,120)	(42,044)
Net monetary gain	34	45,789	30,781
Profit before, contribution to KFAS, NLST, Zakat, income taxes and Board of Directors' remuneration		<u>181,680</u>	<u>193,865</u>
Contribution to Kuwait Foundation for Advancement of Sciences		(1,100)	(666)
National Labour Support Tax and Zakat	23	(5,753)	(6,138)
Income tax expenses	24	(10,400)	(28,051)
Board of Directors' remuneration		(275)	(275)
Profit for the year		<u>164,152</u>	<u>158,735</u>
Attributable to:			
Shareholders of the Company		159,817	156,702
Non-controlling interests		4,335	2,033
		<u>164,152</u>	<u>158,735</u>
Earnings per share (EPS)	25		
Basic – Fils		39	40
Diluted – Fils		39	40

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income – Year ended 31 December 2017

	2017	2016
	KD '000	
Profit for the year	164,152	158,735
Other comprehensive income:		
<i>Other comprehensive income transferred or reclassifiable to consolidated statement of profit or loss in subsequent periods:</i>		
Exchange differences on translating foreign operations	(91,284)	(342,525)
Net unrealised gain on available-for-sale investments	2,564	847
Net (gain)/loss transferred to consolidated statement of profit or loss on sale of available-for-sale investments (net of impairment losses)	(2,797)	4,083
Share of reserves of associates	(206)	96
Other comprehensive income for the year	<u>(91,723)</u>	<u>(337,499)</u>
Total comprehensive income for the year	<u>72,429</u>	<u>(178,764)</u>
Total comprehensive income attributable to:		
Shareholders of the Company	70,003	(181,723)
Non-controlling interests	2,426	2,959
	<u>72,429</u>	<u>(178,764)</u>

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

Mobile Telecommunications Company K.S.C.P

Consolidated Statement of Changes in Shareholders' Equity – Year ended 31 December 2017

	Equity attributable to Company's shareholders									Non-controlling interests	Total equity	
	Share capital	Share premium	Legal reserve	Foreign currency translation reserve	Treasury shares	Treasury shares reserve	Equity issue transaction costs	Investment fair valuation reserve	Share of reserves of associates			Retained earnings
	KD '000											
Balance at 1 January 2017	432,706	1,707,164	216,353	(1,100,094)	(567,834)	1,967	-	3,484	(120)	571,503	157,353	1,422,482
Cash dividends (2016)	-	-	-	-	-	-	-	-	-	(136,547)	(1,773)	(138,320)
Total comprehensive income for the year	-	-	-	(89,375)	-	-	-	(233)	(206)	159,817	2,426	72,429
Sale of treasury shares (note 19)	-	-	-	-	567,834	(1,967)	-	-	-	(312,854)	-	253,013
Balance at 31 December 2017	<u>432,706</u>	<u>1,707,164</u>	<u>216,353</u>	<u>(1,189,469)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,251</u>	<u>(326)</u>	<u>281,919</u>	<u>158,006</u>	<u>1,609,604</u>
Balance at 1 January 2016	432,706	1,707,164	216,353	(756,643)	(567,834)	1,967	-	(1,446)	(216)	510,641	185,398	1,728,090
Purchase of non-controlling interests	-	-	-	-	-	-	-	-	-	(999)	981	(18)
Cash dividends (2015)	-	-	-	-	-	-	-	-	-	(117,041)	(31,803)	(148,844)
Equity issue transaction costs	-	-	-	-	-	-	(571)	-	-	-	(182)	(753)
Transfer to retained earnings	-	-	-	-	-	-	571	-	-	(571)	-	-
Impact of initial application of IAS 29	-	-	-	-	-	-	-	-	-	22,771	-	22,771
Total comprehensive income for the year	-	-	-	(343,451)	-	-	-	4,930	96	156,702	2,959	(178,764)
Balance at 31 December 2016	<u>432,706</u>	<u>1,707,164</u>	<u>216,353</u>	<u>(1,100,094)</u>	<u>(567,834)</u>	<u>1,967</u>	<u>-</u>	<u>3,484</u>	<u>(120)</u>	<u>571,503</u>	<u>157,353</u>	<u>1,422,482</u>

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

Consolidated Statement of Cash Flows – Year ended 31 December 2017

	Note	2017	2016
		KD '000	
Cash flows from operating activities			
Profit for the year before income tax		174,552	186,786
Adjustments for:			
Depreciation and amortization		185,050	222,307
Interest income		(27,850)	(5,992)
Investment income		(781)	3,925
Share of results of associates and joint ventures		(127)	30,781
Provision for impairment loss on property and equipment		37,826	-
Finance costs		40,100	32,598
Loss from currency revaluation		32,120	42,044
Gain on sale of property and equipment		(163)	(129)
Net monetary gain		(45,789)	(30,781)
Operating profit before working capital changes		394,938	481,539
Increase in trade and other receivables		(52,902)	(99,142)
(Increase)/decrease in inventories		(18,483)	9,463
Provision used (net)		-	(56,124)
Decrease in trade and other payables		(50,610)	(67,794)
<i>Cash generated from operations</i>		272,943	267,942
<i>Payments:</i>			
Income tax		(13,735)	(53,819)
Kuwait Foundation for Advancement of Sciences (KFAS)		(250)	(500)
National Labour Support Tax and Zakat		(7,491)	(13,869)
<i>Net cash from operating activities</i>		251,467	199,754
Cash flows from investing activities			
Deposits maturing after three months and cash at bank under lien	4	(6,364)	99,931
Proceeds from sale of investment securities		9,829	5,995
Investments in securities		(4,184)	(1,350)
Increase in dues from associates		(11,750)	(28,164)
Acquisition of property and equipment (net)		(133,657)	(167,372)
Acquisition of intangible assets		(11,863)	(41,160)
Investments in subsidiaries		(516)	(53)
Interest received		28,089	5,239
Dividends received		249	703
<i>Net cash used in investing activities</i>		(130,167)	(126,231)
Cash flows from financing activities			
Proceeds from bank borrowings		323,387	247,911
Repayment of bank borrowings		(491,111)	(169,544)
Proceeds from sale of treasury shares		255,172	-
Dividends paid		(136,834)	(117,840)
Dividends paid to non-controlling interests		(1,741)	(15,059)
Finance costs paid		(35,340)	(24,619)
<i>Net cash used in financing activities</i>		(86,467)	(79,151)
Net increase/(decrease) in cash and cash equivalents		34,833	(5,628)
Effects of exchange rate changes on cash and cash equivalents		(5,551)	(45,488)
Cash and cash equivalents at beginning of year		177,150	228,266
Cash and cash equivalents at end of year	4	206,432	177,150

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

1. Incorporation and activities

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

The Company and its subsidiaries (the “Group”) along with associates provide mobile telecommunication services in Kuwait and 8 other countries (31 December 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.

During the year, the Company became a subsidiary of Oman Telecommunications Company SAOG., Oman.

These consolidated financial statements were authorized and approved for issue by the Board of Directors of the Company on 7 February 2018 and are subject to approval of the shareholders at their forthcoming Annual General Meeting.

2. Basis of preparation and significant accounting policies

2.1 Basis of preparation

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

The economy of Republic of South Sudan became hyperinflationary in 2016. Accordingly, the results, cash flows and financial position of the Group’s subsidiary in South Sudan have been expressed in terms of the measuring unit current at the reporting date in accordance with IAS 29: Financial Reporting in Hyperinflationary Economies. The methods used to measure the fair value and adjustments made to the account of Group’s entities that operate in the hyperinflationary economies are discussed further in the accounting policies and in the respective notes.

In 2015, the Group noted that the economy of the Republic of Sudan, where the Group has subsidiaries, may be hyperinflationary from the beginning of 2015. This was based on the general price index showing the cumulative three-year rate of inflation exceeding 100% at that time. However, International Accounting Standard, IAS 29: Financial Reporting in Hyperinflationary Economies, does not establish an absolute rate at which hyperinflation is deemed to arise and states that it is a matter of judgment when restatement of financial statements in accordance with this Standard becomes necessary. In addition, the Group noted that in the 2014 International Monetary Fund (IMF) Sudan country report, the cumulative projected three year inflation rate outlook for Sudan in 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 31 December 2017 would have been higher by KD 53 million (31 December 2016 – KD 102 million). Furthermore, the profit for the year ended 31 December 2017 would have been lower by KD 18 million (31 December 2016: KD 18 million).

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent assets and contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a high degree of judgment or complexity or areas where assumptions and estimates are significant to these consolidated financial statements are disclosed in note 35.

2.2 New and revised accounting standards

Effective for the current year

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

New and revised IFRSs applied with no material effect on the consolidated financial statements

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information for both the current and the comparative period in note 16.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group applied amendments retrospectively. However, their application has no material effect on the Group's financial position and performance as the Group.

Standards issued but not effective

IFRS 9 Financial Instruments:

IFRS 9 'Financial Instruments' replaces IAS 39 Financial Instruments: Recognition and Measurement and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 impacts the classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting. The primary impact on the Group relates to the provisioning for future credit losses on its financial assets and the requirement of certain additional disclosures.

The Group will adopt it from the effective date of 1 January 2018; apply it retrospectively and recognize the cumulative effect of initial application as an adjustment to the opening balance of retained earnings as of 1 January 2018.

The Group is continuing to analyze the impact of the changes and currently does not consider it likely to have a major impact on the Group's consolidated financial statements upon adoption. This assessment is based on currently available information and is subject to changes that may arise when the Group presents its first interim financial information as of 31 March 2018 that will include the effect of its application from the effective date.

IFRS 15 "Revenue from Contracts with Customers"

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognizing revenue arising from contracts with customers and establishes a five-step model for that. Under IFRS 15 revenue will be recognized as goods and services are transferred, to the extent that the transferor anticipates entitlement to consideration in exchange for those goods and services. The standard also specifies a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

Management has identified the below areas where key revenue recognition and other accounting changes under IFRS 15 will have an impact on the Group's consolidated financial statements.

Handsets and telecommunication services

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 will result in a greater amount of revenue on subsidized handsets up-front, a difference between the reported revenue and the amount billed and decrease the average revenue per user for ongoing services.

Portfolio accounting

The Group enters into contracts with customers, which have similar characteristics. Under IFRS 15, an entity can choose to apply it to a portfolio of contracts or performance obligations with similar characteristics if the outcome is not materially different than contract-by-contract accounting by:

- An evaluation of which items constitute a portfolio considering, for example, the impact of different offerings, periods of time, geographic locations and contract modifications;
- assessment, on an ongoing basis, whether the portfolio approach gives a materially different result;
- Exercise of judgement in determining when the portfolio approach may be appropriate, including considering whether any customer-specific agreements would be eligible.

Upgrade rights

The Group offers early upgrade rights for additional services. This will require 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.

Customer retention discounts

Even if customer retention discounts aren't explicit in the contract, customary business practice could mean that fixed consideration is, in substance, variable. Alternatively, such discounts could be viewed as contract modifications. IFRS 15 requires an assessment as to whether the discount is variable consideration or a contract modification. This will require judgement and may impact the timing of revenue recognition. IFRS 15 requires an assessment as to whether promotional offers to current customers are contract modifications or marketing transactions and set up processes and systems capable of tracking and monitoring all discounts, concessions and promotional offers granted to customers.

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 must be 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 will be 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. However, an entity may choose to expense contract acquisition costs if the amortization period of the resulting asset is one year or less.

Transition options

IFRS 15 may be adopted retrospectively, by restating comparatives and adjusting retained earnings at the beginning of the earliest comparative period. – Alternatively, IFRS 15 may be adopted as of the application date, by adjusting retained earnings at the beginning of the first reporting year (the cumulative effect approach).

The Group intends to adopt the standard using the cumulative effect approach, which means that the Group will recognize the cumulative effect of initially applying this standard as an adjustment to the opening balance of retained earnings of the annual reporting period that includes the date of initial application. The Group is continuing to analyze the impact of the changes and its impact will be disclosed in the first interim financial information as of 31 March 2018 that will include the effect of its application from the effective date.

IFRS 16 “Leases”

In January 2016, the IASB issued IFRS 16 ‘Leases’ with an effective date of annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 ‘Leases’. Lessees will recognise a ‘right of use’ asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17. The Group is in the process of evaluating the impact of IFRS 16 on the Group’s consolidated financial statements.

2.3 Business combinations

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

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

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

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

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

2.4 Consolidation

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

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

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

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

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

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

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

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

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

2.5 Financial instruments

Classification

In the normal course of business the Group uses financial instruments, principally cash, deposits, receivables, investments, payables, due to banks and derivatives. In accordance with International Accounting Standard (IAS) 39, the Group classifies financial assets as "at fair value through profit or loss", "loans and receivables" or "available for sale". All financial liabilities are classified as "other than at fair value through profit or loss".

Recognition/derecognition

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

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and recognition of a new liability.

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

Measurement

Financial instruments

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Available for sale

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

Financial liabilities/equity

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

Financial guarantees

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

Derivative financial instruments and hedging activities

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Derivatives with positive fair values (unrealised gains) are included in other receivables and derivatives with negative fair values (unrealised losses) are included in other payables in the consolidated statement of financial position. For hedges, which do not qualify for hedge accounting and for “held for trading” derivatives, any gains or losses arising from changes in the fair value of the derivative are taken directly to the consolidated statement of profit or loss. For hedge accounting, the Group designates derivatives as either hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge) or hedges of a net investment in a foreign operation (net investment hedge).

Fair value hedge

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

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

Cash flow hedge

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

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

Net investment hedge

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

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

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

Impairment

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

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

Offsetting financial assets and financial liabilities

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

2.6 Cash and cash equivalents

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

2.7 Inventories

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

2.8 Investments in associates

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

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

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

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

2.9 Interests in joint ventures

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

2.10 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

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

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

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

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

2.11 Intangible assets and goodwill

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

Intangible assets

Intangible assets which have a finite life are amortized over their useful lives. For acquired network businesses whose operations are governed by fixed term licenses, the amortisation period is determined primarily by reference to the unexpired license period and the conditions for license renewal. Telecom license fees are amortised on a straight line basis over the life of the license. Key money and software rights are amortized on a straight line basis over a period of five years for software rights and over the lease period for operating leases. Customer contracts and relationships are amortised over a period of 4 to 5 years. To the extent handsets are provided below cost as part of the telecom service connection, it is treated as a subscriber acquisition cost and recognized as an intangible asset and amortised over the period of the contract.

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

Goodwill

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

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

2.12 Impairment of non-financial assets

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

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

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

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

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

2.13 Fair value measurement

Fair values

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

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

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

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

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

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

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

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

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

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

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

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

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

2.14 Income taxes

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

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

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

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

2.15 Provisions for liabilities

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

2.16 Post employment benefits

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

2.17 Treasury shares

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

2.18 Accounting for leases

Where the Group is the lessee

Operating leases

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

Finance leases

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

2.19 Revenue

Revenues from operations consist of recurring revenues, such as billings to customers for monthly subscription fees, roaming, leased line and airtime usage fees, and non-recurring revenues, such as one-time connection fees, and telephone equipment and accessory sales. Recurring revenue is recognized when the related service is rendered and comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of activities. Other revenues, which arise from service contracts, sale of telephones and accessories or other services, are recognized during the period in which the services are provided or goods are delivered.

Direct costs associated with prepaid cards which includes both the cost of purchasing the cards as well as dealer margins, are recognised when incurred, i.e. upfront while the airtime costs are recognized as and when the revenue is being recognised. Prepaid revenue collected in advance is deferred and recognized based on actual usage or upon expiration of the usage period, whichever comes first.

Specific customer acquisition costs other than those recognised as intangible assets are charged to the consolidated statement of profit or loss when the subscriber is activated.

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

2.20 Government grants

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

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

2.21 Borrowing costs

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

2.22 Foreign currencies

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

Translation differences on non-monetary items, such as equities classified as available for sale financial assets are included in the investment fair valuation reserve in equity.

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

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

2.23 Financial reporting in hyperinflationary economies

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

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

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

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

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

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

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

2.24 Non-current assets held for sale

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

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

2.25 Contingencies

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

3. Subsidiaries and Associates

The principal subsidiaries and associates are:

Subsidiary	Country of incorporation	Percentage of ownership	
		2017	2016
Zain International B.V. – “ZIBV”	The Netherlands	100%	100%
Pella Investment Company – “Pella”	Jordan	96.516%	96.516%
Zain Bahrain B.S.C - “MTCB”	Bahrain	54.78%	54.78%
Mobile Telecommunications Company Lebanon (MTC) S.A.R.L. -“MTCL”	Lebanon	100%	100%
Sudanese Mobile Telephone (Zain) Company Limited “Zain Sudan”	Sudan	100%	100%
Kuwaiti Sudanese Holding Company	Sudan	100%	100%
South Sudanese Mobile Telephone (Zain) Company Limited -“Zain South Sudan”	South Sudan	100%	100%
Al Khatem Telecoms Company – “Al Khatem”	Iraq	76%	76%
Atheer Telecom Iraq Limited – “Atheer”	Cayman Islands	76%	76%
Al Mouakhaa Lil Kadamat Al-Logistya Wal Al-Itisalat	Jordan	99.1%	99.1%
Nexgen Advisory Group FZ LLC- “Nexgen”	UAE	84.66%	84.66%
Associate			
Mobile Telecommunications Company (“SMTC”)	Saudi Arabia	37.045%	37.045%
Wana Corporate S.A (associate of a joint venture, Zain Al Ajjal S.A)	Morocco	15.5%	15.5%

Pella owns 100% of Jordan Mobile Telecommunications Services Co. JSC – “JMTS”.

JMTS, MTCB, Zain Sudan, Zain South Sudan and Atheer operate the cellular mobile telecommunications network in Jordan, Bahrain, Sudan, South Sudan and Iraq respectively. MTCL manages the state owned cellular mobile telecommunications network in Lebanon. Al Mouakhaa Lil Kadamat Al-Logistya Wal Al-Itisalat provides WiMAX services in Jordan.

Zain South Sudan

The Group provides telecom services in South Sudan through Zain South Sudan and is awaiting the issue of a formal telecom license.

Financial support to Group companies

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

4. Cash and bank balances

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

	2017	2016
	KD '000	
Cash on hand and at banks	125,484	153,852
Short-term deposits with banks	118,673	54,608
Government certificates of deposits held by subsidiaries	241	292
	<u>244,398</u>	<u>208,752</u>
Less:		
Cash at bank under lien	(7,545)	(770)
Deposits with maturity exceeding three months	(30,180)	(30,540)
Government certificates of deposits with maturities exceeding three months held by subsidiaries	(241)	(292)
	<u>206,432</u>	<u>177,150</u>

5. Trade and other receivables

	2017	2016
	KD '000	
Trade receivables:		
Customers	174,056	126,571
Distributors	8,748	7,443
Other operators (interconnect)	27,329	29,771
Roaming partners	13,180	17,058
Provision for impairment	(60,180)	(52,461)
	<u>163,133</u>	<u>128,382</u>
Other receivables:		
Accrued income	3,003	1,900
Staff	1,972	4,124
Prepayments, advances and other deposits	145,850	174,133
Others (refer note below)	142,862	144,566
Provision for impairment	(1,019)	(2,719)
	<u>292,668</u>	<u>322,004</u>
	<u>455,801</u>	<u>450,386</u>

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

Notes to the Consolidated Financial Statements – 31 December 2017

As of 31 December 2017, trade receivables of KD 100.432 million (2016 - KD 63.096 million) were neither past due nor impaired. Trade receivables of KD 62.701 million (2016 - KD 65.286 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. These trade receivables are uncollateralized and are due as follows:

	2017	2016
	KD '000	
Up to 3 months	14,119	13,364
3 – 6 months	12,380	18,856
6 – 12 months	7,650	18,911
More than 12 months	28,552	14,155
	<u>62,701</u>	<u>65,286</u>

As of 31 December 2017, trade receivables of KD 60.180 million (2016 - KD 52.461 million) were impaired against which the Group carries a provision of KD 60.180 million (2016 - KD 52.461 million). The individually impaired receivables mainly relate to post paid customers. It has been assessed that a portion of the impaired receivables is expected to be recovered.

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

	2017	2016
	KD '000	
Kuwaiti dinar	123,200	69,288
US dollar	224,034	228,128
Bahraini dinar	19,150	14,944
Sudanese pound	6,633	10,526
Jordanian dinar	18,457	21,882
Iraqi dinars	61,770	101,290
Others	2,557	4,328
	<u>455,801</u>	<u>450,386</u>

Movement of provision for impairment of trade and other receivables is as follows:

	2017	2016
	KD '000	
Opening balance - 1 January	55,180	54,759
Write off	(4,046)	(2,016)
Charge for the year	10,256	1,296
Adjustments (net)	(191)	1,141
Closing balance – 31 December	<u>61,199</u>	<u>55,180</u>

6. Inventories

	2017	2016
	KD '000	
Handsets and accessories	37,737	19,809
Provision for obsolescence	(3,335)	(3,391)
	<u>34,402</u>	<u>16,418</u>

7. Investment securities

	2017	2016
	KD '000	
<i>Current investments</i>		
<i>At fair value through profit or loss</i>		
Quoted equities	778	964
<i>Non-current investments</i>		
<i>Available for sale</i>		
Quoted equities	3,347	13,582
Funds	7,925	6,579
Unquoted equities	4,846	1,973
	<u>16,118</u>	<u>22,134</u>

Investment securities are denominated in the following currencies:

	2017	2016
	KD '000	
Kuwaiti dinar	6,396	14,558
US dollar	7,961	3,855
Other currencies	2,539	4,685
	<u>16,896</u>	<u>23,098</u>

Available for sale investments include unlisted securities amounting to KD 4.846 million (2016 - KD 1.973 million) carried at cost less impairment since it is not possible to reliably measure their fair value.

8. Non-current assets held for sale

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

9. Investments in associates

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

Summarized financial information of SMTC:

	2017	2016
	KD '000	
Current assets	302,248	269,701
Non-current assets	1,784,895	1,896,961
Current liabilities	924,335	540,621
Non-current liabilities	876,084	1,334,971
Net asset of SMTC	286,724	291,070
Revenue	604,913	563,968
Profit/(loss)	955	(78,804)
Other comprehensive income	(577)	259
Total comprehensive income	378	(78,545)
Group's ownership interest in SMTC	37.045%	37.045%
Group's share of SMTC's net assets	106,217	107,827
Goodwill	12,367	12,515
Carrying amount of Group' interest in SMTC	<u>118,584</u>	<u>120,342</u>

As at 31 December 2017 the fair value of the Group's investment in SMTC, being its quoted market share price on the Saudi Stock Exchange, was KD 127.186 million (2016 – KD 145.958 million).

Goodwill arises from the acquisition in 2012 of additional 12.045% equity shares during the rights issue and capital restructuring.

The Company's shareholding and that of the other founding shareholders, in SMTC are pledged to the associate's murabaha lenders as continuing security for the payment and discharge in full by SMTC of the US\$ 2.3 billion syndicated murabaha debt that fully matures in 2018. SMTC is in negotiation with lenders to refinance this facility. Under the murabaha financing agreement, SMTC must also obtain prior written consent of the lenders to declare any dividend or other distribution in cash or in kind to shareholders, modify any shareholder loan agreement or to make any payment under a shareholder loan agreement.

Under an official order dated 1 October 2016, SMTC received:

- an extension of its telecom license for a further period of fifteen years to January 2047 on payment of 5% of the it's annual net profit to the government during the license extension period;
- an unified telecommunication license that allows SMTC to provide all telecommunication services;
- authorization to discuss settlement alternatives with the Ministry of Finance for amounts due to the Government.

10. Interest in a joint venture

This represents the Group's KD 69.828 million (31 December 2016 - KD 70.054 million) interest in the joint venture, Zain Al Ajial S.A. which owns 31% of the equity shares and voting rights of Wana Corporate, (a Moroccan joint stock company which is specialized in the telecom sector in that country). The Group's share of loss for the year in the joint venture amounting to KD 227 thousand (2016 – share of loss of KD 1.588 million) has been recognized in the consolidated statement of profit or loss. The carrying value of this joint venture and its results for the year are determined by Group management using the equity method based on management information provided by Wana Corporate.

11. Dues from associates

	2017	2016
	<u>KD '000</u>	
Loans	267,494	258,432
Others	148,265	123,229
	<u>415,759</u>	<u>381,661</u>

These amounts are due from SMTC and are subordinate to its borrowings from banks (refer note 9). The loans comprise a US\$ loan of US\$ 764.261 million (KD 230.655 million) (2016: US\$ 725.578 million equivalent to KD 221.593 million) and KD 36.839 million (2016 – KD 36.839 million) with an effective interest rate of 6.75% and 4.25% per annum over six and three months Saudi Inter-Bank Offered Rate (SIBOR) respectively. Others include management fees and interest due on the loans.

12. Other assets

This includes US\$ 40 million; equivalent to KD 12.072 million (2016: US\$ 40 million, equivalent to KD 12.216 million) receivable from a founding shareholder in SMTC secured by an agreement to transfer to the Group, the founding shareholder's shares in SMTC. In 2013, the Group won a legal action for the recovery of that amount, and is currently pursuing further legal action for its implementation in Saudi Arabia.

13. Property and equipment

	Land and buildings and leasehold improvements	Cellular and other equipment	Projects in progress	Total
	KD '000			
Cost				
As at 31 December 2015	83,441	1,594,519	140,244	1,818,204
Additions	400	33,552	137,612	171,564
Transfers	2,389	106,934	(109,323)	-
Adjustments	12	(89)	-	(77)
Disposals	(16)	(20,221)	(41)	(20,278)
Exchange adjustment	(21,266)	(143,349)	(60,808)	(225,423)
As at 31 December 2016	<u>64,960</u>	<u>1,571,346</u>	<u>107,684</u>	<u>1,743,990</u>
Additions	8,631	31,058	95,243	134,932
Transfers	7,931	73,343	(81,274)	-
Transfer to non-current asset held for sale	-	(28,608)	-	(28,608)
Disposals	-	(29,821)	-	(29,821)
Impairment (note 34)	-	(52,650)	(3,062)	(55,712)
Exchange adjustments	(4,140)	(54,553)	(11,099)	(69,792)
As at 31 December 2017	<u>77,382</u>	<u>1,510,115</u>	<u>107,492</u>	<u>1,694,989</u>
Accumulated depreciation				
As at 31 December 2015	22,831	893,694	-	916,525
Charge for the year	1,485	118,092	-	119,577
On disposals	(15)	(18,669)	-	(18,684)
Exchange adjustments	(495)	(71,089)	-	(71,584)
As at 31 December 2016	<u>23,806</u>	<u>922,028</u>	<u>-</u>	<u>945,834</u>
Charge for the year	1,355	106,644	-	107,999
On disposals	-	(25,496)	-	(25,496)
Transfer to non-current asset held for sale	-	(20,952)	-	(20,952)
Impairment (note 34)	-	(17,886)	-	(17,886)
Exchange adjustment	323	(38,419)	-	(38,096)
As at 31 December 2017	<u>25,484</u>	<u>925,919</u>	<u>-</u>	<u>951,403</u>
Net book value				
As at 31 December 2017	<u>51,898</u>	<u>584,196</u>	<u>107,492</u>	<u>743,586</u>
As at 31 December 2016	<u>41,154</u>	<u>649,318</u>	<u>107,684</u>	<u>798,156</u>

Exchange adjustments of 2017 and 2016 includes effect of hyperinflationary restatement of property and equipment in Zain South Sudan based on the respective price index changes.

14. Intangible assets and goodwill

	Goodwill	Licence fees	Others	Total KD '000
Cost				
As at 31 December 2015	737,248	658,821	227,893	1,623,962
Additions	-	2,346	38,752	41,098
Disposals/write off	-	-	(30,219)	(30,219)
Exchange adjustments	(102,587)	(14,201)	(4,482)	(121,270)
As at 31 December 2016	634,661	646,966	231,944	1,513,571
Additions	-	-	7,296	7,296
Additions as a result of business combination	507	-	-	507
Disposals/write off	-	-	(66,206)	(66,206)
Exchange adjustments	(20,968)	(10,300)	(2,956)	(34,224)
As at 31 December 2017	614,200	636,666	170,078	1,420,944
Accumulated amortization				
As at 31 December 2015	11,942	279,473	147,235	438,650
Charge for the year	-	46,595	56,135	102,730
On disposals/write off	-	-	(29,641)	(29,641)
Exchange adjustments	-	(4,922)	(483)	(5,405)
As at 31 December 2016	11,942	321,146	173,246	506,334
Charge for the year	-	48,380	28,671	77,051
On disposals/write off	-	-	(66,206)	(66,206)
Exchange adjustments	-	(5,071)	(2,794)	(7,865)
As at 31 December 2017	11,942	364,455	132,917	509,314
Net book value				
As at 31 December 2017	602,258	272,211	37,161	911,630
As at 31 December 2016	622,719	325,820	58,698	1,007,237

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

	License expiry date	2017 KD '000	2016 KD '000
Pella Investment Company, Jordan- Pella	January 2031	79,516	79,516
Sudanese Mobile Telephone Company Limited (Zain Sudan)	February 2029	57,759	73,176
Atheer Telecom Iraq Limited, Cayman Islands (Atheer)	August 2022	455,615	461,050
Al Mouakhaa Lil Kadamat Al-Logistya Wal Al-Itisalat	December 2021	6,726	6,794
Nexgen Advisory Group Fz LLC	-	2,183	2,183
Others	-	459	-
		<u>602,258</u>	<u>622,719</u>

Impairment testing

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

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

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

Growth rate	<p>Increase in competition expected but no significant change in market share of any CGU as a result of ongoing service quality improvements and expected growth from technology and license upgrades but excluding that from improving or enhancing the asset's performance.</p> <p>Compounded annual growth in revenue of upto 13% (2016 -19%) for Zain Sudan, 11% (2016 - 11%) for Atheer and 4% (2016 - 4%) for Pella during the projected four or five year period. Value assigned reflects past experience and changes in economic environment.</p> <p>Cash flows beyond the four to five year period have been extrapolated using a growth rate of upto of 4% (2016 - 2%) for Zain Sudan, 3.5% (2016 - 2%) for Atheer and 2% (2016 - 2%) for Pella. This growth rate does not exceed the long term average growth rate of the market in which the CGU operates.</p>
Capital expenditure	<p>The cash flow forecasts for capital expenditure are based on experience and include the ongoing capital expenditure required to continue rolling out networks to deliver target voice and data products and services and meeting license obligations. Capital expenditure includes cash outflows for the purchase of property, plant and equipment and other intangible assets.</p>
Discount rate	<p>Discount rates of 21.3% (2016 -19.9%) for Zain Sudan, 12% (2016 - 13.4%) for Atheer and 9.8% (2016 - 11%) for Pella. Discount rates reflect specific risks relating to the relevant CGU.</p>

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

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

15. Trade and other payables

	2017	2016
	KD '000	
Trade payables and accruals	361,341	374,494
Deferred revenue	47,768	51,674
Due to roaming partners	20,854	40,356
Due to other operators (interconnect)	10,763	17,918
Dues to a regulatory authority	4,023	4,851
Taxes payable	38,870	48,841
Dividend payable	13,048	13,290
Provisions	2,747	3,149
Directors' remuneration	275	275
Other payables	15,695	16,072
	<u>515,384</u>	<u>570,920</u>

16. Due to banks

	2017	2016
	KD '000	
<i>Company</i>		
Short term loans	110,540	172,338
Long term loans	<u>621,940</u>	<u>722,638</u>
	<u>732,480</u>	<u>894,976</u>
<i>Sudan</i>		
Short term murabaha financing	<u>-</u>	<u>765</u>
<i>Bahrain</i>		
Long term loans	<u>1,501</u>	<u>7,834</u>
<i>Iraq</i>		
Long term loans	<u>136,220</u>	<u>145,772</u>
	<u>870,201</u>	<u>1,049,347</u>

The closing balance includes a non-cash movement arising from foreign currency gain of KD 11.422 million (31 December 2016 – loss of KD 6.101 million).

The current and non-current amounts are as follows:

	2017	2016
	KD '000	
Current liabilities	199,564	219,154
Non-current liabilities	<u>670,637</u>	<u>830,193</u>
	<u>870,201</u>	<u>1,049,347</u>

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

	2017	2016
	KD '000	
US dollar	836,587	930,623
Kuwaiti dinar	32,113	110,125
Others	<u>1,501</u>	<u>8,599</u>
	<u>870,201</u>	<u>1,049,347</u>

The effective interest rate as at 31 December 2017 was 2.01% to 12.00% (2016 – 1.75% to 12.00%) per annum.

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

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

Company

During the year, the Company:

- drew down loans amounting to KD 301.565 million (31 December 2016 - KD 211.443 million) from existing and new facilities. This included:
 - US\$ 200 million (KD 60.340 million) from an existing US\$ 800 million revolving credit facility which was fully repaid during the year.

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- US\$ 280 million (KD 85.342 million) from an existing US\$ 500 million revolving credit facility.
- US\$ 100 million (KD 30.510 million) from a long-term loan facility amounting to US\$ 200 million. As of 31 December 2017, US\$ 200 million (KD 60.360 million) was outstanding on this facility.
- repaid loans amounting to KD 454.428 million (31 December 2016 - KD 116.045 million). This includes:
 - US\$ 780 million (KD 236.945 million) to fully repay the US\$ 800 million revolving credit facility availed in February 2014. As of 31 December 2017, KD - Nil (31 December 2016 - KD 177.132 million) was outstanding on this facility.
 - US\$ 280 million (KD 85.342 million) to fully repay the US\$ 500 million revolving credit facility that was availed in January 2017.
 - KD 75 million to fully repay the short term loan that was availed from a commercial bank in June 2015.

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 31 December 2017, US\$ 16.360 million (KD 4.937 million) (31 December 2016 - KD 25.373 million) was outstanding from this facility;
- US\$ 300 million (KD 90.54 million) (2016 – KD 91.62 million) loan from a commercial bank that was rolled over as a long term loan maturing in December 2019.
- US\$ 55 million (KD 16.599 million) (2016 - KD 16.797 million) long-term loan repayable by March 2020 availed from a commercial bank in 2015.
- US\$ 30 million (KD 9.054 million) (2016 - KD 9.162 million) long-term loan repayable by December 2019 availed from a commercial bank in 2016
- US\$ 50 million (KD 15.09 million) long-term loan repayable by April 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.

Zain Sudan

This represented Sudanese pounds short term financing availed from a local Islamic bank carrying an effective interest rate of 12% per annum. This facility was secured by cash at bank of an equivalent amount (note 4).

17. Other non-current liabilities

	2017	2016
	KD '000	
Customer deposits	5,570	4,552
Post employment benefits	21,996	34,154
Refundable deposits and others	10,916	10,247
	<u>38,482</u>	<u>48,953</u>

18. Share capital and reserves

Share capital (par value of KD 0.100 per share)

	<u>2017</u>	<u>2016</u>
	No. of shares	No. of shares
<i>Authorised, Issued and fully paid up</i>	4,327,058,909	4,327,058,909

Legal reserve

In accordance with the Companies Law and the Company's Articles of Association, 10% of the profit for the year, subject to a maximum of 50% of the share capital, has to be appropriated towards legal reserve. The Companies Law and the Company's Articles of Association permits discontinuance of appropriations to legal reserve when it reaches 50% of the share capital. As the legal reserve exceeded this threshold, the Company discontinued appropriations to statutory reserve. This reserve can be utilized only for distribution of a maximum dividend of 5% in years when retained earnings are inadequate for this purpose.

Voluntary reserve

The Company's Articles of Association provide for the Board of Directors to propose appropriations to voluntary reserve up to a maximum of 50% of its share capital. During the year, the Board of Directors did not propose any transfer (2016 - Nil).

Foreign currency translation reserve

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

Dividend – 2016

The annual general meeting of shareholders for the year ended 31 December 2016 held on 12 March 2017 approved distribution of cash dividends of 35 fils per share for the year 2016.

Proposed dividend

The Board of Directors, subject to the approval of shareholders, recommends distribution of a cash dividend of 35 fils per share (2016 - 35 fils per share) to the registered shareholders as of the date of the Annual General Meeting.

19. Treasury shares

	<u>2017</u>	<u>2016</u>
Number of shares	-	425,711,648
Percentage of issued shares	-	9.84%
Market value (KD '000)	-	174,542
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.

20. Revenue

	<u>2017</u>	<u>2016</u>
	<u>KD '000</u>	
Airtime, data and subscription	934,079	1,046,084
Trading income	95,468	41,690
	<u>1,029,547</u>	<u>1,087,774</u>

21. Operating and administrative expenses

This includes staff costs of KD 83.862 million (2016 – KD 89.617 million).

22. Investment income

	2017	2016
	KD '000	
Gain /(loss) on investments at fair value through profit or loss	10	(206)
Realized gains/(loss) from available for sale investments	2,891	(4,025)
Impairment loss on available for sale investments	(2,369)	(397)
Dividend income	249	703
	<u>781</u>	<u>(3,925)</u>

23. National Labour Support Tax (NLST) and Zakat

	2017	2016
	KD '000	
NLST- Kuwait	3,077	2,387
Zakat- Kuwait	1,521	1,289
Zakat- Sudan	1,155	2,462
	<u>5,753</u>	<u>6,138</u>

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

24. Income tax expenses

This represents the income tax expenses of subsidiaries and withholding taxes (refer note 26).

25. Earnings per share

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

	2017	2016
	KD '000	
Profit for the year	159,817	156,702
	<u>Shares</u>	<u>Shares</u>
Weighted average number of shares in issue	4,047,138,921	3,901,347,261
Effect of dilution	-	-
Weighted average number of shares in issue outstanding during the year adjusted for the effect of dilution	<u>4,047,138,921</u>	<u>3,901,347,261</u>
	<u>Fils</u>	<u>Fils</u>
Basic earnings per share	39	40
Diluted earnings per share	39	40

26. Segment information

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

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

Notes to the Consolidated Financial Statements – 31 December 2017

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

Notes to the Consolidated Financial Statements – 31 December 2017

	31 December 2016						Total KD '000
	Kuwait	Jordan	Sudan	Iraq	Bahrain	Others	
Segment revenues	322,210	145,820	213,986	327,189	52,792	25,777	1,087,774
Net profit before interest and tax	89,982	45,603	32,586	10,789	3,807	25,039	207,806
Interest income	45	405	3,903	257	57	152	4,819
Finance cost	-	(4,674)	-	(12,789)	(451)	(3,450)	(21,364)
Income tax expense	-	(9,578)	(9,158)	-	-	(8,699)	(27,435)
	<u>90,027</u>	<u>31,756</u>	<u>27,331</u>	<u>(1,743)</u>	<u>3,413</u>	<u>13,042</u>	<u>163,826</u>
<i>Unallocated items:</i>							
Investment income							(3,925)
Share of results of associates and joint ventures							(30,781)
Others							29,615
Profit for the year							158,735
Segment assets including goodwill	294,759	328,894	249,820	1,121,735	95,749	136,034	2,226,991
<i>Unallocated items:</i>							
Investment securities at fair value through profit or loss							964
Investment securities available for sale							22,134
Investment in associates and joint ventures							190,396
Due from associates							381,661
Others							269,556
Consolidated assets							3,091,702
Segment liabilities	99,434	146,879	52,030	269,713	34,921	225,649	828,626
Due to banks	-	-	765	145,772	7,834	-	154,371
	<u>99,434</u>	<u>146,879</u>	<u>52,795</u>	<u>415,485</u>	<u>42,755</u>	<u>225,649</u>	<u>982,997</u>
<i>Unallocated items:</i>							
Due to banks							894,976
Others							(208,753)
Consolidated liabilities							1,669,220
Net consolidated assets							1,422,482
Capital expenditure incurred during the year	47,549	23,095	50,535	28,981	18,424	10,012	178,596
Unallocated							34,066
Total capital expenditure							212,662
Depreciation and amortization	66,225	26,894	27,349	73,563	16,378	10,572	220,981
Unallocated							1,326
Total depreciation and amortization							222,307

27. Subsidiaries with significant non-controlling interests

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

	Al Khatem, Iraq		Zain Bahrain	
	2017	2016	2017	2016
	KD '000			
Current assets	136,875	184,752	27,131	24,304
Non-current assets	721,990	765,863	57,865	71,446
Current liabilities	(168,327)	(269,610)	(30,464)	(40,991)
Non-current liabilities	(153,132)	(145,875)	(257)	(1,763)
Equity attributable to:				
- Owners of the Company	408,402	406,673	29,732	29,032
- Non-controlling interests	129,004	128,457	24,543	23,964
Revenue	333,881	327,189	59,971	52,792
Profit /(loss) for the year	8,745	(1,743)	3,457	3,413
Other comprehensive income	-	-	-	-
Total comprehensive income	8,745	(1,743)	3,457	3,413
Total comprehensive income attributable to:				
- Company's shareholders	6,646	(1,325)	1,894	1,870
- Non-controlling interests	2,099	(418)	1,563	1,543
	8,745	(1,743)	3,457	3,413
Cash dividend paid to non-controlling Interests	-	(13,148)	(630)	(644)
Net cash flow from operating activities	44,085	71,622	11,280	23,607
Net cash flow from investing activities	(48,348)	100,887	(6,080)	(17,368)
Net cash flow from financing activities	(20,852)	(120,668)	(7,995)	(8,194)
Net (decrease)/increase in cash flows	(25,371)	51,841	(2,819)	(1,955)

28. 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

	2017	2016
	KD '000	
Revenue	3,421	4,273
Management fee (included in other income)	3,130	-
Interest income on loans to an associate	22,357	-

Key management compensation

Salaries and other short term employee benefits	2,951	2,892
Post-employment benefits	439	755

Balances

Trade receivables	16,553	8,809
Trade payables	9,851	6,525

29. Commitments and contingencies

	2017	2016
	KD '000	
Capital commitments	37,727	46,021
Capital commitments – share of associates	60,835	57,773
Uncalled share capital of investee companies	4,685	2,430
Letters of guarantee and credit	453,691	456,800

The above includes guarantees amounting to KD 396.316 million (2016 - KD 405.615 million) relating to loans availed by SMTC.

The Company is a guarantor for credit facilities amounting to KD 10.551 million (2016 – KD 10.677 million) granted to a founding shareholder in SMTC. The Company believes that the collaterals provided by the founding shareholder to the bank, covers the credit facilities.

Penalties and fee claims in Iraq

In 2011, the Communications and Media Commission (CMC) claimed an amount of US\$ 100 million (KD 30.18 million) from Atheer, citing non-compliance with certain license terms. This claim was resolved in favor of Atheer during the second quarter of 2015. However, in March 2016, the Executive Director of the CMC filed a complaint with the Hearing Panel of the CMC claiming US\$ 100 million (KD 30.18 million) relating to the matter which had been ruled in favor of Atheer by the Appeals Board of the CMC on three previous occasions. On 13 July 2016, the Hearing Panel of the CMC issued a decision in favor of CMC. On 8 September 2016, Atheer filed an appeal against this decision with the CMC Appellate Panel. On 15 January 2017, the CMC Appeals Board issued a decision in favor of CMC. Atheer challenged this decision of the CMC Appeals Board in the Court of First Instance arguing that the provisions of Order No. 65 (governing telecom activities in Iraq), that immunizes CMC Appeals Board decisions from being appealed or challenged, is unconstitutional. Atheer also requested the Court to issue an order preventing 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. Based on the report of its attorneys, Atheer believes that the prospects of resolving this matter is in its favor.

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 73.639 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 52.214 million) in fifty equal monthly instalments from December 2016, net of amount already paid. Atheer would reserve the right to file an objection for each of these years;
- Atheer to settle the capital gains tax claim for US\$ 93 million (KD 28.067 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 73.639 million) tax claim in November 2016 objecting to the full amount of the claim. As of 31 December 2017, Atheer has an obligation to pay the balance of US\$ 128 million equivalent to KD 38.630 million (31 December 2016: KD 51.612 million) net of previous payments in thirty seven 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. In the last week of January 2018, the Cassation Committee upheld Atheer's right to appeal and instructed the Appeals Committee to reconsider those appeals on their merits on the basis that Atheer's agreement with Ministry of Finance was not invalid. Atheer believes that the prospects of resolving this matter is in its favor.

Pella is a defendant in lawsuits amounting to KD 12.474 million (31 December 2016 – KD 8.893 million). Pella has initiated legal proceedings against claims by regulatory authorities amounting to KD 9.504 million (31 December 2016 - KD 9.622 million) for the years 2002 - 2005 on the grounds that it has already paid the regulatory 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 11.934 million (31 December 2016 - KD 11.780 million) of earlier years. Based on the report of its attorneys, the Group believes that the prospects of resolving these matters is in its favor.

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

Operating lease commitments – Group as lessee

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

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

	2017	2016
	KD '000	
Not later than 1 year	19,682	18,645
Later than 1 year and no later than 5 years	23,005	23,994
Later than 5 years	11,840	10,641
	<u>54,527</u>	<u>53,280</u>

30. Financial risk management

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

	Loans and receivables	Assets at fair value through profit or loss	Available for sale
	KD '000		
31 December 2017			
Cash and bank balances	244,398	-	-
Trade and other receivables	455,472	-	-
Investment securities	-	778	16,118
Dues from associates	415,759	-	-
Other assets	12,072	-	-
	<u>1,127,701</u>	<u>778</u>	<u>16,118</u>
31 December 2016			
Cash and bank balances	208,752	-	-
Trade and other receivables	449,760	-	-
Investment securities	-	964	22,134
Dues from associates	381,661	-	-
Other assets	12,216	-	-
	<u>1,052,389</u>	<u>964</u>	<u>22,134</u>

All financial liabilities as of 31 December 2017 and 31 December 2016 are categorized as 'other than at fair value through profit or loss'.

Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

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

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

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

Currency	2017	2016
	KD '000	
US dollar	14,572	25,002
Euro	33	56
SAR	1,412	205

(ii) *Equity price risk*

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

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

Market indices	2017		2016	
	Impact on net profit	Effect on equity	Impact on net profit	Effect on Equity
KD '000				
Kuwait Stock Exchange	± 39	± 395	± 48	± 871

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

(iii) *Cash flow and fair value interest rate risk*

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

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

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

At 31 December 2017, if interest rates at that date had been 50 basis points higher/lower with all other variables held constant, consolidated profit for the year would have been lower/higher by KD 3.773 million (2016 - KD 4.884 million).

b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. Financial assets, which potentially subject the Group to credit risk, consist principally of fixed and short notice bank deposits, bonds, trade and other receivables and loans to associates. The Group manages this risk by placing fixed and short term bank deposits with high credit rating financial institutions. Credit risk with respect to trade receivables is limited due to dispersion across large number of customers and by using experienced collection agencies. The Group considers the credit quality of amounts that are neither past due nor impaired to be high.

For more information refer to notes 4, 5, 11 and 12.

(c) Liquidity risk

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

The Group has committed to provide working capital and other financial support to some of its affiliates (refer note 3). Other than cash and bank balance of KD 16.001 million (2016 - KD 29.744 million) equivalent held in Sudanese pounds and KD 1.017 million (2016 - KD 0.972 million) held in South Sudanese pounds, all other cash and bank balance are maintained in freely convertible currencies.

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

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	KD '000			
At 31 December 2017				
Bank borrowings	234,152	163,456	416,131	133,503
Trade and other payables	466,635	201	302	478
Customer deposits	-	739	-	2,625
Refundable deposits and others	-	84	-	-
At 31 December 2016				
Bank borrowings	242,363	265,341	453,765	145,296
Trade and other payables	518,150	204	510	382
Customer deposits	-	698	-	3,854
Refundable deposits and others	-	85	-	-

31. Derivative financial instruments

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

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

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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 December 2017:

	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	-	78	96,454	-	96,454	-

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

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

32. Capital risk management

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

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

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

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

	2017	2016
	KD '000	
Total borrowings	870,201	1,049,347
Less: Cash and bank balances (refer note 4)	(244,398)	(208,752)
Net debt	625,803	840,595
Total equity	1,609,604	1,422,482
Total capital	2,235,407	2,263,077
Gearing ratio	28%	37%

33. Fair value of financial instruments

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

31 December 2017

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

31 December 2016

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

Available for sale investments include unlisted securities amounting to KD 4.846 million (31 December 2016 – KD 1.973 million) carried at cost less impairment since it is not possible to reliably measure their fair value.

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

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

34. Net monetary gain

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

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

	Index	Conversion factor
31 December 2017	4,502	1.0
31 December 2016	2,068	2.1
31 December 2015	357	12.6
31 December 2014	170	26.5
31 December 2013	155	29.1
31 December 2012	170	26.5

Based on the above, the Group determined net monetary gain to be local currency equivalent of KD 45.789 million (2016- KD 30.781 million) stated net of the foreign exchange loss on the monetary amount of the Group's net investment in South Sudan.

The Group then reduced the restated carrying value of property and equipment to its recoverable amount and recognized the resultant decline as an impairment loss of KD 37.826 million (31 December 2016 - KD Nil). The recoverable amount was computed at the fair value less cost of disposal determined using the current replacement cost, with level 3 inputs of the fair value hierarchy and service capacity assessment being the most significant unobservable input (refer note 13).

35. Significant accounting judgments and estimates

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

Judgments

Business combinations

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

Classification of investments

On acquisition of an investment, management has to decide whether it should be classified as “at fair value through profit or loss”, “available for sale” or as “loans and receivables”. In making that judgment the Group considers the primary purpose for which it is acquired and how it intends to manage and report its performance. Such judgment determines whether it is subsequently measured at cost or at fair value and if the changes in fair value of instruments are reported in the consolidated statement of profit or loss or directly in equity.

Impairment

When there is a significant or prolonged decline in the value of an “available for sale” quoted investment security management uses objective evidence to judge if it may be impaired. At each statement of financial position date, management assesses, whether there is any indication that non-financial assets may be impaired. The determination of impairment requires considerable judgment and involves evaluating factors including, industry and market conditions.

Contingent liabilities/liabilities

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

Hyperinflation

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

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

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

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

Sources of estimation uncertainty

Fair values - unquoted equity investments and business combinations

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

Accounts receivable

The Group estimates an allowance for doubtful receivables based on past collection history and expected cash flows from debts that are overdue.

Tangible and intangible assets

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

Taxes

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

Impairment of non-financial assets

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

36. Comparative figures

Certain prior year amounts have been reclassified to conform to current year presentation with no effect on net profit or equity.