

**NATIONAL MOBILE TELECOMMUNICATIONS
COMPANY K.S.C.P. AND SUBSIDIARIES**



**Consolidated Financial Statements and Independent Auditor's Report
for the year ended 31 December 2019**

Index	Page
Independent Auditor's Report	1 – 4
Consolidated statement of financial position	5
Consolidated statement of profit or loss	6
Consolidated statement of comprehensive income	7
Consolidated statement of changes in equity	8
Consolidated statement of cash flows	9
Notes to the consolidated financial statements	10 – 56

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

Report on the Audit of Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of National Mobile Telecommunications Company K.S.C.P. ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' 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* ("the 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 opinion.

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 period. 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 the matter is provided in that context.

a) Revenue

There is an inherent risk around the accuracy of revenue recorded due to the complexity of Information Technology ("IT") environment in which billing, rating and other relevant support systems reside; and changes to tariff plans and multiple element contracts with customers, which impact timing and recognition of revenue. Furthermore, the recognition of revenue under IFRS 15: Revenue from Contracts with Customers, is complex and requires elements of judgements and estimates. The standard requires decisions to be made on whether the service is performed point in time or point over time, whether the relationship with counterparties are in the nature of principal or agent etc. Due to these complexities, we have identified the revenue recognition as a key audit matter.

The accounting policies for revenue recognition for the different revenue streams are set out in note 2(o) to the consolidated financial statements. The total revenue disaggregated by major service lines is disclosed in note 16 to the consolidated financial statements.

Our audit procedures included assessment of the design and operating effectiveness of internal controls over the IT environment in which rating, billing and other relevant support system reside, change control procedures in place around those systems that bill and record material revenue streams. Our audit procedures also included the reconciliation of the revenue generated from online charging system and billing system to the general ledger and the test of details of revenue recorded.

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

Report on the Audit of Consolidated Financial Statements (Continued)

b) Impairment of goodwill

As at 31 December 2019, the goodwill is carried at KD 161,329 thousand. The impairment test of goodwill performed by the management is significant to our audit as 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 have also involved our valuation specialists in these audit procedures. We have assessed the historical accuracy of management's estimates, evaluation and testing the assumptions, methodologies, the discount rate and data used by the Group, for example, by comparing them to external data. We assessed the discount rate, terminal growth rate and the appropriateness of the valuation model used. Additionally, we have analysed the sensitivities such as the impact on the headroom 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 5 of 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 these items is given in note 2(l) of the consolidated financial statements.

c) First time adoption of IFRS 16 – Leases

The International Accounting Standards Board (IASB) issued IFRS 16 – "Leases" replacing "IAS 17 – Leases" and its interpretations. IFRS 16 specifies how an entity recognises, measures, presents and discloses leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The Group has applied IFRS 16 from the initial application date of 1 January 2019 and has adopted modified retrospective as its transition approach by not restating comparatives but adjusting equity. The implementation of IFRS 16 is considered a key audit matter as this is the first year of implementation and there are significant judgments and estimates involved in its application. The Group's policy on lease accounting is given in note 2(i) of the consolidated financial statements.

Our audit procedures included assessment of the design and operating effectiveness of internal controls over the recognition and measurement of "right of use assets" and "lease liabilities". We assessed and tested the Group's accounting policies over leases, including the key judgments and estimates applied by management in consideration of the requirements of IFRS 16. Our audit procedures also included the testing of original lease contracts or other supporting information on a sample basis and ensured the accuracy of recognition of "right of use assets", "lease liabilities", "interest expenses on lease liabilities" and "depreciation of right of use assets".

Other information included in the Group's 2019 Annual Report

Management is responsible for the other information. Other information comprises the information included in the Group's 2019 Annual Report, other than the consolidated financial statements and our auditors' report thereon.

Prior to the date of this auditor's report, we obtained the Board of Directors' report which forms part of the annual report and the remaining sections of the annual report are expected to be made available to us after that date.

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 NATIONAL MOBILE TELECOMMUNICATIONS COMPANY K.S.C.P. (CONTINUED)

Report on the Audit of Consolidated Financial Statements (Continued)

If, based on the work we have performed on other information that we have 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.

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.

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 scepticism 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 auditors' 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

Report on the Audit of Consolidated Financial Statements (Continued)

- 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.
- We communicate to 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 to 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 to 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 auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of accounts have been kept by the Company and the consolidated financial statements, together with the contents of the report of the Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all the information that is required by the Companies Law No. 1 of 2016 and its Executive Regulations and by the Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 1 of 2016 and its Executive Regulations or of the Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2019 that might have had a material effect on the business of the Company or on its consolidated financial position.




Bader A. Al-Wazzan
License No. 62A
Deloitte & Touche
Al-Wazzan & Co.

Kuwait
06 February 2020



Consolidated statement of financial position
as at 31 December 2019

	Note	2019 KD 000's	2018 KD 000's
ASSETS			
Non-current assets			
Right-of-use assets	4	124,307	-
Property and equipment	5	502,329	514,625
Intangible assets and goodwill	6	315,708	312,252
Investment securities	7	2,088	2,653
Deferred tax asset	8	27,035	22,730
Deferred contract cost and contract assets	10	7,517	6,229
Other non-current assets		2,208	2,318
		<u>981,192</u>	<u>860,807</u>
Current assets			
Inventories		27,383	26,866
Deferred contract cost and contract assets	10	7,210	7,413
Trade and other receivables	9	163,834	174,317
Bank balances and cash	11	90,459	92,103
		<u>288,886</u>	<u>300,699</u>
Total assets		<u><u>1,270,078</u></u>	<u><u>1,161,506</u></u>
EQUITY AND LIABILITIES			
EQUITY			
Share capital	12	50,403	50,403
Treasury shares	12	(3,598)	(3,598)
Foreign currency translation reserve		(293,437)	(309,192)
Other reserves	12	242,669	240,019
Retained earnings		575,921	577,655
Equity attributable to shareholders of the Company		<u>571,958</u>	<u>555,287</u>
Non-controlling interests		104,792	107,219
Total equity		<u><u>676,750</u></u>	<u><u>662,506</u></u>
LIABILITIES			
Non-current liabilities			
Long term debts	14	28,112	34,037
Provision for staff indemnity		11,916	10,751
Lease Liabilities	13	110,708	-
Contract liabilities		955	1,177
Other non-current liabilities		15,491	16,177
		<u>167,182</u>	<u>62,142</u>
Current liabilities			
Lease Liabilities	13	15,463	-
Trade and other payables	15	273,440	275,122
Deferred income		42,857	48,160
Income tax payable	8	12,412	16,897
Contract liabilities		3,618	3,485
Long term debts - current	14	78,356	93,194
		<u>426,146</u>	<u>436,858</u>
Total liabilities		<u><u>593,328</u></u>	<u><u>499,000</u></u>
Total equity and liabilities		<u><u>1,270,078</u></u>	<u><u>1,161,506</u></u>


Saud Bin Nasser Al Thani
Chairman


Chairman Office مكتب الرئيس

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

Consolidated statement of profit or loss
for the year ended 31 December 2019

	Note	2019 KD 000's	2018 KD 000's
Revenue	16	633,493	665,033
Operating expenses		(261,050)	(296,053)
Selling, general and administrative expenses	17	(156,926)	(168,928)
Finance costs – net	18	(11,851)	(7,336)
Depreciation and amortisation	4, 5 & 6	(147,859)	(137,475)
Other (expenses)/ income – net		(2,591)	609
Profit before provision for Directors' remuneration, provision for contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), National Labour Support Tax ("NLST"), Zakat and Taxation related to subsidiaries		53,216	55,850
Provision for Directors' remuneration		(634)	(656)
Provision for contribution to KFAS, NLST and Zakat	20	(1,388)	(1,644)
Profit before taxation		51,194	53,550
Taxation related to subsidiaries	8	(16,445)	(18,607)
Profit for the year		34,749	34,943
Attributable to:			
Shareholders of the Company		30,127	29,709
Non-controlling interests		4,622	5,234
		34,749	34,943
Basic and diluted earnings per share (fils)	21	60	59

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

Consolidated statement of comprehensive income
for the year ended 31 December 2019

	2019	2018
	KD 000's	KD 000's
Profit for the year	34,749	34,943
Other comprehensive income		
<i>Items that will not be reclassified subsequently to consolidated statement of profit or loss</i>		
Effect of net changes in fair value of equity instruments which are carried at fair value through other comprehensive income (note 7)	(565)	(1,984)
<i>Items that are or may be reclassified subsequently to the consolidated statement of profit or loss</i>		
Exchange differences arising on translation of foreign operations	17,278	(64,735)
<i>Total items that are or may be reclassified subsequently to the consolidated statement of profit or loss and items that will not be reclassified subsequently to consolidated statement of profit or loss</i>	16,713	(66,719)
Other comprehensive income / (loss) for the year	16,713	(66,719)
Total comprehensive income / (loss) for the year	51,462	(31,776)
Attributable to:		
Shareholders of the Company	45,317	(29,103)
Non-controlling interests	6,145	(2,673)
	51,462	(31,776)

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

Consolidated statement of changes in equity
for the year ended 31 December 2019

	Share capital KD 000's	Treasury shares KD 000's	Foreign currency translation reserve KD 000's	Other reserves KD 000's	Retained earnings (*) KD 000's	Equity attributable to shareholders of the Company KD 000's	Non-controlling interests KD 000's	Total equity KD 000's
Balance at 1 January 2018	50,403	(3,598)	(252,364)	239,573	578,400	612,414	113,917	726,331
Impact on adoption of IFRS 9 & 15	-	-	-	(771)	8,463	7,692	138	7,830
Restated balance at 1 January 2018	50,403	(3,598)	(252,364)	238,802	586,863	620,106	114,055	734,161
Comprehensive income								
Profit for the year	-	-	-	-	29,709	29,709	5,234	34,943
Other comprehensive loss for the year	-	-	(56,828)	(1,984)	-	(58,812)	(7,907)	(66,719)
Total comprehensive (loss) / income for the year	-	-	(56,828)	(1,984)	29,709	(29,103)	(2,673)	(31,776)
Transfer to employee association fund	-	-	-	-	(140)	(140)	(47)	(187)
Effect of issue of right shares by a subsidiary	-	-	-	-	(495)	(495)	5,228	4,733
Dividends (note 12)	-	-	-	-	(35,081)	(35,081)	(9,344)	(44,425)
Transfer to voluntary reserve (note 12)	-	-	-	3,201	(3,201)	-	-	-
Balance at 31 December 2018	50,403	(3,598)	(309,192)	240,019	577,655	555,287	107,219	662,506
Balance at 1st January 2019	50,403	(3,598)	(309,192)	240,019	577,655	555,287	107,219	662,506
Impact on adoption of IFRS 16	-	-	-	-	(3,475)	(3,475)	(1,287)	(4,762)
Restated balance at 1 January 2019	50,403	(3,598)	(309,192)	240,019	574,180	551,812	105,932	657,744
Comprehensive income								
Profit for the year	-	-	-	-	30,127	30,127	4,622	34,749
Other comprehensive income / (loss) for the year	-	-	15,755	(565)	-	15,190	1,523	16,713
Total comprehensive income / (loss) for the year	-	-	15,755	(565)	30,127	45,317	6,145	51,462
Transfer to employee association fund	-	-	-	-	(113)	(113)	(37)	(150)
Dividends (note 12)	-	-	-	-	(25,058)	(25,058)	(7,248)	(32,306)
Transfer to voluntary reserve (note 12)	-	-	-	3,215	(3,215)	-	-	-
Balance at 31 December 2019	50,403	(3,598)	(293,437)	242,669	575,921	571,958	104,792	676,750

*Includes an amount of KD 8,409 thousand (31 December 2018 : KD 7,941 thousand) related to legal reserve for one of the subsidiaries, not available for distribution.

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

Consolidated statement of cash flows
For the year ended 31 December 2019

	Note	2019 KD 000's	2018 KD 000's
Cash flows:			
Profit before taxation		51,194	53,550
<i>Adjustments for:</i>			
Depreciation and amortisation	4 & 5 & 6	147,859	137,475
Interest income	18	(2,085)	(1,404)
Dividend income		(15)	(3)
Expected credit loss on financial assets		8,359	9,925
Loss / (gain) on disposal and write off of property and equipment		20	(46)
Finance costs	18	13,936	8,740
Provision for KFAS, NLST and Zakat	20	1,388	1,644
Provision for staff indemnity		2,152	1,992
Operating profit before changes in working capital		222,808	211,873
<i>Changes in:</i>			
Trade and other receivables		(223)	(6,110)
Contract costs and contract assets		(1,113)	9
Other non-current assets		181	(251)
Inventories		(532)	(620)
Trade and other payables		(2,993)	(65,285)
Deferred Income		(5,303)	(8,756)
Contract liabilities		(89)	2,492
Other non-current liabilities		(708)	(3,522)
Cash generated from operating activities		212,028	129,830
Payment for staff indemnity		(974)	(622)
Taxation paid	8	(22,979)	(24,470)
Net cash generated from operating activities		188,075	104,738
Cash flows from investing activities:			
(Increase)/ decrease in term deposits		(15,116)	36,068
Purchase of property and equipment	5	(95,485)	(85,624)
Proceeds from disposal of property and equipment		380	2,804
Acquisition of intangible assets	6	(5,743)	(3,930)
Dividend income received		15	3
Proceeds from disposal of intangible assets		-	253
Interest income received		2,085	1,404
Net cash used in investing activities		(113,864)	(49,022)
Cash flows from financing activities:			
Finance costs paid		(7,280)	(8,740)
Dividends paid		(25,174)	(35,030)
Dividend paid by subsidiary to non-controlling interests		(7,202)	(19,254)
Payment to employee association fund		(150)	(187)
Net decrease in long term debts		(20,856)	(599)
Payment of lease liabilities including interest	13	(28,827)	-
Proceeds from right issue of shares by a subsidiary		-	4,733
Net cash used in financing activities		(89,489)	(59,077)
Effect of foreign currency translation		(1,482)	2,695
Net change in cash and cash equivalents		(16,760)	(666)
Transition adjustment on adoption of IFRS 9		-	(92)
Cash and cash equivalents at 1 January		77,176	77,934
Cash and cash equivalents at 31 December	11	60,416	77,176

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

Notes to the Consolidated Financial Statements - 31 December 2019

1. Incorporation and activities

National Mobile Telecommunications Company K.S.C.P. ("the Company") is a Kuwaiti shareholding company incorporated by Amiri Decree on 10 October 1997. The Company and its subsidiaries (together referred to as "the Group") are engaged in the following:

- Purchase, supply, installation, management and maintenance of wireless sets and equipment, mobile telephone services, pager system and other telecommunication services;
- Import and export of sets, equipment and instruments necessary for the purposes of the Company;
- Purchase or hiring communication lines and facilities necessary for providing the Company's services in co-ordination with the services provided by the State, but without interference or conflict herewith;
- Purchase of manufacturing concessions directly related to the Company's services from manufacturers or producing them in Kuwait;
- Introduction or management of other services of similar nature and supplementary to telecommunications services with a view to upgrade such services or rendering them integrated;
- Conduct technical research relating to the Company's business in order to improve and upgrade the Company's services in co-operation with competent authorities within Kuwait and abroad;
- Purchase and holding of lands, construction and building of facilities required for achieving the Company's objectives
- Purchase of all materials and machineries needed to undertake the Company's activities as well as their maintenance in all possible modern methods;
- Use of financial surplus available at the Company by investing the same in portfolios managed by specialized companies and parties as well as authorizing the board to undertake the same; and
- The Company may have interest or in any way participate with corporate and organizations which practice similar activities or which may assist it in achieving its objectives in Kuwait or abroad. It may acquire such corporates, or make them subsidiary.

The Company operates under a licence from the Ministry of Communications, State of Kuwait and elsewhere through subsidiaries in the Middle East and North Africa region and Maldives. The Company's shares are listed on the Boursa Kuwait.

The Company is a subsidiary of Ooredoo International Investments L.L.C., ("the Parent Company"), a subsidiary of Ooredoo Q.P.S.C. ("Ooredoo") ("the Ultimate Parent Company"), which is a Qatari shareholding company listed on the Qatar Exchange.

The address of the Company's registered office is Ooredoo Tower, Soor Street, Kuwait City, State of Kuwait, P.O. Box 613, Safat 13007, State of Kuwait.

The number of employees of the Company at 31 December 2019 was 454 (2018: 482)

These consolidated financial statements were approved for issue by the Board of Directors of the Company on 6 February 2020 and are subject to the approval of the Annual General Assembly of the shareholders which has the power to amend these consolidated financial statements.

Notes to the Consolidated Financial Statements - 31 December 2019

2. Basis of preparation and significant accounting policies

a) Basis of preparation

The consolidated financial statements are prepared on a historical cost basis, except for the re-measurement at fair value of investment securities.

These consolidated financial statements are presented in Kuwaiti Dinars ("KD"), which is the Company's functional and presentation currency.

The principal accounting policies have been applied consistently by the Group and are consistent with those used in the previous year, with the exception of new accounting policies as set out in note 2 (c).

b) Statement of compliance

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), interpretations issued by the International Financial Reporting Committee of the IASB and the relevant provisions of the Companies Law No. 1 of 2016 and its executive regulations, as amended; and the Company's Memorandum of Incorporation and Articles of Association, as amended; and Ministerial Order No. 18 of 1990.

c) New standards and amendments effective from 1 January 2019

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:

i. Impact of adoption of IFRS 16 Leases

The Group has applied IFRS 16, which replaces IAS 17 Leases and the related interpretations, with a date of initial application of 1 January 2019. As a result, the Group has changed its accounting policy for lease contracts as detailed below.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the information presented for the year ended 31 December 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations.

The details of the changes in the accounting policies are disclosed below.

Definition of leases

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Group assesses whether a contract is or contains a lease based on the definition of a lease, as explained below.

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;

Notes to the Consolidated Financial Statements - 31 December 2019

2. Basis of preparation and significant accounting policies (Continued)

- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
- the Group has the right to operate the asset; or
- the Group designed the asset in a way that predetermines how and for what purpose it will be used.

On transition to IFRS 16, the Group elected following practical expedients permitted by the standard, on lease by lease basis:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its previous assessment of leases under IAS 17 and related interpretations.

As a lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group.

The group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.4% to 8.5%.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment, small items of office furniture etc. underlying asset value of which is less than USD 5,000.

Notes to the Consolidated Financial Statements - 31 December 2019

2. Basis of preparation and significant accounting policies (Continued)

Following is the reconciliation between operating lease commitment as at 31 December 2018 as disclosed in the Group's consolidated financial statements and lease liabilities recognised as at 1 January 2019:

	1 January 2019
	KD'000
Operating lease commitment as at 31 December 2018	43,602
Add: Operating lease commitment not included in the opening balance	63,001
Adjusted operating lease commitment as at 31 December 2018	106,603
Discounted value using the incremental borrowing rate as at 1 January 2019	79,115
Add: Finance lease liabilities recognised as at 31 December 2018	7
Add: Adjustments as a result of a different treatment of extension and termination options and other adjustments	43,197
Lease liabilities recognized as at 1 January 2019	122,319
<u>Of which are:</u>	
- Non-current lease liabilities	105,949
- Current lease liabilities	16,370

The associated right-of-use assets for few leases were measured on retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. The recognized right of use of assets relate to the following types of assets:

	31 December 2019	1 January 2019
	KD'000	KD'000
Land and buildings	17,731	15,601
Exchange and network assets	105,196	103,543
Subscribers' apparatus and other equipment	1,380	1,865
Total right of use of assets	124,307	121,009

The change in accounting policy affected the following items in the consolidated statement of financial position on 1 January 2019:

	KD'000		
	31 December 2018	Increase/ (decrease)	1 January 2019
Property and equipment	514,625	(4,263)	510,362
Right of use of assets	-	121,009	121,009
Trade and other receivables	174,317	(2,367)	171,950
Other non-current assets	2,318	689	3,007
Deferred tax assets	22,730	2,482	25,212
Lease liabilities	-	122,319	122,319
Trade and other payables	275,122	(7)	275,115
Retained earnings	577,655	(3,475)	574,180
Non-controlling interest	107,219	(1,287)	105,932

Notes to the Consolidated Financial Statements - 31 December 2019

2. Basis of preparation and significant accounting policies (Continued)

The change in accounting policy affected the following items in the condensed consolidated statement of profit or loss for the year ended 31 December 2019:

	31 December 2019 As reported KD'000	Increase/ (decrease) KD'000	31 December 2019 Without adoption of IFRS 16 KD'000
Operating expenses	(261,050)	23,642	(284,692)
Selling, general and administrative expenses	(156,926)	2,245	(159,171)
Depreciation and amortisation	(147,859)	(21,509)	(126,350)
Finance cost – net	(11,851)	(6,187)	(5,664)
Other income – expenses / net	(2,591)	185	(2,776)
Income taxes	(16,445)	258	(16,703)
Profit for the year	34,749	(1,366)	36,115
Profit attributable to shareholders	30,127	(1,057)	31,184
Profit attributable to non-controlling interest	4,622	(309)	4,931

ii. IFRIC 23 Uncertainty over Income Tax Treatments

The Group has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Group to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
 - If yes, the Group should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
 - If no, the Group should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

The Group adopted IFRIC 23 'Uncertainty over Income Tax Treatments' resulting in no impact in the balances of tax payables of the Group in relation to its uncertain tax positions. Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2019 did not have any material impact on the accounting policies, financial position or performance of the Group.

Notes to the Consolidated Financial Statements - 31 December 2019

2. Basis of preparation and significant accounting policies (Continued)

Standards issued but not effective

At the date of authorization of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

The amendments are applied prospectively on or after 1 January 2020, with early application permitted.

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

d) Basis of consolidation

These consolidated financial statements include the financial statements of the Company and its subsidiaries (note 19).

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions are also eliminated. Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the net assets (excluding goodwill) of consolidated subsidiaries not attributable directly, or indirectly, to the equity holders of the Company. Equity and net income attributable to non-controlling interests are shown separately in the consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and consolidated statement of changes in equity.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

Loss of control

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in consolidated statement of profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost.

Notes to the Consolidated Financial Statements - 31 December 2019

2. Basis of preparation and significant accounting policies (Continued)

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The Group controls an entity when it is exposed to, or has the right to, variable returns from its involvement with the entity and has the ability to affect those returns through its powers over the entity.

The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the result is negative, a bargain purchase gain is recognised immediately in the consolidated statement of profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognised in the consolidated statement of profit or loss.

Transactions costs, other than those associated with the issue of debt or equity securities that the Group incurs in connection with a business combination, are expensed as incurred. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated statement of profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in the consolidated statement of profit or loss or in the consolidated statement of comprehensive income.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

Acquisitions of non-controlling interests

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis at fair value. Transactions with non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling

Notes to the Consolidated Financial Statements - 31 December 2019

2. Basis of preparation and significant accounting policies (Continued)

interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

Foreign currency

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Kuwaiti Dinars (KD), which is the Group's presentation currency, rounded off to the nearest thousand.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of profit or loss.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Kuwaiti Dinar at exchange rates prevailing at the reporting date. Income and expenses for each statements of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in this case income and expenses are translated at the rate on the dates of the transactions).

Foreign currency differences are recognized in the consolidated statement of comprehensive income and presented in the foreign currency translation reserve in the consolidated statement of changes in equity. However, if the foreign operation is a non-wholly owned subsidiary, then the relevant portion of the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the foreign currency translation reserve related to that foreign operation is reclassified to the consolidated statement of profit or loss as part of the gain or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising from such item are considered to form part of a net investment in the foreign operation and are recognised in the consolidated statement of comprehensive income, and presented in foreign currency translation reserve in the consolidated statement of changes in equity.

e) 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.

Notes to the Consolidated Financial Statements - 31 December 2019

2. Basis of preparation and significant accounting policies (Continued)

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.

f) Financial Instruments

In the normal course of business the Group uses financial instruments, principally cash and bank balances, trade and other receivables, investments securities, trade and other payables, lease liabilities, and debts.

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 de-recognised 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 Group's obligation specified in the contract is discharged, cancelled or expires.

Notes to the Consolidated Financial Statements - 31 December 2019

2. Basis of preparation and significant accounting policies (Continued)

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 financial assets are initially measured at fair value. Transaction costs are added to the cost of all financial instruments except for financial assets classified as at fair value through profit or loss. Transaction costs on financial assets classified as at fair value through profit or loss are recognised in the consolidated statement of profit or loss.

Classification and measurement of financial assets and financial liabilities

Financial Assets

The Group determines classification and measurement category of financial assets, except equity instruments and derivatives, based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

The expected frequency, value and timing of sales are also important aspects of the Group's assessment. The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Contractual cash flows assessment

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and to sell the financial instrument, the Group assesses whether the financial instrument's cash flows represent Solely Payments of Principal and Interest ("SPPI").

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example: if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

Notes to the Consolidated Financial Statements - 31 December 2019

2. Basis of preparation and significant accounting policies (Continued)

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

The Group classifies financial assets upon initial recognition of IFRS 9 into the following categories:

- Amortised cost (AC)
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit and loss (FVTPL)

Amortised cost (AC)

The Group classifies financial assets at Amortised Cost, if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

Financial assets classified at Amortised Cost are subsequently measured at amortised cost using the effective interest method adjusted for impairment losses, if any. Interest income, foreign exchange gains/losses and impairment are recognised in the consolidated statement of profit or loss. Any gain or loss on derecognition is recognised in consolidated statement of profit or loss.

Fair Value through Other Comprehensive Income (FVOCI)

Debt instruments at FVOCI

The Group classifies debt instruments at FVOCI if it meets both of the following conditions:-

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Debt instrument classified as FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in Other Comprehensive Income ("OCI"). Interest income and foreign exchange gains and losses are recognised in consolidated statement of profit or loss. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to consolidated statement of profit or loss.

Equity instruments at FVOCI

Upon initial recognition, the Group may elect to classify irrevocably some of its equity investments as at FVOCI, if they meet the definition of Equity under IAS 32 Financial Instruments: Presentation, and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Notes to the Consolidated Financial Statements - 31 December 2019

2. Basis of preparation and significant accounting policies (Continued)

Equity instruments at FVOCI are subsequently measured at fair value. Changes in fair values including foreign exchange gains and losses are recognised in OCI. Gains and losses on these equity instruments are never recycled to consolidated statement of profit or loss. Dividends are recognised in consolidated statement of profit or loss when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. On derecognition, cumulative gains or losses are reclassified from fair value reserve to retained earnings in the consolidated statement of changes in equity.

Fair Value Through Profit and Loss (FVTPL)

Financial assets whose business model is to acquire and sell, or whose contractual terms do not give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding, are classified as FVTPL.

In addition to the above, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets classified as FVTPL are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in the consolidated statement of profit or loss. Interest income and dividends are recognised in the consolidated statement of profit or loss according to the terms of the contract, or when the right to payment has been established.

Financial liabilities

Financial liabilities “other than at fair value through profit or loss” are subsequently measured and carried at amortized cost using the effective yield method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss. Equity interests are classified as financial liabilities if there is a contractual obligation to deliver cash or another financial asset.

Impairment of financial assets

The Group apply forward looking ‘Expected Credit Loss’ (ECL) model, under IFRS 9 to calculate impairment. The expected credit loss of a financial instrument is measured in a way that reflects an unbiased and probability-weighted amount determined by evaluating range of possible outcomes; the time value of money; and past events, current conditions and forecast of future economic conditions. The ECL model applies to all financial instruments except investments in equity instruments. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

The Group recognises ECL for financial assets using the general approach except in case of trade receivables from telecom subscribers and contract assets where the Group is using simplified approach.

General approach

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

Notes to the Consolidated Financial Statements - 31 December 2019

2. Basis of preparation and significant accounting policies (Continued)

Stage 1: 12 months ECL

The Group measures loss allowances at an amount equal to 12-month ECL on financial assets where there has not been significant increase in credit risk since their initial recognition, or on exposures that are determined to have a low credit risk at the reporting date. The Group considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Stage 2: Lifetime ECL – not credit impaired

The Group measures loss allowances at an amount equal to lifetime ECL on financial assets where there has been a significant increase in credit risk since initial recognition but are not credit impaired. When determining whether the credit risk on a financial instrument has increased significantly, management considers reasonable and supportable information available, in order to compare the risk of a default occurring at the reporting date with the risk of a default occurring at initial recognition of the financial instrument.

Stage 3: Lifetime ECL – credit impaired.

A financial asset is considered as credit impaired when there is objective evidence that the amount due under the financial asset is uncollectible. The Group considers a financial asset as credit impaired if the amount due under the financial instrument is overdue by more than 90 days, or if it is known that the counter party has any known difficulties in payment, or the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. Lifetime ECL are recognized as the difference between the financial asset's gross carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

Life time ECL is ECL that result from all possible default events over the expected life of a financial instrument. The 12 month ECL is the portion of life time expected credit loss that result from default events that are possible within the 12 months after the reporting date. Both life time ECLs and 12 month ECLs are calculated on either an individual basis or a collective basis depending on the nature of the underlying portfolio of financial instruments.

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

The EAD of a financial asset is its gross carrying amount. The LGD represents expected loss conditional on default, its expected value when realised and the time value of money.

Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets for AC.

Notes to the Consolidated Financial Statements - 31 December 2019

2. Basis of preparation and significant accounting policies (Continued)

Simplified approach

The Group applies the simplified approach to recognise lifetime expected credit losses for its trade receivables from telecom subscribers and contract assets as permitted by IFRS 9. Accordingly, trade receivables from telecom subscribers and contract assets which are not credit impaired and which do not have significant financing component are categorised under stage 2 and lifetime ECL is recognised.

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

g) Inventories

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

h) Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes the purchase price and directly associated costs of bringing the asset to a working condition for its intended use and the capitalised borrowing cost.

Depreciation is calculated based on the estimated useful lives of the applicable assets on a straight-line basis commencing when the assets are ready for their intended use.

The estimated useful lives, residual values and depreciation methods are reviewed at each reporting date, with the effect of any changes in estimate accounted for on prospective basis.

i) Leases

Policy applicable from 1 January 2019

The Group as a lessee

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

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

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

Notes to the Consolidated Financial Statements - 31 December 2019

2. Basis of preparation and significant accounting policies (Continued)

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

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

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

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

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

Subsequent Measurement

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

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

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

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

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

Notes to the Consolidated Financial Statements - 31 December 2019

2. Basis of preparation and significant accounting policies (Continued)

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

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

Where the Group is the lessor

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

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

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

Policy applicable before 1 January 2019

Where the Group is the lessee

Operating leases

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

Finance leases

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

j) Intangible assets

Identifiable non-monetary assets without physical substance acquired in connection with the business and from which future benefits are expected to flow are treated as intangible assets. Intangible assets consist of telecom license fees paid by the subsidiaries, brand name, customer relationships, concession arrangements, softwares and goodwill arising on the acquisition of subsidiaries. Intangible assets with definite useful lives

are carried at cost less accumulated amortisation and any accumulated impairment losses. Cost includes the purchase cost and directly associated costs of being the asset for its intended use.

The telecom license fee, brand name, customer relationships and concession intangible assets are being amortised on a straight-line basis over their useful lives. The estimated useful lives and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Notes to the Consolidated Financial Statements - 31 December 2019

2. Basis of preparation and significant accounting policies (Continued)

Goodwill is not amortised, but is reviewed for impairment at least annually. Any impairment loss is recognised immediately in the consolidated statement of profit or loss and is not subsequently reversed. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

k) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

l) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets other than deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to the present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups at CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognised in the consolidated statement of profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes to the Consolidated Financial Statements - 31 December 2019

2. Basis of preparation and significant accounting policies (Continued)

m) Provision for staff indemnity

The provision for staff indemnity is payable on completion of employment. The provision is calculated in accordance with applicable labour law based on employees' salaries and accumulated periods of service or on the basis of employment contracts, where such contracts provide extra benefits.

With respect to its Kuwaiti employees, the Group makes contributions to Public Institution for Social Security calculated as a percentage of the employees' salaries. The Group's obligations are limited to these

contributions, which are expensed when due. The Group expects this method to produce a reliable approximation of the present value of the obligations.

n) 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.

o) Revenue

The Group principally obtains revenue from providing telecommunication services comprising access charges, airtime usage, messaging, interconnect fee, data services and infrastructure provision, connection fees, equipment sales and other related services.

The Group recognises revenue when it satisfies a performance obligation by transferring a promised good or service to a customer. The good or service is transferred when the customer obtains the control of good or service. The timing of the transfer of control of good or service, at point in time or over time, should be determined to recognise revenue. Accordingly, the specific revenue recognition criteria applied to significant elements of revenue is set out below:

Handsets and telecommunications services

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

The Group may provide handsets to its customers along with the mobile telecommunication services. In such cases, it allocates the contract's transaction price to each performance obligation based on their relative stand-alone selling price. The standalone selling prices are determined based on observable prices.

The Group recognises the revenue from handset as point in time and the related revenue from mobile telecommunication services as point over time. Contract asset on these types of arrangements are recognised when performance obligation are satisfied over time (i.e. a receivable arising from the customer contract that has not yet legally come into existence).

If a customer has the option to pay for the equipment or services over a period, IFRS 15 requires judgement to determine if the contract includes a significant financing component. If it does, then the transaction price is adjusted to reflect the time value of money.

Notes to the Consolidated Financial Statements - 31 December 2019

2. Basis of preparation and significant accounting policies (Continued)

Revenue from transit services & other value added services

The Group determines whether it will be acting as a principal or an agent on these types of arrangements and accordingly recognises gross revenue if it is a principal, and net revenue if it is an agent.

Customer loyalty schemes

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

Connection fees

The Group recognises connection fee charged for the activation of services over the contract period. However, if connection fees relate at or near contract inception to fulfill that contract, then the Group recognises revenue as and when services are provided (i.e. as the identified performance obligations are satisfied).

Interconnection and roaming revenue

Revenue from interconnection and roaming services provided to other telecom operators are recognised based on satisfaction of performance obligations and by applying contractual rates net of estimated discounts.

Commissions and other contract costs

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

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

Other income

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.

Notes to the Consolidated Financial Statements - 31 December 2019

2. Basis of preparation and significant accounting policies (Continued)

p) Taxation

Certain subsidiaries in foreign jurisdiction are subject to taxes on income. Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the financial position date. A provision is recognised for those matters for which the tax determination is

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

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements of the relevant subsidiaries and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the financial position date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Notes to the Consolidated Financial Statements - 31 December 2019

2. Basis of preparation and significant accounting policies (Continued)

q) Zakat, KFAS and NLST

Zakat, Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS) and National Labour Support Tax (NLST) represent levies/taxes imposed on the Company at the flat percentage of net profits attributable to the Company less permitted deductions under the prevalent respective fiscal regulations of the State of Kuwait.

Tax / statutory levy	Rate
Contribution to KFAS	1.0% of net profit less permitted deductions
NLST	2.5% of net profit less permitted deductions
Zakat	1.0% of net profit less permitted deductions

r) 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. Critical accounting judgments and key sources of estimation uncertainty

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Identifying performance obligations in a bundled sale of equipment and mobile telecommunications services

The Group provides mobile telecommunications services that are either sold separately or bundled together with the sale of equipment (handsets) to a customer. The Group determined that both the equipment and services are capable of being distinct. The fact that the Group regularly sells both equipment and services on a stand-alone basis indicates that the customer can benefit from both products on their own.

Consequently, the Group allocated a portion of the transaction price to the equipment and the services based on relative stand-alone selling prices.

Principal versus agent considerations

Revenue from value added services (VAS) sharing arrangements; transit services; and customer loyalty schemes depend on the analysis of the facts and circumstances surrounding these transactions. The Group determines whether it is an agent or principal in these contracts based on the below facts, whether:

- The Group is primarily responsible for fulfilling the promise to provide the service.
- The Group has inventory risk.
- The Group has discretion in establishing the price.

Notes to the Consolidated Financial Statements - 31 December 2019

3. Critical accounting judgments and key sources of estimation uncertainty (Continued)

Fair values - unquoted equity investments and business combinations

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.

Contingent liabilities

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

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of non-financial assets and useful lives

The Group's management tests annually whether non-financial assets have suffered impairment in accordance with the accounting policies stated in note 2. The recoverable amount of an asset is determined based on value-in-use method. This method uses estimated cash flow projections over the estimated useful life of the asset discounted using market rates.

The Group's management determines the useful lives and the related depreciation and amortisation charge.

The depreciation and amortisation charge for the year will change significantly if actual life is different from the estimated useful life of the asset.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

The cash flows are derived from the budget for the next 10 years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the cash generating unit being tested, but do include the Group's expectation of future capital expenditure necessary to maintain the Group's existing operations. The input factors most sensitive to change are management estimates of future cash flows based on budgets, growth rates and discount rate. Further details on these assumptions are disclosed in note 5 along with the related sensitivities.

Significant increase in credit risk

ECLs are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

Notes to the Consolidated Financial Statements - 31 December 2019

3. Critical accounting judgments and key sources of estimation uncertainty (Continued)

Calculation of loss allowance

When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the consolidated statement of profit or loss.

Determining the lease term

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

Discounting of lease payments

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

Impairment of inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

Taxes

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues 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 current and deferred income tax assets and liabilities in the period in which such determination is made.

Notes to the Consolidated Financial Statements - 31 December 2019

4. Right of use assets

	Land and buildings	Exchange and network assets	Subscriber apparatus and other equipment	Total
	KD 000's	KD 000's	KD 000's	KD 000's
Cost				
Balance at 1 January 2019	20,320	112,895	2,557	135,772
Additions	5,856	18,092	1,223	25,171
Disposals	(258)	(705)	(112)	(1,075)
Currency translation effects	322	1,624	55	2,001
Balance at 31 December 2019	26,240	131,906	3,723	161,869
Accumulated depreciation				
Balance at 1 January 2019	4,719	9,352	692	14,763
Transfers	-	-	-	-
Charge for the year	3,766	16,936	1,706	22,408
Related to disposals	(102)	(184)	(110)	(396)
Currency translation effects	126	606	55	787
Balance at 31 December 2019	8,509	26,710	2,343	37,562
Carrying amounts:				
At 31 December 2019	17,731	105,196	1,380	124,307

Amounts recognised in profit and loss

	31 December 2019
	KD 000's
Depreciation expense on right-of-use assets	(22,408)
Interest expense on lease liabilities	(6,656)
Expense relating to short-term leases	(1,128)
Expense relating to leases of low value assets	(111)
Expense relating to variable lease payments not included in the measurement of the lease liability	(126)

Notes to the Consolidated Financial Statements - 31 December 2019

5. Property and equipment

	Land and buildings KD 000's	Exchange and network assets KD 000's	Subscriber apparatus and other equipment KD 000's	Capital work-in progress KD 000's	Total KD 000's
Cost					
Balance at 1 January 2018	63,268	1,044,514	141,112	57,059	1,305,953
Transfers	424	34,303	5,623	(39,650)	700
Additions	2,161	34,225	3,053	46,185	85,624
Disposals	(746)	(12,484)	(3,370)	-	(16,600)
Currency translation effects	(1,591)	(55,744)	(4,382)	(2,228)	(63,945)
Balance at 31 December 2018	63,516	1,044,814	142,036	61,366	1,311,732
Impact on adoption of IFRS 16	(424)	(5,630)	(633)	-	(6,687)
Restated Balance as at 1 January 2019	63,092	1,039,184	141,403	61,366	1,305,045
Transfers	82	26,201	3,989	(30,414)	(142)
Additions	746	36,172	1,733	56,834	95,485
Disposals	749	(2,827)	(1,144)	(1)	(3,223)
Currency translation effects	150	10,311	815	(88)	11,188
Balance at 31 December 2019	64,819	1,109,041	146,796	87,697	1,408,353
Accumulated depreciation and impairment					
Balance at 1 January 2018	25,596	608,157	108,645	-	742,398
Transfers	-	1,322	(624)	-	698
Charge for the year	4,160	94,411	13,350	-	111,921
Related to disposals	(96)	(10,595)	(3,151)	-	(13,842)
Currency translation effects	(1,089)	(39,027)	(3,952)	-	(44,068)
Balance at 31 December 2018	28,571	654,268	114,268	-	797,107
Impact on adoption of IFRS 16	(297)	(1,534)	(593)	-	(2,424)
Restated Balance as at 1 January 2019	28,274	652,734	113,675	-	794,683
Transfers	(4)	-	-	-	(4)
Charge for the year	4,194	91,352	10,430	-	105,976
Related to disposals	(468)	(2,132)	(986)	-	(3,586)
Currency translation effects	127	8,079	749	-	8,955
Balance at 31 December 2019	32,123	750,033	123,868	-	906,024
Carrying amounts:					
At 31 December 2018	34,945	390,546	27,768	61,366	514,625
At 31 December 2019	32,696	359,008	22,928	87,697	502,329
Annual depreciation rates	3%-33%	7%-33%	10%-50%		

Notes to the Consolidated Financial Statements - 31 December 2019

6. Intangible assets and goodwill

	Goodwill	License and other intangible assets	Brand names	Total
	KD 000's	KD 000's	KD 000's	KD 000's
Cost				
Balance at 1 January 2018	197,720	423,976	9,836	631,532
Transfers	-	(700)	-	(700)
Additions	-	3,930	-	3,930
Disposals	-	(2,293)	-	(2,293)
Currency translation effects	(36,076)	(36,582)	(1,814)	(74,472)
Balance at 31 December 2018	161,644	388,331	8,022	557,997
Transfers	-	41	-	41
Additions	-	5,743	-	5,743
Currency translation effects	10,926	9,445	591	20,962
Balance at 31 December 2019	172,570	403,560	8,613	584,743
Accumulated amortisation and impairment				
Balance at 1 January 2018	13,756	218,559	9,836	242,151
Transfers	-	(698)	-	(698)
Charge for the year	-	25,554	-	25,554
Disposals	-	(2,040)	-	(2,040)
Currency translation effects	(2,515)	(14,893)	(1,814)	(19,222)
Balance at 31 December 2018	11,241	226,482	8,022	245,745
Transfers	-	41	-	41
Charge for the year	-	19,475	-	19,475
Currency translation effects	-	3,183	591	3,774
Balance at 31 December 2019	11,241	249,181	8,613	269,035
Carrying amounts				
At 31 December 2018	150,403	161,849	-	312,252
At 31 December 2019	161,329	154,379	-	315,708
Amortisation rate	-	5%-33%	16.67%	

Goodwill of KD 159,402 thousand (2018: 148,476) is allocated to Ooredoo Tunisie S.A. and KD 1,927 thousand (2018: KD 1,927 thousand) to Fast Telecommunications Company W.L.L., which are the Group's cash generating units (CGUs).

The recoverable amount of these CGUs was based on its value in use estimated by discounting the future cash flows to be generated from the continuing use of the CGUs.

The key assumptions used in the estimation of value in use were as follows:

	2019	2018
	%	%
Discount rate	10%-12%	10%-13%
Growth Rate – Ooredoo Tunisie S.A.	4%	5%
Growth Rate – Fast Telecommunications Company W.L.L.	7%	8%

The estimated recoverable amounts of Ooredoo Tunisie S.A. and Fast Telecommunications Company W.L.L. were more than the respective carrying values.

Notes to the Consolidated Financial Statements - 31 December 2019

6. Intangible assets and goodwill (Continued)

The Group has also performed a sensitivity analysis by varying these input factors by a reasonable possible margin. Based on such analysis, there are no indications that Goodwill is impaired considering the level of judgements and estimations used.

7. Investment Securities

	2019 KD 000's	2018 KD 000's
Unlisted equity securities	2,088	2,653
	<u>2,088</u>	<u>2,653</u>

Movement in Investment securities is as follows:

	2019 KD 000's	2018 KD 000's
Balance at beginning of the year	2,653	6,695
Impact on adoption of IFRS 9	-	(2,058)
Restated Balance as at 1 January	2,653	4,637
Fair value changes	(565)	(1,984)
Balance at end of the year	<u>2,088</u>	<u>2,653</u>

At 31 December 2019, investment securities amounting to KD 2,074 thousand (2018: KD 2,638 thousand) are denominated in Kuwaiti Dinars and the remaining in US Dollars.

8. Taxation

The Company is not subject to corporate income tax in the State of Kuwait. However, the Group is subject to tax in its subsidiaries' operation under various tax jurisdictions. The income tax represents amounts recognised by subsidiary companies. The major components of the income tax expense are as follows:

	2019 KD 000's	2018 KD 000's
Current tax		
Current income tax charge	18,248	20,559
Adjustment in respect of previous year income tax	-	-
	<u>18,248</u>	<u>20,559</u>
Deferred tax		
Relating to origination and reversal of temporary differences	(1,803)	(1,952)
Income tax included in the consolidated statement of profit or loss	<u>16,445</u>	<u>18,607</u>

Notes to the Consolidated Financial Statements - 31 December 2019

8. Taxation (Continued)

The effective tax rate applicable to the taxable subsidiary companies is 26.81% (2018: 29.97%). For the purpose of determining the taxable results for the year, the accounting profit of the subsidiaries is adjusted for tax purposes. Adjustments for tax purposes included items relating to both income and expense. The adjustments are based on the current understanding of the existing laws, regulations and practices in each subsidiary's jurisdiction. In view of the operations of the Group being subject to various tax jurisdictions and regulations, it is not practical to provide a detailed reconciliation between accounting and taxable profits together with the details of the effective tax rates. As a result, the reconciliation below includes only the identifiable major reconciling items. The reconciliation between tax expense and the product of accounting profit multiplied by the Group's effective tax rate is as follows:

	2019 KD 000's	2018 KD 000's
Profit before taxation in consolidated statement of profit or loss	51,199	53,550
Profit of the Company and its subsidiaries that are not subject to corporate income tax	(7,014)	(4,246)
Profit of subsidiaries that are subject to corporate income tax	44,185	49,304
Add:		
Allowances, accruals and other temporary differences	8,834	14,172
Expenses and income that are not subject to corporate tax	4,720	3,592
Depreciation – net	10,316	1,535
Taxable profit of subsidiaries that are subject to corporate income tax	68,055	68,603
Current income tax charge at the effective income tax rate of 26.81% (2018: 29.97%)	18,248	20,559
Current income tax charge	18,248	20,559

Deferred tax

The deferred tax asset of KD 27,035 thousand as at 31 December 2019 (2018: KD 22,730 thousand) has been recognised on account of allowances, accruals and other temporary differences in Wataniya Telecom Algeria S.P.A., Ooredoo Maldives Public Limited Company and Ooredoo Tunisie S.A.

Movement in deferred tax asset during the year:

	2019 KD 000's	2018 KD 000's
Opening balance	22,730	22,225
Impact on adoption of IFRS 16	2,482	-
Impact on adoption of IFRS 15 and IFRS 9	-	(893)
Restated opening balance	25,212	21,332
Benefit to the consolidated statement of profit or loss	1,803	1,952
Foreign exchange differences	20	(554)
Closing balance	27,035	22,730

Movement in income tax payable during the year:

	2019 KD 000's	2018 KD 000's
Opening balance	16,897	22,746
Provided during the year	18,248	20,559
Paid during the year	(22,979)	(24,470)
Foreign exchange differences	246	(1,938)
Closing balance	12,412	16,897

Notes to the Consolidated Financial Statements - 31 December 2019

9. Trade and other receivables

	2019 KD 000's	2018 KD 000's
Trade and billing receivables	174,090	155,175
Unbilled revenue	39,579	43,868
Advances and prepayments	24,872	40,460
Other receivables	11,914	12,893
	250,455	252,396
Less: Expected credit loss	(86,621)	(78,079)
	163,834	174,317

The following table details the risk profile of trade receivables based on the Group's provision risk matrix. The Group classifies customers into different categories based on their credit risk characteristics and the days past due. Accordingly, the threshold for recognizing the credit impairment will vary from past dues of 90 days to 365 days, depending on the category of the customer.

Ageing buckets	31 December 2019			31 December 2018		
	Estimated total gross carrying amount at default	Expected credit loss rate	Lifetime ECL	Estimated total gross carrying amount at default	Expected credit loss rate	Lifetime ECL
	KD 000's	%	KD 000's	KD 000's	%	KD 000's
< 30 days	52,919	4.89%	2,586	89,470	5.62%	5,029
31 – 60 days	8,415	11.52%	969	6,270	15.07%	945
61 – 90 days	6,317	15.04%	950	5,576	19.76%	1,102
> 90 days	146,018	56.24%	82,116	97,727	72.65%	71,003
	213,669		86,621	199,043		78,079

The estimated fair value of trade receivables at the reporting date is not significantly different from their carrying value.

Movement in the Expected credit loss is as follows:

	2019 KD 000's	2018 KD 000's
Balance at beginning of the year	78,079	74,097
Impact on adoption of IFRS 9	-	802
Restated Balance at 1 January	78,079	74,899
Charge for the year	8,335	10,155
Amounts written off as uncollectible	(331)	(484)
Amount of impairment allowance reversed	-	(4,312)
Foreign exchange differences	538	(2,179)
Balance at end of the year	86,621	78,079

Notes to the Consolidated Financial Statements - 31 December 2019

10. Deferred contract cost and contract assets

	2019 KD 000's	2018 KD 000's
Contract assets	6,639	5,846
Less: Expected credit loss	(359)	(331)
Contract assets (net of impairment allowance)	6,280	5,515
Contract cost	8,447	8,127
	14,727	13,642
Non-current	7,517	6,229
Current	7,210	7,413

Movement in the expected credit loss is as follows:

	2019 KD 000's	2018 KD 000's
Balance at beginning of the year	331	-
Impact on adoption of IFRS 9	-	264
Charge for the year	28	67
Balance at end of the year	359	331

The following table details the risk profile of contract assets balances based on the Group's provision matrix.

	2019	2018
Expected credit loss rate	5.41%	5.66%
Total gross carrying amount at default (in KD 000's)	6,639	5,846
Lifetime ECL	359	331

11. Bank balances and cash

	2019 KD 000's	2018 KD 000's
Cash and bank balances	38,392	57,522
Deposits	52,088	34,606
Total Cash and bank balances before impairment allowance	90,480	92,128
Expected credit loss	(21)	(25)
Bank balances and cash in the consolidated statement of financial position	90,459	92,103
Deposits with original maturities of three months or more	(30,043)	(14,927)
Cash and cash equivalents in the consolidated statement of cash flows	60,416	77,176

The effective interest rate on interest-earning deposits ranged from 1.21% to 12.75 % (2018: 0.52 % to 12.52 %) per annum.

Included in deposits with original maturities of three months or more is an amount of KD 12,617 thousand (2018: KD 7,935 thousand) which is restricted in accordance with obligations entered into by a Subsidiary and the Company.

Notes to the Consolidated Financial Statements - 31 December 2019

12. Equity

a) Share capital

The authorised, issued and fully paid up share capital as at 31 December 2019 consists of 504,033 thousand shares (2018: 504,033 thousand shares) of 100 fils each, contributed in cash.

b) Treasury shares

	2019	2018
Number of shares (000's)	2,871	2,871
Percentage of issued shares	0.57%	0.57%
Cost (KD 000's)	3,598	3,598
Market value (KD 000's)	2,377	2,050

c) Statutory reserve

In accordance with the Companies Law and the Company's Articles of Association, as amended, 10% of profit for the year attributable to shareholders of the Company before KFAS, NLST, Zakat and Directors' remuneration is required to be transferred to a statutory reserve until the reserve exceeds 50% of the paid up share capital. This reserve is not available for distribution except for the amount in excess of 50% of share capital or for payment of a dividend of 5% of paid up share capital in years when retained earnings are not sufficient for the payment of such dividends.

The Company has discontinued further transfers to statutory reserve as it has exceeded 50% of the authorised, issued and fully paid up share capital.

d) Voluntary reserve

In accordance with the Company's Articles of Association, 10% of profit for the year attributable to shareholders of the Company before KFAS, NLST, Zakat and Directors' remuneration is required to be transferred to the voluntary reserve until the shareholders decide to discontinue the transfer to the voluntary reserve. During the current year, an amount of KD 3,215 thousand has been transferred to voluntary reserve (2018: KD 3,201 thousand). There are no restrictions on distributions from the voluntary reserve.

e) Dividends

The Annual General Assembly of the Company, held on 14 March 2019, approved the consolidated financial statements of the Group for the year ended 31 December 2018 and the payment of cash dividend of 50 fils per share for the year ended 31 December 2018 (2017: cash dividend of 70 fils per share) to the Company's shareholders existing as at 3 April 2019.

The Board of Directors proposed a cash dividend of 50 fils per share for the year ended 31 December 2019 (2018: 50 fils per share). This proposal is subject to the approval of the shareholders in the Annual General Assembly and has not been accounted for in these consolidated financial statements.

Notes to the Consolidated Financial Statements - 31 December 2019

12. Equity (Continued)

f) Other reserves

	Share premium KD 000's	Statutory reserve KD 000's	Voluntary reserve KD 000's	Gain on sale of treasury shares KD 000's	Fair value reserve KD 000's	Other reserves KD 000's	Total reserves KD 000's
Balance at 1 January 2018	66,634	32,200	129,887	6,914	526	3,412	239,573
Impact on adoption of IFRS 9 & 15	-	-	-	-	(771)	-	(771)
Restated balance at 1 January 2018	66,634	32,200	129,887	6,914	(245)	3,412	238,802
Comprehensive income	-	-	-	-	(1,984)	-	(1,984)
Other comprehensive loss for the year	-	-	3,201	-	-	-	3,201
Balance at 31 December 2018	66,634	32,200	133,088	6,914	(2,229)	3,412	240,019
Balance at 1 January 2019	66,634	32,200	133,088	6,914	(2,229)	3,412	240,019
Other comprehensive income for the year	-	-	-	-	(565)	-	(565)
Transfer to voluntary reserve	-	-	3,215	-	-	-	3,215
Balance at 31 December 2019	66,634	32,200	136,303	6,914	(2,794)	3,412	242,669

13. Lease liabilities

	2019 KD 000's
At beginning of year	-
Initial application of IFRS 16	122,319
Additions during the year	25,171
Interest expense on lease liability	6,656
Payment of lease liabilities including interest	(28,827)
Reduction on early termination	(692)
Exchange adjustments	1,544
Closing balance as at 31 December 2019	126,171
Current	15,463
Non-current	110,708
	126,171

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function.

Notes to the Consolidated Financial Statements - 31 December 2019

14. Long term debts

	Current		Non-current	
	2019	2018	2019	2018
	KD 000's	KD 000's	KD 000's	KD 000's
Due to local banks	36,000	57,100	-	-
Due to local banks related to subsidiaries	42,356	36,094	28,112	34,037
	78,356	93,194	28,112	34,037

The comparative fair value and carrying value of the Group's long term debts are as follow:

	Carrying amounts		Fair values	
	2019	2018	2019	2018
	KD 000's	KD 000's	KD 000's	KD 000's
Fixed rates	14,954	21,133	14,954	21,349
Floating rates	91,514	106,098	92,690	107,037
	106,468	127,231	107,644	128,386

The details of long term debts are as follows:

<u>Description</u>	2019	2018
	KD 000's	KD 000's
a) Unsecured debts from banks in Algeria not subject to any financial covenants. These debts carry an effective interest rates of 4.3% per annum (2018: 5.3%). These debts are maturing on September 2020. These are denominated in Algerian Dinar.	24,326	20,367
b) Debts secured against Wataniya Palestine Mobile Telecom Limited's fixed assets from banks in Palestine. These debts carry an effective interest rate of - 5.3% (2018: 5.8%) and are repayable in quarterly installments commencing 15 December 2019 and ending July 2024. These are denominated in US Dollar.	11,550	15,174
c) Unsecured debts of the Company from banks in Kuwait which are subject to certain financial covenants over the terms of those debts. These debts carry an effective interest rates of 3.4% per annum (2018: 4.3%). These are denominated in Kuwait Dinar.	36,000	57,100
d) Unsecured debts of Ooredoo Tunisie S.A. from banks in Tunisia which are subject to certain financial covenants to be complied on an annual basis. These debts bears an effective interest rate of 9.3% per annum (2018 : 8.2%). The instalments of principal and interest are payable quarterly. The first instalment of principal was paid in September 2014, the first instalment of interest was paid in December 2013. The last instalments of principal and interest are payable on 20 December 2022.	28,512	29,599
e) Secured debts from banks in Maldives against fixed deposits of Ooredoo Maldives PLC. These loans carry an effective interest rate of 6.9% (2018: 7.9%). These debts are repayable within the range of 12-30 monthly instalments respectively with accrued interest. These are denominated in US Dollar.	6,080	4,991
	106,468	127,231

Notes to the Consolidated Financial Statements - 31 December 2019

15. Trade and other payables

	2019	2018
	KD 000's	KD 000's
Accruals	164,929	132,260
Trade payables	64,301	96,469
Other tax payable	9,497	9,998
Staff payable	10,339	10,915
Dividends payable	6,160	6,231
Other payables	18,214	19,249
	<u>273,440</u>	<u>275,122</u>

The Group has adequate financial risk management policies in place to ensure that all payables are paid within the specified credit time frame (note 25).

16. Revenue

The total revenue disaggregated by major service lines is:

	2019	2018
	KD 000's	KD 000's
Revenue from rendering of telecommunications services	563,368	574,208
Revenue from sale of telecommunications equipment	69,531	90,527
Others	594	298
	<u>633,493</u>	<u>665,033</u>

The total revenue disaggregated by primary geographical market and timing of revenue recognition is disclosed in Note 23. Deferred revenue of prior year is mostly recognized in the current year.

17. Selling, general and administration expenses

This includes impairment on financial assets of KD 8,359 thousand (2018: KD 9,925 thousand).

18. Finance costs - net

	2019	2018
	KD 000's	KD 000's
Interest income	2,085	1,404
Finance costs	(7,280)	(8,740)
Interest expenses relating to lease liabilities	(6,656)	-
	<u>(11,851)</u>	<u>(7,336)</u>

Notes to the Consolidated Financial Statements - 31 December 2019

19. Subsidiaries and non-controlling interests

Significant subsidiaries of the Company are as follows:

Name of subsidiaries	Country of incorporation	Voting capital held 2019	Voting capital held 2018
Wataniya Telecom Algeria S.P.A. (WTA)	Algeria	71%	71%
Wataniya International FZ – L.L.C. (WTI)	U.A.E	100%	100%
Ooredoo Maldives Public Limited Company (WTM) (subsidiary of WTI)	Maldives	90.50%	90.50%
WARF Telecom International Private Limited (WARF) (subsidiary of WTM)	Maldives	65%	65%
Wataniya Palestine Mobile Telecom Limited (WPT) (subsidiary of WTI)	Palestine	49.26%	49.26%
Phono General Trading and Contracting Company WLL	Kuwait	99%	99%
Ooredoo Tunisie S.A.	Tunisia	75%	75%
Ooredoo Consortium Limited	Malta	100%	100%
Ooredoo Tunisia Holding Limited	Malta	100%	100%
Fast Telecommunications Company W.L.L.	Kuwait	99%	99%

The following table summarizes the information relating to each of the Group's subsidiaries that has material non-controlling interests (NCI), before any intra-group eliminations:

	WTA	WPT	Ooredoo Tunisie S.A.
31 December 2019	KD'000's	KD'000's	KD'000's
Non-current assets	317,290	59,415	114,085
Current assets	54,672	12,658	62,022
Non-current liabilities	(33,183)	(26,983)	(40,806)
Current liabilities	(151,033)	(15,994)	(77,196)
Net assets	187,746	29,096	58,105
Carrying amount of NCI	54,446	14,762	14,526
Revenue	208,663	30,209	123,136
Profit and total comprehensive income	4,107	341	12,303
Profit allocated to NCI	1,191	173	3,076
Cash flows from operating activities	68,116	7,690	44,437
Cash flows from / (used in) investing activities	48,271	(3,954)	(24,207)
Cash flows from / (used in) financing activities	8,112	(4,660)	(9,833)
Net increase / (decrease) in cash and cash equivalents	124,499	(924)	10,397

Notes to the Consolidated Financial Statements - 31 December 2019

19. Subsidiaries and non-controlling interests (Continued)

	WTA	WPT	Ooredoo Tunisie S.A.
31 December 2018	KD'000's	KD'000's	KD'000's
Non-current assets	283,258	61,435	98,051
Current assets	75,761	14,901	38,522
Non-current liabilities	-	(30,023)	(19,737)
Current liabilities	(155,824)	(17,139)	(65,270)
Net assets	203,195	29,174	51,566
Carrying amount of NCI	58,926	14,802	12,892
Revenue	228,930	30,337	126,605
Profit and total comprehensive income	11,933	40	6,948
Profit allocated to NCI	3,461	11	1,737
Cash flows from operating activities	67,312	13,121	31,548
Cash flows used in investing activities	(48,269)	(9,941)	(16,682)
Cash flows from / (used in) financing activities	13,873	(4,946)	(11,556)
Net increase / (decrease) in cash and cash equivalents	32,916	(1,766)	3,310

20. Provision for contribution to KFAS, NLST and Zakat

	2019 KD 000's	2018 KD 000's
KFAS	(322)	(321)
NLST	(762)	(1,037)
Zakat	(304)	(286)
	(1,388)	(1,644)

21. Basic and diluted earnings per share

Earnings per share attributable to shareholders of the Company is computed by dividing the profit for the year attributable to shareholders of the Company by the weighted average number of shares outstanding during the year less treasury shares as follows:

	2019	2018
Profit for the year attributable to shareholders of the Company (KD 000's)	30,127	29,709
Number of shares outstanding		
Weighted average number of paid up shares (000's)	504,033	504,033
Weighted average number of treasury shares (000's)	(2,871)	(2,871)
Weighted average number of outstanding shares (000's)	501,162	501,162
Basic and diluted earnings per share attributable to shareholders of the Company (fils)	60	59

There are no potential dilutive shares as at 31 December 2019 (2018: nil).

Notes to the Consolidated Financial Statements - 31 December 2019

22. Related party transactions and balances

Related parties represent major shareholders, directors and key management personnel of the Group and entities controlled, controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management. Transactions between the Company and its subsidiaries, which are related parties to the Company, have been eliminated on consolidation and are not disclosed in this note. Balances and transactions with related parties are as follows:

		As at 31 December	
		2019	2018
		KD 000's	KD 000's
a) Balances included in the consolidated statement of financial position			
Payable to Ooredoo Group L.L.C – fellow subsidiary		11,547	23,656
Payable to Ooredoo IP L.L.C – fellow subsidiary		1,254	4,655
Payable to Ooredoo Oman – fellow subsidiary		6	17
Receivable from ultimate parent company		2,651	349
Receivable from Asiacell Communications PJSC - fellow subsidiary		358	264
Receivable from PT. Indosat Tbk – fellow subsidiary		11	-
		Year ended	
		31 December	
		2019	2018
		KD 000's	KD 000's
b) Transactions included in the consolidated statement of profit or loss within revenue and operating expenses			
<u>Revenue from:</u>			
Ultimate parent company		5,477	12,406
Asiacell Communications PJSC - fellow subsidiary		132	127
Omani Qatari Telecommunications Company S.A.O.G. - fellow subsidiary		3	8
<u>Operating expenses to:</u>			
Ultimate parent company		2,076	2,508
Asiacell Communications PJSC - fellow subsidiary		21	16
PT. Indosat Tbk – fellow subsidiary		3	9
Omani Qatari Telecommunications Company S.A.O.G. - fellow subsidiary		9	-
c) Transactions included in the consolidated statement of profit or loss within selling, general and administrative expenses			
Management fees to Ooredoo Group L.L.C – fellow subsidiary		13,774	13,626
Brand license fees to Ooredoo IP L.L.C - fellow subsidiary		3,999	4,074
d) Compensation of key management personnel:			
Short term benefits		6,635	7,083
Termination benefits		600	520
		7,235	7,603

During the year, the Group has entered into transactions with related parties on terms approved by the management.

Notes to the Consolidated Financial Statements - 31 December 2019

23. Operating segments

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 Algeria, Tunisia, Maldives and Palestine . This forms the basis of the geographical segments.

Based on the disclosure criterion, the Group has identified its telecommunications operations in Kuwait, Algeria, Tunisia, Maldives and Palestine as the basis for disclosing the segment information.

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, the Group Chief Financial Officer, in order to allocate resources to the segment and to assess its performance.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2. Segment profit represents the profit earned by each segment without investment revenue, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and assessment of segment performance.

For the purpose of monitoring performance and allocating resources between segments:

- Goodwill is allocated to each reportable segment as applicable. There are no assets used jointly by any reportable segment.
- There are no liabilities for which any segment is jointly liable.

Although certain segments do not meet the quantitative thresholds required by IFRS 8, management has concluded that these segments should be reported, as they are closely monitored as a potential growth region and are expected to materially contribute to Group revenue in the future.

The reportable operating segments derive their revenue primarily from telecommunications services.

Notes to the Consolidated Financial Statements - 31 December 2019

23. Operating segments (Continued)

	Outside Kuwait						
	Inside Kuwait KD 000's	Tunisia KD 000's	Algeria KD 000's	Maldives KD 000's	Others KD 000's	Un-allocated KD 000's	Total KD 000's
31 December 2019							
Segment revenues – Point over Time	175,651	114,385	204,678	39,098	30,150	-	563,962
Segment revenues – Point in Time	55,681	8,751	3,985	1,054	60	-	69,531
Segment revenues	231,332	123,136	208,663	40,152	30,210	-	633,493
Profit/(loss)	13,296	12,303	4,107	11,802	(687)	(6,072)	34,749
Segment assets	364,638	173,383	348,181	60,159	72,579	222,015	1,240,955
Investments and other assets	2,088	2,724	23,780	531	-	-	29,123
Total assets	366,726	176,107	371,961	60,690	72,579	222,015	1,270,078
Segment liabilities	178,709	89,490	159,889	15,073	31,783	-	474,944
Debt and other obligations	45,843	28,512	24,326	6,080	13,623	-	118,384
Total liabilities	224,552	118,002	184,215	21,153	45,406	-	593,328
<i>Other information</i>							
Purchase of property and equipment	28,665	15,311	45,328	3,965	2,216	-	95,485
Acquisition of intangible assets	1,699	135	2,999	633	277	-	5,743
Depreciation and impairment of property and equipment	(29,273)	(21,473)	(47,412)	(3,826)	(3,992)	-	(105,976)
Amortisation of intangible assets	(763)	(3,027)	(5,682)	(845)	(3,086)	(6,072)	(19,475)
Depreciation of right of use assets	(10,120)	(2,050)	(8,928)	(601)	(709)	-	(22,408)
Provision for staff indemnity	(1,700)	-	(82)	-	(370)	-	(2,152)

Notes to the Consolidated Financial Statements - 31 December 2019

23. Operating segments (Continued)

	Outside Kuwait						
	Inside Kuwait	Tunisia	Algeria	Maldives	Others	Un-allocated	Total
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
31 December 2018							
Segment revenues – Point over Time	164,966	118,365	224,932	36,467	29,776	-	574,506
Segment revenues – Point in Time	75,967	8,240	3,998	1,761	561	-	90,527
Segment revenues	240,933	126,605	228,930	38,228	30,337	-	665,033
Profit / (loss)	12,962	6,948	11,933	10,670	(1,033)	(6,537)	34,943
Segment assets	307,852	136,074	337,263	64,201	76,349	214,385	1,136,124
Investments and other assets	2,652	499	21,755	476	-	-	25,382
Total assets	310,504	136,573	359,018	64,677	76,349	214,385	1,161,506
Segment liabilities	122,522	47,391	135,457	19,171	36,477	-	361,018
Debt and other obligations	65,858	29,599	20,368	4,992	17,165	-	137,982
Total liabilities	188,380	76,990	155,825	24,163	53,642	-	499,000
<i>Other information</i>							
Purchase of property and equipment	23,299	13,061	42,511	3,433	3,320	-	85,624
Acquisition of intangible assets	394	443	2,758	237	98	-	3,930
Depreciation and impairment of property and equipment	(29,117)	(24,384)	(50,004)	(4,310)	(4,106)	-	(111,921)
Amortisation of intangible assets	(650)	(3,317)	(10,980)	(837)	(3,233)	(6,537)	(25,554)
Provision for staff indemnity	(1,597)	-	(40)	-	(355)	-	(1,992)

Notes to the Consolidated Financial Statements - 31 December 2019

24. Contingencies and Commitments

	2019 KD 000's	2018 KD 000's
a) Capital commitments		
For the acquisition of property and equipment	44,374	55,236
For the acquisition of mobile license in a subsidiary	<u>51,236</u>	<u>51,322</u>
	<u>95,610</u>	<u>106,558</u>
b) Contingent liabilities		
Letters of guarantee	3,681	2,490
Letters of credit	<u>8,514</u>	<u>13,325</u>
	<u>12,195</u>	<u>15,815</u>

Litigation and claims :

- A. Additional tax claims amounting to KD 14,189 thousand on Ooredoo Tunisie S.A. for assessment periods 1 January 2013 to 31 December 2017 from tax authorities in Tunisia. Management has responded to this notification and believes that the prospects of these claims being resolved in the Group's favour are good.
- B. Additional tax claims amounting to KD 4,742 thousand on Wataniya Telecom Algerie S.P.A. for assessment periods 1 January 2013 to 31 December 2016 from tax authorities in Algeria.
- C. In October 2019, the Court of Appeals has decided against WTA in respect of certain alleged foreign currency violations raised by Algerian Central Bank. The penalty decided by the Court of Appeals against WTA is KD 28,479 thousand. The final written order of the Court of Appeals is yet to be received. WTA has decided to appeal against this decision in the Court of Cassation.
- D. In October 2019, a third party vendor of WTA obtained an order from the Judicial Authorities of Algeria to block and amount of KD 2,433 thousand from WTA's bank account. WTA appealed to the Court against this.
- E. Claims against Ooredoo Maldives PLC amounting to KD 1,316 thousand from the First Instance Civil Court of Maldives citing breach of contract based on a civil case filed by a third party. Ooredoo Maldives PLC has appealed against this claim in the High Court of Maldives in January 2019. Management believes that the prospects of this claim being resolved in the Group's favor are good.
- F. A part of the regulatory tariff levied on mobile telecommunication operators in Kuwait by the Ministry of Communications since 26 July 2011 was invalidated by the Kuwait Court of Cassation in April 2017. Accordingly, the Group has contingent assets in the form of recovery of excess regulatory tariff paid. The Group is currently estimating the recoverable amount which is subject to approval of the judicial authorities.

Notes to the Consolidated Financial Statements - 31 December 2019

25. Financial instruments and risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and equity price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by a central treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies and evaluates financial risks in close co-operation with the Group's operating units.

The Board of Directors provide written principles for overall risk management, and specifically to cover areas, such as foreign exchange risk, interest rate risk, credit risk, use of non-derivative financial instrument, and investment of excess liquidity.

Market risk

Market risk is the risk that changes in market prices, such as foreign currency exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and equity prices.

i. Foreign currency 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 operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar, MVR Rufiyaa, Tunisian Dinars, Algerian Dinars, UAE Dirham, EURO and GBP.

The Group manages the foreign currency exchange risk by diversifying its exposure to different currency rates. The Group had the following significant net exposures denominated in foreign currencies:

	Net exposure impacting net profit		Net exposure impacting equity	
	2019	2018	2019	2018
	KD 000's	KD 000's	KD 000's	KD 000's
	Equivalent	Equivalent	Equivalent	Equivalent
US Dollar	(7,308)	(40,099)	(15,054)	(17,137)
MVR Rufiyaa	-	-	10,215	27,186
Tunisian Dinar	-	-	(50,263)	(43,666)
Algerian Dinar	-	-	(124,974)	(72,441)
UAE Dirham	(8)	-	(1,961)	(6,380)
EURO	9,332	8,027	-	-
GBP	-	(12)	-	-

Notes to the Consolidated Financial Statements - 31 December 2019

25. Financial instruments and risk management (Continued)

Foreign currency sensitivity analysis

The Group is maintaining exposure mainly to the US Dollar, MVR Rufiyaa, Tunisian Dinar, Algerian Dinar, UAE Dirham, EURO and GBP. The following table details the Group's sensitivity to a 10% increase in the KD against the other currencies (as a result of a change in the foreign currency) at the year-end due to the assumed change in market rates, with all other variable held constant. A 10 % decrease in the KD against these currencies would have the opposite effect. A positive number indicates increase in equity and a negative number indicates decrease in equity.

	Impact on net profit		Impact on equity	
	2019	2018	2019	2018
	KD 000's	KD 000's	KD 000's	KD 000's
US Dollar	731	4,010	1,505	1,714
MVR Rufiyaa	-	-	(1,021)	(2,719)
Tunisian Dinar	-	-	5,026	4,367
Algerian Dinar	-	-	12,497	7,244
UAE Dirham	1	-	196	638
EURO	(933)	(803)	-	-
GBP	-	1	-	-

ii. *Interest rate risk management*

Interest rate risk is the risk arising from possible changes in financial instruments that may affect future profitability of the Group.

The Group's interest rate risk arises from term borrowings which are detailed in note 14. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash deposits held at variable rates.

The following table illustrates the sensitivity of the profit as well as equity to a reasonably possible change in interest rates of 1% (2018: 1%). The calculations are based on the Group's financial instruments held at each reporting date. A positive number below indicates an increase in profit and a negative number indicates a decrease in profit.

	Increase	2019	2018
		KD 000's	KD 000's
Impact on profit	+1	(988)	(863)

Sensitivity to interest rate movements will be on a symmetric basis.

iii. *Equity price risk*

Equity price risk is the risk that the fair values of equities will fluctuate as a result of changes in the level of equity indices or the value of individual share prices. Equity price risk arises from the change in fair values of listed equity investments. The Group manages the risk through diversification of investments in terms of industry concentration. The effect of equity price risk on profit for the year of the Group is not significant.

Notes to the Consolidated Financial Statements - 31 December 2019

25. Financial instruments and risk management (Continued)

Credit risk management

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group's exposure is continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Trade and billing receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of trade receivables.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

i Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure (gross) to credit risk at the reporting date was:

	Carrying amount	
	2019	2018
	KD 000's	KD 000's
Contract assets	6,280	5,745
Trade and other receivables	127,048	120,965
Bank balances	88,317	88,346
	<u>221,645</u>	<u>215,056</u>

The maximum exposure to credit risk for financial assets at the reporting date by geographic region was:

	Carrying amount	
	2019	2018
	KD 000's	KD 000's
Kuwait	99,430	100,892
Tunisia	55,621	32,264
Algeria	27,447	31,245
Maldives	27,737	37,553
Palestine	10,925	13,092
Others	485	10
	<u>221,645</u>	<u>215,056</u>

The Group's credit risk bearing assets analysed by the industry sector are as follows:

	2019	2018
	KD 000's	KD 000's
Banks and other financial institutions	88,317	88,346
Others	133,328	126,710
Total	<u>221,645</u>	<u>215,056</u>

Notes to the Consolidated Financial Statements - 31 December 2019

25. Financial instruments and risk management (Continued)

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates.

The average credit period is 30 days. No interest is charged on the overdue trade and billing receivables.

The table below shows the credit risk exposure by credit quality of financial assets by grade.

31 December 2019	Rated	12-month or Lifetime ECL	Gross carrying amount KD 000's	Impairment allowance KD 000's
Bank balances	Rated	12 month ECL	88,338	(21)
Trade and other receivables	Not Rated	Lifetime ECL - Simplified approach	213,669	(86,621)
Contract assets	Not Rated	Lifetime ECL - Simplified approach	6,639	(359)

All the above financial assets are classified as "financial assets at AC".

Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by

maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group finance department. Group treasury department monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, compliance with internal financial position ratio targets and external regulatory or legal requirements.

Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Group treasury. Group treasury invests surplus cash in interest bearing current accounts and time deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.

Notes to the Consolidated Financial Statements - 31 December 2019

25. Financial instruments and risk management (Continued)

At the reporting date, the Group held short term deposits of KD 22,046 thousand (2018: KD 19,677 thousand) and other liquid assets of KD 165,455 thousand (2018: KD 178,492 thousand) that are expected to readily generate cash inflows for managing liquidity risk. The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the discounted cash flows of financial liabilities as the impact of discounting is not material.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total	Weighted average effective interest rate
2019	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	%
Financial liabilities						
Trade and other payables	273,440	-	-	-	273,440	
Lease liabilities	21,751	40,756	40,756	54,963	158,226	
Long term debt	82,848	13,380	17,569	-	113,797	5.6%
Other non-current liabilities	-	1,887	13,593	-	15,480	
	<u>378,039</u>	<u>56,023</u>	<u>71,918</u>	<u>54,963</u>	<u>560,943</u>	
Commitments and contingencies						
Acquisition of property and equipment	16,378	21,456	6,540	-	44,374	
Acquisition of Palestinian mobile license	-	-	-	51,236	51,236	
Letters of credit and guarantee	11,571	312	312	-	12,195	
	<u>27,949</u>	<u>21,768</u>	<u>6,852</u>	<u>51,236</u>	<u>107,805</u>	
2018	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	%
Financial liabilities						
Trade and other payables	275,122	-	-	-	275,122	
Long term debt	99,597	15,888	20,111	2,327	137,923	5.3%
Other non-current liabilities	-	2,561	13,616	-	16,177	
	<u>374,719</u>	<u>18,449</u>	<u>33,727</u>	<u>2,327</u>	<u>429,222</u>	
Commitments and contingencies						
Acquisition of property and equipment	20,387	26,708	8,141	-	55,236	
Acquisition of Palestinian mobile license	-	-	-	51,322	51,322	
Operating leases	9,222	8,250	25,176	954	43,602	
Letters of credit and guarantee	13,837	989	989	-	15,815	
	<u>43,446</u>	<u>35,947</u>	<u>34,306</u>	<u>52,276</u>	<u>165,975</u>	

Notes to the Consolidated Financial Statements - 31 December 2019

26. Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, human error, systems failure or from external events. The Group has a set of policies and procedures, which are approved by the board of directors and are applied to identify, assess and supervise operational risk. The Group's management ensures compliance with policies and procedures and monitors operational risk as part of overall risk management.

27. Fair value of financial instruments

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date.

		2019		
		Level 1	Level 2	Total
		KD 000's	KD 000's	KD 000's
<i>Investment securities</i>				
Unlisted equity securities		-	2,088	2,088
		-	2,088	2,088
		2018		
		Level 1	Level 2	Total
		KD 000's	KD 000's	KD 000's
<i>Investment securities</i>				
Unlisted equity securities		-	2,653	2,653
		-	2,653	2,653

There were no transfers between levels during the years ended 31 December 2019 and 31 December 2018.

28. Capital risk management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the Group performance in relation to its long range business plan and its long-term profitability objectives.

The Group's objectives for managing capital are:

- To safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To provide an adequate return to shareholders by pricing products and services commensurate with the level of risk.

29. Comparative Figures

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