

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

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

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

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

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

*Introduction*

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

*Scope of Review*

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

*Basis of Qualified Conclusion*

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

*Qualified Conclusion*

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



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

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

***Emphasis of matter***

Without qualifying our conclusion, we draw attention to note 2 and to note 14 to the condensed consolidated interim financial information, which describes the effects on the subsidiary in Iraq due to the current security situation there and which discloses the uncertainty related to the outcome of various claims against it, respectively.

**Report on Other Legal and Regulatory Requirements**

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

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

**Kuwait  
28 October 2017**

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

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

		Unaudited 30 September 2017	Audited 31 December 2016	Unaudited 30 September 2016
	Note			KD '000
<b>Assets</b>				
<b>Current assets</b>				
Cash and bank balances	3	283,932	208,752	291,445
Trade and other receivables		491,095	450,386	450,952
Inventories		24,536	16,418	15,316
Investment securities at fair value through profit or loss		989	964	985
Non-current assets held for sale	4	7,656	-	-
		<u>808,208</u>	<u>676,520</u>	<u>758,698</u>
<b>Non-current assets</b>				
Investment securities available for sale		17,110	22,134	22,851
Investments in associates and joint ventures	5	189,877	190,396	191,408
Due from associates		407,265	381,661	375,043
Other assets		15,081	15,598	15,386
Property and equipment	16	747,589	798,156	909,389
Intangible assets and goodwill		935,096	1,007,237	1,124,539
		<u>2,312,018</u>	<u>2,415,182</u>	<u>2,638,616</u>
<b>Total Assets</b>		<u>3,120,226</u>	<u>3,091,702</u>	<u>3,397,314</u>
<b>Liabilities and Equity</b>				
<b>Current liabilities</b>				
Trade and other payables		555,432	570,920	698,757
Due to banks	6	206,608	219,154	224,400
		<u>762,040</u>	<u>790,074</u>	<u>923,157</u>
<b>Non-current liabilities</b>				
Due to banks	6	719,576	830,193	757,213
Other non-current liabilities		29,230	48,953	39,212
		<u>748,806</u>	<u>879,146</u>	<u>796,425</u>
<b>Equity</b>				
<b>Attributable to the Company's shareholders</b>				
Share capital	7	432,706	432,706	432,706
Share premium		1,707,164	1,707,164	1,707,164
Treasury shares	9	-	(567,834)	(567,834)
Legal reserve		216,353	216,353	216,353
Foreign currency translation reserve		(1,152,322)	(1,100,094)	(786,452)
Treasury shares reserve		-	1,967	1,967
Investment fair valuation reserve		4,237	3,484	982
Hedge reserve		(247)	(120)	(553)
Retained earnings		244,552	571,503	516,503
		<u>1,452,443</u>	<u>1,265,129</u>	<u>1,520,836</u>
Non-controlling interests		156,937	157,353	156,896
<b>Total equity</b>		<u>1,609,380</u>	<u>1,422,482</u>	<u>1,677,732</u>
<b>Total Liabilities and Equity</b>		<u>3,120,226</u>	<u>3,091,702</u>	<u>3,397,314</u>

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

This condensed consolidated interim financial information was approved and authorized for issue by the Board of Directors on 28 October 2017.

  
Mohannad Mohammad Abdulmohsen Al Kharafi  
Chairman

  
Bader Nasser Al Kharafi  
Vice Chairman & Chief Executive Officer

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

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

	Note	Three months ended		Nine months ended	
		30 September		30 September	
		2017	2016	2017	2016
		KD'000		KD'000	
Revenue		259,361	274,526	767,431	826,410
Cost of sales		(70,439)	(67,089)	(214,147)	(200,733)
<b>Gross profit</b>		<b>188,922</b>	<b>207,437</b>	<b>553,284</b>	<b>625,677</b>
Operating and administrative expenses		(82,034)	(70,739)	(230,577)	(232,787)
Depreciation and amortization		(44,527)	(54,976)	(141,849)	(164,966)
Provision for impairment – trade and other receivables		(2,393)	(1,600)	(6,571)	(2,976)
<b>Operating profit</b>		<b>59,968</b>	<b>80,122</b>	<b>174,287</b>	<b>224,948</b>
Interest income		6,320	1,332	18,057	4,965
Investment income	10	75	(105)	502	(1,741)
Share of results of associates and joint ventures	5	22	(8,123)	1,067	(26,578)
Other (expense)/income		(3,603)	(1,879)	(5,765)	2,021
Finance costs		(10,749)	(8,286)	(30,596)	(23,911)
Provision for impairment loss on property and equipment	16	-	-	(21,292)	-
Loss from currency revaluation		(6,018)	(11,756)	(18,500)	(29,021)
Net monetary gain	16	1,487	-	25,506	-
<b>Profit before contribution to KFAS, NLST, ZAKAT, income taxes and Board of Directors' remuneration</b>		<b>47,502</b>	<b>51,305</b>	<b>143,266</b>	<b>150,683</b>
Contribution to Kuwait foundation for Advancement of Sciences		(261)	(275)	(881)	(744)
National Labour Support Tax and Zakat		(1,522)	(1,892)	(4,904)	(5,615)
Income tax expenses		(3,862)	(5,500)	(11,558)	(15,798)
Board of Directors' remuneration		(68)	(68)	(206)	(206)
<b>Profit for the period</b>		<b>41,789</b>	<b>43,570</b>	<b>125,717</b>	<b>128,320</b>
<b>Attributable to:</b>					
Shareholders of the Company		40,164	42,510	122,450	124,474
Non-controlling interests		1,625	1,060	3,267	3,846
		<b>41,789</b>	<b>43,570</b>	<b>125,717</b>	<b>128,320</b>
<b>Earnings per share</b>	11				
Basic – Fils		10	11	31	32

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

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

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

	Three months ended		Nine months ended	
	30 September		30 September	
	2017	2016	2017	2016
	KD'000		KD'000	
<b>Profit for the period</b>	41,789	43,570	125,717	128,320
<b>Other comprehensive income</b>				
<i>Other comprehensive income transferred or reclassifiable to condensed consolidated statement of profit or loss in subsequent periods:</i>				
Exchange differences on translating foreign operations	(21,563)	(13,472)	(54,135)	(31,202)
Net unrealised gains/(loss) on available for sale investments	96	(66)	1,004	499
Net realised loss transferred to condensed consolidated statement of profit or loss on available for sale investments (net of impairment losses)	73	54	(251)	1,929
Cash flow hedges	73	(28)	(127)	(337)
	<u>(21,321)</u>	<u>(13,512)</u>	<u>(53,509)</u>	<u>(29,111)</u>
Total comprehensive income for the period	<u>20,468</u>	<u>30,058</u>	<u>72,208</u>	<u>99,209</u>
<b>Total comprehensive income attributable to:</b>				
Shareholders of the Company	19,290	29,199	70,848	96,756
Non-controlling interests	1,178	859	1,360	2,453
	<u>20,468</u>	<u>30,058</u>	<u>72,208</u>	<u>99,209</u>

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

**Condensed Consolidated Statement of Changes in Equity – Nine months ended 30 September 2017 (Unaudited)**

	Equity attributable to Company's shareholders								Non-controlling interests	Total	
	Share capital	Share premium	Treasury shares	Legal reserve	Foreign currency translation reserve	Treasury shares reserve	Investment fair valuation reserve	Hedge reserve			Retained earnings
Balance at 1 January 2017	432,706	1,707,164	(567,834)	216,353	(1,100,094)	1,967	3,484	(120)	571,503	157,353	1,422,482
Cash dividends (2016)	-	-	-	-	-	-	-	-	(136,547)	(1,776)	(138,323)
Total comprehensive income for the period	-	-	-	-	(52,228)	-	753	(127)	122,450	1,360	72,208
Sale of treasury shares (note 9)	-	-	567,834	-	-	(1,967)	-	-	(312,854)	-	253,013
<b>Balance at 30 September 2017</b>	<b>432,706</b>	<b>1,707,164</b>	<b>-</b>	<b>216,353</b>	<b>(1,152,322)</b>	<b>-</b>	<b>4,237</b>	<b>(247)</b>	<b>244,552</b>	<b>156,937</b>	<b>1,609,380</b>
Balance at 1 January 2016	432,706	1,707,164	(567,834)	216,353	(756,643)	1,967	(1,446)	(216)	510,641	185,398	1,728,090
Cash dividends (2015)	-	-	-	-	-	-	-	-	(117,041)	(31,740)	(148,781)
Purchase of non-controlling interests	-	-	-	-	-	-	-	-	(999)	967	(32)
Equity issue transaction costs	-	-	-	-	-	-	-	-	(572)	(182)	(754)
Total comprehensive income for the period	-	-	-	-	(29,809)	-	2,428	(337)	124,474	2,453	99,209
<b>Balance at 30 September 2016</b>	<b>432,706</b>	<b>1,707,164</b>	<b>(567,834)</b>	<b>216,353</b>	<b>(786,452)</b>	<b>1,967</b>	<b>982</b>	<b>(553)</b>	<b>516,503</b>	<b>156,896</b>	<b>1,677,732</b>

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

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

**Condensed Consolidated Statement of Cash Flows – Nine months ended 30 September 2017 (Unaudited)**

	Nine months ended 30 September	
	2017	2016
	KD'000	
<b>Cash flows from operating activities</b>		
Profit for the period before income tax	137,275	144,118
Adjustments for:		
Depreciation and amortization	141,849	164,966
Interest income	(18,057)	(4,965)
Investment income	(502)	1,741
Share of loss of associates and joint ventures	(1,067)	26,578
Provision for impairment loss on property and equipment	21,292	-
Finance costs	30,596	23,911
Loss on currency revaluation	18,500	29,021
Net monetary gain	(25,506)	-
Operating profit before working capital changes	304,380	385,370
Increase in trade and other receivables	(81,837)	(42,586)
(Increase)/decrease in inventories	(8,400)	12,001
Decrease in trade and other payables	(12,707)	(94,342)
Cash generated from operations	201,436	260,443
Paid to Kuwait Foundation for Advancement of Sciences	(250)	(500)
National Labour Support Tax and Zakat paid	(7,427)	(4,441)
Income tax paid	(11,838)	(18,316)
<i>Net cash from operating activities</i>	<u>181,921</u>	<u>237,186</u>
<b>Cash flows from investing activities</b>		
Deposits maturing after three months and bank balances blocked (note 3)	(6,382)	2,913
Net cash outflow on acquisition of non-controlling interests	-	(26)
Purchase of investments	(4,129)	(670)
Proceeds from sale of Investments	9,360	3,009
Acquisition of property and equipment (net)	(82,254)	(118,355)
Acquisition of intangible assets (net)	(11,357)	(35,186)
Interest received	18,613	4,214
Dividend received	246	703
<i>Net cash used in investing activities</i>	<u>(75,903)</u>	<u>(143,398)</u>
<b>Cash flows from financing activities</b>		
Proceeds from bank borrowings	228,986	138,907
Repayment of bank borrowings	(340,424)	(115,648)
Loan to an associate	(10,178)	(26,954)
Dividends paid to Company's shareholders	(136,324)	(117,020)
Dividends paid to minority shareholders of subsidiaries	(1,718)	(15,059)
Finance costs paid	(29,251)	(18,045)
Proceeds from sale of treasury shares	255,172	-
<i>Net cash used in financing activities</i>	<u>(33,737)</u>	<u>(153,819)</u>
Net increase/(decrease) in cash and cash equivalents	72,281	(60,031)
Effect of foreign currency translation	(3,483)	(5,410)
Cash and cash equivalents at beginning of period	177,150	228,266
Cash and cash equivalents at end of period (Note 3)	<u>245,948</u>	<u>162,825</u>

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

**1. Incorporation and activities**

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

The Company and its subsidiaries (the "Group") along with associates provide mobile telecommunication services in Kuwait and 8 other countries (31 December 2016 - Kuwait and 8 other countries; 30 September 2016 - Kuwait and 8 other countries) under licenses from the Governments of the countries in which they operate; purchase, deliver, install, manage and maintain mobile telephone and paging systems; and invest surplus funds in investment securities.

**2. Basis of preparation**

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

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

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

Had IAS 29 been applied, and the opening retained earnings as at 1 January 2015 been restated, it would have been higher by approximately KD 324 million and non-monetary assets comprising of Zain Sudan's Property and Equipment, Intangible assets and Capital WIP as of that date higher by the same amount. This would have then required the Group to test the restated carrying value of its investment in Zain Sudan and the related goodwill for impairment losses, if any, to be recognized in the consolidated statement of profit or loss. Even if this had resulted in goodwill being determined as fully impaired at that time, the net overall impact on the Group's consolidated statement of financial position is that net equity and the above non-monetary assets related to Zain Sudan as of 30 September 2017 would have been higher by KD 63 million (31 December 2016 – KD 102 million; 30 September 2016: KD 176 million). Furthermore, the profit for the period ended 30 September 2017 would have been lower by KD 15 million (30 September 2016: KD 36 million).

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

*Al Khater/Atheer*

The unrest in Iraq since September 2014 has had an impact on the Group's operations and has resulted in forced shut down of or restricted access to some sites with the result that Atheer may be unable to exercise effective control over assets with a net book value of approximately KD 1.384 million. While noting the general uncertainty on this matter, the Group currently, does not expect that it could materially affect the Group's operations or effective control over its property and equipment in the foreseeable future.

*Financial support to associate and group companies*

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

3. **Cash and bank balances**

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

	<u>Unaudited</u> 30 September 2017	<u>Audited</u> 31 December 2016	<u>Unaudited</u> 30 September 2016 KD '000
Cash on hand and at banks	103,796	153,852	245,531
Short-term deposits with banks	179,870	54,608	45,302
Government certificates of deposits held by subsidiaries	266	292	612
	<u>283,932</u>	<u>208,752</u>	<u>291,445</u>
Bank balances blocked (refer note 14)	-	-	(128,003)
Cash at bank under lien	(7,548)	(770)	(5)
Deposits with maturity exceeding three months	(30,170)	(30,540)	-
Government certificates of deposits with maturities exceeding three months held by subsidiaries	(266)	(292)	(612)
Cash and cash equivalent in the condensed consolidated statements of cash flows	<u>245,948</u>	<u>177,150</u>	<u>162,825</u>

4. **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.

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

**5.1 Investments in associates**

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

	Unaudited 30 September 2017	Audited 31 December 2016	Unaudited 30 September 2016 KD '000
Current assets	355,495	269,701	310,481
Non-current assets	1,830,307	1,896,961	1,815,613
Current liabilities	1,175,420	540,621	429,285
Non-current liabilities	719,893	1,334,971	1,400,281
Net asset of SMTC	290,489	291,070	296,528
Revenue	449,003	563,968	411,775
Profit/(loss)	4,586	(78,804)	(67,946)
Total comprehensive income for the period	(343)	259	(912)
Proportion of Group's ownership interest in SMTC	37.045%	37.045%	37.045%
Group's share of SMTC's net assets	107,612	107,827	109,849
Goodwill	12,363	12,515	12,335
Carrying amount of Group's interest in SMTC	119,975	120,342	122,184

As at 30 September 2017 the fair value of the Group's investment in SMTC, being its quoted market share price on the Saudi Stock Exchange, was KD 152.377 million (31 December 2016 – KD 145.958 million; 30 September 2016: KD 116.789 million).

**5.2 Interest in a joint venture**

This represents Group's KD 69.902 million (31 December 2016 - KD 70.054 million; 30 September 2016: KD 69.224 million) interest in the joint venture, Zain Al Ajial S.A. that owns 31% of the equity shares and voting rights of Wana Corporate (a Moroccan joint stock company that is specialized in the telecom sector in that country). The Group's share of loss for the period in the joint venture amounting to KD 0.152 million (30 September 2016 – Loss KD 1.407 million) has been recognized in the condensed consolidated statement of profit or loss. The carrying value of this joint venture and its results for the period was determined by Group management using the equity method based on management information provided by Wana Corporate.

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

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

**6. Due to banks**

	<u>Unaudited</u> <u>30 September</u> <u>2017</u>	<u>Audited</u> <u>31 December</u> <u>2016</u>	<u>Unaudited</u> <u>30 September</u> <u>2016</u>
	<u>KD '000</u>		
<i>Company</i>			
Short term loans	176,421	172,338	157,500
Long term loans	604,688	722,638	655,872
	<u>781,109</u>	<u>894,976</u>	<u>813,372</u>
<i>Sudan</i>			
Short term loans	-	765	6,793
<i>Bahrain</i>			
Long term loans	3,867	7,834	10,093
<i>Iraq</i>			
Bank overdraft	-	-	14,473
Long term loans	141,208	145,772	136,883
	<u>926,184</u>	<u>1,049,347</u>	<u>981,613</u>

The closing balance includes a non-cash movement arising from foreign currency gain of KD 11.725 million (31 December 2016 – loss of KD 6.100 million; 30 September 2016 – gain of KD 6.525 million).

The current and non-current amounts are as follows:

	<u>Unaudited</u> <u>30 September</u> <u>2017</u>	<u>Audited</u> <u>31 December</u> <u>2016</u>	<u>Unaudited</u> <u>30 September</u> <u>2016</u>
	<u>KD '000</u>		
Current liabilities	206,608	219,154	224,400
Non-current liabilities	719,576	830,193	757,213
	<u>926,184</u>	<u>1,049,347</u>	<u>981,613</u>

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

	<u>Unaudited</u> <u>30 September</u> <u>2017</u>	<u>Audited</u> <u>31 December</u> <u>2016</u>	<u>Unaudited</u> <u>30 September</u> <u>2016</u>
	<u>KD '000</u>		
US dollar	818,226	930,623	854,424
Kuwaiti dinar	104,091	110,125	110,303
Others	3,867	8,599	16,886
	<u>926,184</u>	<u>1,049,347</u>	<u>981,613</u>

The effective interest rate as at 30 September 2017 was 2.01% to 5.6% (31 December 2016 - 1.75% to 12.00%; 30 September 2016 – 1.78% to 3.55%) per annum.

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

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

During the period, the Company:

- drew down loans amounting to KD 207.795 million (31 December 2016 - KD 211.443 million). This includes:
  - US\$ 79.412 million (KD 24.030 million) from a new long-term loan facility amounting to US\$ 97.136 million. As of 30 September 2017, US\$ 76.465 million (KD 23.069 million) was outstanding on this facility.
- repaid loans amounting to KD 311.735 million (31 December 2016 - KD 116.045 million). This includes:
  - US\$ 580 million (KD 177.131 million) to fully repay the US\$ 800 million revolving credit facility availed in February 2014. As of 30 September 2017, Nil (31 December 2016 - KD 177.132 million) (30 September 2016 - KD 108.360 million) was outstanding on this facility.
  - US\$ 280 million (KD 84.579 million) to fully repay the US\$ 500 revolving credit facility that was availed in January 2017.
  - US\$ 100 million (KD 30.510 million) to fully repay the short term loan that was availed from a commercial bank in March 2017.

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

#### **Zain – Bahrain**

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

#### **Atheer**

Long term loans include:

- US\$ 400 million loan availed in 2011 from a syndicate of international development finance institutions and foreign banks. This is repayable in twenty four equal installments by January 2018. As of 30 September 2017, US\$ 33.030 million (KD 9.965 million) (31 December 2016 - KD 25.373 million; 30 September 2016 – KD 99.760 million) was outstanding from this facility;
- US\$ 300 million (KD 90.780 million) loan from a commercial bank that was rolled over as a long term loan maturing in December 2019;
- US\$ 55 million (KD 16.643 million) long-term loan repayable by March 2020 availed from a commercial bank in 2015.
- US\$ 30 million (KD 9.078 million) long-term loan repayable by December 2019 availed from a commercial bank in 2016.

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

- US\$ 50 million (KD 15.130 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.

**7. Share capital**

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

**8. Dividend**

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

**9. Treasury shares**

	Unaudited 30 September 2017	Audited 31 December 2016	Unaudited 30 September 2016
Number of shares	-	425,711,648	425,711,648
Percentage of issued shares	-	9.84%	9.84%
Market value (KD '000)	-	174,542	142,613
Cost (KD '000)	-	567,834	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.

**10. Investment income**

	Three months ended 30 September (Unaudited) 2017    2016		Nine months ended 30 September (Unaudited) 2017    2016	
	KD'000		KD'000	
(Loss)/profit from investment securities "at fair value through profit or loss"	(9)	(9)	18	(185)
Realised gains/(loss) from investment securities 'available for sale'	326	(98)	2,953	(2,259)
Impairment loss on available for sale investments	(244)	-	(2,718)	-
Dividend income	2	2	249	703
	75	(105)	502	(1,741)

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11. Earnings per share

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

	Three months ended 30 September (Unaudited)		Nine months ended 30 September (Unaudited)	
	2017	2016	2017	2016
	KD'000		KD'000	
Profit for the period attributable to shareholders	40,164	42,510	122,450	124,474
	Shares	Shares	Shares	Shares
Weighted average number of shares in issue outstanding during the period	4,054,048,178	3,901,347,261	3,952,806,911	3,901,347,261
	Fils	Fils	Fils	Fils
Earnings per share – Basic	10	11	31	32

12. Segmental information

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

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

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

	30 September 2017					Total KD '000	
	Kuwait	Jordan	Sudan	Iraq	Bahrain		Others
<b>Segment revenues</b>	248,672	112,527	95,702	246,098	44,910	19,522	767,431
Net profit before interest and tax	62,309	31,847	19,046	16,952	2,430	2,449	135,033
Interest income	13	168	459	100	22	117	879
Finance costs	-	(3,823)	-	(9,858)	(201)	(2,859)	(16,741)
Income tax expense	62,322	21,736	(4,097)	7,194	2,251	(532)	(11,085)
			15,408			(825)	108,086
<i>Unallocated items:</i>							
Investment income							502
Share of results of associates and joint ventures							1,067
Others							16,062
<b>Profit for the period</b>	325,011	304,027	237,896	1,057,093	83,681	118,710	2,126,418
<b>Segment assets including goodwill</b>							
<i>Unallocated items:</i>							
Investment securities at fair value through profit or loss							989
Investment securities available for sale							17,110
Investment in associates and joint ventures							189,877
Dues from associates							407,265
Others							378,567
<b>Consolidated assets</b>							<u>3,120,226</u>
<b>Segment liabilities</b>	90,990	133,170	52,388	211,009	26,724	222,426	736,707
Due to banks	-	-	-	141,208	3,867	-	145,075
	90,990	133,170	52,388	352,217	30,591	222,426	881,782
<i>Unallocated items:</i>							
Due to banks							781,109
Others							(152,045)
<b>Consolidated liabilities</b>							<u>1,510,846</u>
<b>Net consolidated assets</b>							<u>1,609,380</u>
<b>Capital expenditure incurred during the period</b>							
Unallocated	17,131	12,146	31,907	21,482	1,559	166	84,391
<b>Total capital expenditure</b>							<u>10,608</u>
<b>Depreciation and amortization</b>							
Unallocated	34,548	21,058	10,906	56,800	11,083	6,436	140,831
<b>Total depreciation and amortization</b>							<u>1,018</u>
							<u>141,849</u>

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

	30 September 2016					Total KD '000	
	Kuwait	Jordan	Sudan	Iraq	Bahrain		Others
Segment revenues	241,878	109,457	173,977	242,410	39,788	18,900	826,410
Net profit before interest and tax	64,844	34,112	34,518	18,194	2,752	(34)	154,386
Interest income	44	299	3,270	80	48	113	3,854
Finance costs	-	(3,548)	-	(9,506)	(362)	(2,463)	(15,879)
Income tax expense	-	(7,112)	(7,540)	-	-	(661)	(15,313)
	<u>64,888</u>	<u>23,751</u>	<u>30,248</u>	<u>8,768</u>	<u>2,438</u>	<u>(3,045)</u>	<u>127,048</u>
<b>Unallocated items:</b>							
Investment income							(1,741)
Share of results of associates and joint ventures							(26,578)
Others							29,591
							<u>128,320</u>
<b>Profit for the period</b>							<b>2,538,184</b>
Segment assets including goodwill	286,102	325,823	561,524	1,184,002	93,153	87,580	2,538,184
<b>Unallocated items:</b>							
Investment securities at fair value through profit or loss							985
Investment securities available for sale							22,851
Investment in associates and joint ventures							191,408
Dues from associates							375,043
Others							268,843
							<u>3,397,314</u>
<b>Consolidated assets</b>							
Segment liabilities	99,512	153,318	77,922	326,218	31,743	202,257	890,970
Due to banks	-	-	-	151,355	10,093	-	161,448
	<u>99,512</u>	<u>153,318</u>	<u>77,922</u>	<u>477,573</u>	<u>41,836</u>	<u>202,739</u>	<u>1,052,900</u>
<b>Unallocated items:</b>							
Due to banks							820,165
Others							(153,001)
							<u>1,719,582</u>
<b>Consolidated liabilities</b>							<u>1,677,732</u>
<b>Net consolidated assets</b>							
Capital expenditure incurred during the period	33,664	13,680	52,425	18,922	12,067	2,375	133,133
Unallocated							31,049
							<u>164,182</u>
<b>Total capital expenditure</b>							<b>164,182</b>
Depreciation and amortization	50,679	19,902	22,476	54,961	12,224	3,872	164,114
Unallocated							852
							<u>164,966</u>
<b>Total depreciation and amortization</b>							<b>164,966</b>

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

13. Related party transactions

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

Transactions

	Three months ended 30 September (Unaudited)		Nine months ended 30 September (Unaudited)	
	2017	2016	2017	2016
	KD'000		KD'000	
Management fee (included in other income)	1,042	-	2,132	-
Interest income on loans to an associate	5,703	-	14,588	-

Key management compensation

	Three months ended 30 September (Unaudited)		Nine months ended 30 September (Unaudited)	
	2017	2016	2017	2016
	KD'000		KD'000	
Salaries and other short term employee benefits	699	715	2,187	2,122
Post-employment benefits	109	137	333	474

Balances

	Unaudited	Audited	Unaudited
	30 September 2017	31 December 2016	30 September 2016
	KD '000		
Trade receivables	7,710	-	-
Trade payables	2,622	-	-

14. Commitments and contingencies

	Unaudited	Audited	Unaudited
	30 September 2017	31 December 2016	30 September 2016
	KD '000		
Capital expenditure	61,903	46,021	93,232
Capital expenditure - share of an associate	60,552	57,773	78,627
Uncalled share capital of investee companies	4,736	2,430	7,274
Letters of guarantee	453,628	456,800	447,100

The above include guarantees amounting to KD 396.185 million (31 December 2016 - KD 405.615 million; 30 September 2016 - KD 400.286 million) relating to loans and other vendor financing availed by SMTC.

The Company is a guarantor for credit facilities amounting to KD 10.548 million (31 December 2016 - KD 10.677 million; 30 September 2016 - KD 10.523 million) granted to a founding shareholder in SMTC. The Company believes that the collaterals provided by the founding shareholder to the bank, covers the credit facilities.

#### **Penalties and Fee claims in Iraq**

In 2011, the Iraqi Telecom Regulatory Authority, the Communications and Media Commission (CMC) claimed a total amount of US\$ 262 million (KD 79.046 million) from Atheer, citing non-compliance with certain license terms. These claims were resolved in favor of Atheer during the second quarter of 2015. However, in March 2016, the Executive Director of the CMC filed a complaint with the Hearing Panel of the CMC claiming US\$ 100 million (KD 30.170 million) relating to the matter, which had been ruled in favor of Atheer by the CMC Appeals Board on three previous occasions. On 13 July 2016, the Hearing Panel of the CMC issued a decision in favor of CMC. On 8 September 2016, Atheer filed an appeal against this decision with the CMC Appeals Board. 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 and also requested the Court to issue an order preventing the CMC from collecting the amount of claim or enforcing the CMC Appeals Board decision until the matter is decided by the Court. The Court of First Instance issued orders in February and April 2017, restraining any enforcement proceedings by the CMC to collect the amount of claim until the case is decided by the Court. On 27 April 2017, the Court of First Instance issued a decision in favor of CMC. In May 2017, Atheer filed an appeal with the Court of Appeals against this decision. The Court of Appeals is currently in the process of reviewing the case. Based on the report of its attorneys, the Group believes that the prospects of resolving this matter is in its favor.

On 30 May 2016, the Director General of the CMC sent a letter to Atheer demanding that Atheer pay approximately US\$ 61 million (KD 18.404 million) in spectrum fees for the period commencing from 2010. CPA Order number 65 (establishing the CMC) and the License Agreement between Atheer and the CMC (dated 31 August 2007) clearly state that any fees that are assessed on Atheer cannot be backdated, and are required to be clearly stipulated to Atheer ahead of the period of their imposition and comply with international laws. In addition, the CMC Appeals Board had in the past decided the procedures for establishing such spectrum fees and the decision of the Director General on 30 May 2016 is in violation of the decision of the CMC Appeals Board. Accordingly, Atheer appealed this decision to the CMC Appeals Board on 28 June 2016. The CMC Appeals Board issued a decision against Atheer on 9 November 2016 rejecting Atheer's appeal. On 15 December 2016, Atheer filed a suit before the Commercial Court of First Instance in Baghdad challenging the legality of the decision to unilaterally impose the spectrum fees and to apply such decision retroactively. Atheer's challenges include contractual, legal and constitutional grounds. On 5 February 2017, Atheer obtained an order from the Commercial Court of First Instance to stop any enforcement proceedings by the CMC to collect the spectrum fee until the case is decided by the Court. In June 2017, the Court of First Instance turned down Atheer's challenge on the basis that the Court lacked jurisdiction to hear this dispute. Atheer subsequently filed an appeal with the Court of Appeals. On 26 July 2017, the Court of Appeals affirmed the decision of Court of First Instance. Atheer appealed to the Court of Cassation on 14 August 2017. On 10 September 2017, Court of Cassation affirmed the decision of the Court of Appeals. Atheer is currently preparing a correction to the Court of Cassation to re-consider its decision dated 10 September 2017. On the basis of the report of its attorneys, the Group believes that Atheer will prevail in this matter.

#### **Income and Capital Gains taxes in Iraq**

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

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

Atheer paid the amounts agreed in December 2016 and secured the release of the block on its bank accounts and the lien on the Group's shares in Al Khatem. Atheer submitted its objection against the US\$ 244 million (KD 73.834 million) tax claim in November 2016 objecting to the full amount of the claim. As of 30 September 2017, Atheer has an obligation to pay the balance of US\$ 138 million (KD 41.635 million) in forty 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. Several hearings have been held by the Appeal committee since July but no final decision has been issued yet. Based on the report of its attorneys, Atheer expects a favorable outcome to the appeals submitted in June 2017. In March 2017, Atheer won the legal case relating to Iraqi tax claims it had filed against Orascom Telecom Iraq Corp. Ltd , the seller of Iraqna and received the claimed amount of US\$ 60 million (KD 18.012 million) and interest. Orascom filed for leave to appeal which was rejected in June 2017. Based on the report of its Attorneys the Group believes that the case is now finally concluded in favor of Atheer.

Pella is a defendant in lawsuits amounting to KD 12.493 million (31 December 2016 – KD 8.893 million). Based on the report of its attorneys, the Group expects the outcome of these proceedings to be favorable to Pella.

Pella has initiated legal proceedings against the claim by regulatory authorities of KD 9.509 million (31 December 2016 - KD 9.622 million) for the years 2002 - 2005 on the grounds that it has already paid the amount that it was obligated to pay for those years. Based on the report of its attorneys, the Group expects the outcome to be favorable to Pella.

Pella has also initiated legal proceedings against the regulatory authorities claiming refund of excess license fee paid amounting to KD 11.641 million (31 December 2016 - KD 11.780 million) of earlier years.

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

## **15. Financial instruments**

### **15.1 Categories of financial assets and liabilities**

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

	(Unaudited) 30 September 2017	(Audited) 31 December 2016	(Unaudited) 30 September 2016
	KD'000		
<b>Loans and receivables:</b>			
Cash and bank balances	283,932	208,752	291,445
Trade and other receivables	491,095	449,760	450,952
Due from associates	407,265	381,661	375,043
Other assets	12,068	12,216	12,040
Investment securities - at fair value through profit or loss	989	964	985
Investment securities -available for sale	17,110	22,134	22,851

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

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

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

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

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

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

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

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

**30 September 2017**

	Level 1	Level 2	Level 3	Total
				KD'000
<b>Financial assets at fair value:</b>				
Investments securities at fair value through profit or loss	989	-	-	989
Investments securities available for sale	4,106	8,158	-	12,264
<b>Total assets</b>	<b>5,095</b>	<b>8,158</b>	<b>-</b>	<b>13,253</b>

**31 December 2016**

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

**30 September 2016**

	Level 1	Level 2	Level 3	Total
				KD'000
<b>Financial assets at fair value:</b>				
Investments securities at fair value through profit or loss	985	-	-	985
Investments securities available for sale	14,166	6,479	-	20,645
<b>Total assets</b>	<b>15,151</b>	<b>6,479</b>	<b>-</b>	<b>21,630</b>

Available for sale investments include unlisted securities amounting to KD 4.846 million (31 December 2016 – KD 1.973 million; 30 September 2016 – KD 2.206 million) carried at cost less Impairment since it is not possible to reliably measure their fair value.

**Measurement at fair value**

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

**16. Hyperinflation – Zain South Sudan**

**Net monetary gain**

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

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

	<u>Index</u>	<u>Conversion factor</u>
30 September 2017	3,688	1
30 June 2017	3,326	1.11
31 March 2017	2,431	1.52
31 December 2016	2,068	1.78
31 December 2015	357	10.34
31 December 2014	170	21.69
31 December 2013	154	23.84
31 December 2012	170	21.74

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

The Group assessed that the carrying value of its network assets at Zain South Sudan exceeds their recoverable amount as determined by their fair value less cost of disposal and estimated an impairment loss of KD 21.292 million (30 September 2016 - KD Nil). The fair value was determined using the current replacement cost approach based on level 3 inputs of the fair value hierarchy with the service capacity of the assets being the most significant unobservable input. The current use was determined to be highest and best use. The impairment loss is subject to reassessment at the end of each reporting period to determine if it no longer exists or may have decreased in which case it is reversible to that extent.

**17. Derivative financial instruments**

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

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

At 30 September 2017:

	<u>Notional amounts by term to maturity</u>					<u>KD '000</u>
	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Notional amount</u>	<u>Within 3 months</u>	<u>3 -12 months</u>	
<i>Derivatives held for hedging:</i>						
<i>Cash flow hedges</i>						
Profit rate swaps - share of an associate	-	127	108,133			108,133
	-	127	108,133			108,133

At 31 December 2016:

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

At 30 September 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	-	553	128,290	-	-	128,290	
	-	553	128,290	-	-	128,290	