

ETIHAD ETISALAT COMPANY
(A Saudi Joint Stock Company)
**CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS (Unaudited)**
For the three-month and nine-month periods ended 30 September 2019
Together with
Independent Auditors' Review Report

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Independent auditor's report on review of condensed consolidated interim financial statements

To the Shareholders of Etihad Etisalat Company

Introduction

We have reviewed the accompanying 30 September 2019 condensed consolidated interim financial statements of **Etihad Etisalat Company** ("the Company") and its subsidiaries ("the Group") which comprise:

- the condensed consolidated interim statement of financial position as at 30 September 2019;
- the condensed consolidated interim statement of profit or loss for the three-month and nine-month periods ended 30 September 2019;
- the condensed consolidated interim statement of comprehensive income for the three-month and nine-month periods ended 30 September 2019;
- the condensed consolidated interim statement of changes in equity for the nine-month period ended 30 September 2019;
- the condensed consolidated interim statement of cash flows for the nine-month period ended 30 September 2019; and
- the notes to the condensed consolidated interim financial statements.

Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of review

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

Etihad Etisalat Company (A Saudi Joint Stock Company)
CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	Unaudited 30 September 2019	Audited 31 December 2018
Assets			
Non-current assets			
Property and equipment	5	21,174,791	22,183,775
Right of use assets	6	2,299,582	-
Intangible assets	7	8,620,961	8,818,165
Capital advances		139,484	450,250
Investment in joint venture		-	1,483
Financial assets		7,636	7,271
Total non-current assets		32,242,454	31,460,944
Current assets			
Inventories		37,962	69,360
Contract assets		190,789	89,180
Accounts receivable	8	3,086,589	3,566,718
Due from related parties	9	89,237	68,452
Prepaid expenses and other assets		1,005,795	1,269,270
Other financial assets		640,000	1,000,000
Derivative financial instruments		564	8,095
Cash and cash equivalents		1,169,241	1,032,850
Total current assets		6,220,177	7,103,925
Total assets		38,462,631	38,564,869
Shareholders' equity and liabilities			
Shareholders' equity			
Share capital	1	7,700,000	7,700,000
Statutory reserve		2,648,971	2,648,971
Retained earnings		3,599,520	3,543,131
Foreign currency translation reserve		(10,529)	(10,032)
Hedging reserve		(64,405)	(12,754)
Fair value reserve		365	-
Total shareholders' equity		13,873,922	13,869,316
Non-current liabilities			
Loans and notes payable	10	10,817,975	11,987,788
Lease liabilities		1,749,198	-
Provision for employees' end of service benefits		430,788	426,074
Deferred revenue		27,865	44,582
Deferred government grants income		127,179	141,604
Other financial liabilities		275,536	299,640
Provision for decommissioning liability		149,371	239,654
Total non-current liabilities		13,577,912	13,139,342
Current liabilities			
Loans and notes payable	10	1,592,601	1,033,891
Lease liabilities		611,184	-
Accounts payable		4,029,218	5,154,712
Contract liabilities		189,936	151,259
Due to related parties	9	151,052	163,385
Deferred revenue		1,068,454	1,270,979
Accrued expenses and other liabilities		2,812,107	3,253,275
Derivative financial instruments		55,369	11,249
Provisions		414,399	433,455
Zakat provision		67,246	64,775
Deferred government grants income		19,231	19,231
Total current liabilities		11,010,797	11,556,211
Total liabilities		24,588,709	24,695,553
Total shareholders' equity and liabilities		38,462,631	38,564,869

The attached notes from 1 to 16 are an integral part of these condensed consolidated interim financial statements.

Chief Financial Officer

Chief Executive Officer

Authorized Board Member

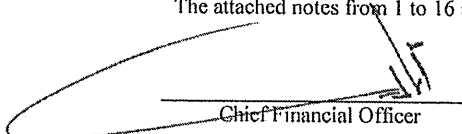
Etihad Etisalat Company (A Saudi Joint Stock Company)

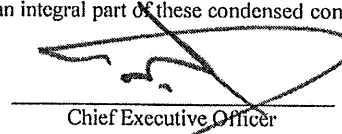
CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS (Unaudited)

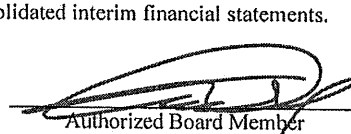
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	For the three-month period ended 30 September		For the nine-month period ended 30 September	
		2019	2018	2019	2018
Revenue	12	3,403,714	2,976,069	9,935,589	8,703,296
Cost of sales		(1,388,352)	(1,217,672)	(4,125,217)	(3,507,237)
Gross profit		2,015,362	1,758,397	5,810,372	5,196,059
Selling and marketing expenses		(330,977)	(303,873)	(925,623)	(1,069,733)
General and administrative expenses		(373,272)	(308,563)	(1,058,811)	(861,865)
Impairment loss on accounts receivable	8	(39,426)	(78,211)	(87,404)	(150,633)
Depreciation and amortization	5,6,7	(993,448)	(895,769)	(2,906,956)	(2,770,843)
Impairment loss on property and equipment	5	(21,000)	(83,333)	(63,000)	(83,333)
Other income		5,161	19,488	31,960	76,231
Operating profit		262,400	108,136	800,538	335,883
Share in results of joint venture		(174)	285	(1,483)	285
Finance expenses		(206,273)	(205,855)	(635,475)	(585,462)
Finance income		11,199	11,318	32,796	22,713
Profit / (Loss) before zakat		67,152	(86,116)	196,376	(226,581)
Zakat expense		(16,096)	55,197	(40,299)	23,629
Profit / (Loss) for the period		51,056	(30,919)	156,077	(202,952)
Profit / (Loss) per share:					
Basic and diluted Profit / (Loss) per share (in SR)	13	0.07	(0.04)	0.20	(0.26)

The attached notes from 1 to 16 are an integral part of these condensed consolidated interim financial statements.


Chief Financial Officer


Chief Executive Officer

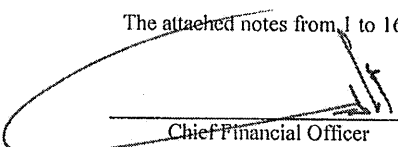
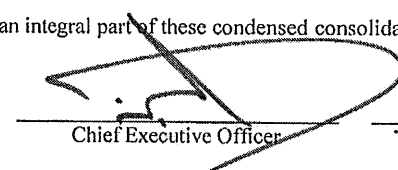


Authorized Board Member



Etiihad Etisalat Company (A Saudi Joint Stock Company)
 CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME (Unaudited)
 (All amounts in Saudi Riyals thousands unless otherwise stated)

	For the three-month period ended 30 September		For the nine-month period ended 30 September	
	2019	2018	2019	2018
Profit / (Loss) for the period	51,056	(30,919)	156,077	(202,952)
<i>Items that will be reclassified subsequently to profit or loss:</i>				
Exchange differences on translation of foreign operations	(871)	(2,119)	(497)	(4,806)
Cash flow hedge - change in fair value	(13,200)	-	(57,246)	-
Cash flow hedge - reclassified to profit or loss	2,181	-	5,595	-
Net total items that will be reclassified subsequently to profit or loss	(11,890)	(2,119)	(52,148)	(4,806)
<i>Items that will not be reclassified subsequently to profit or loss:</i>				
Actuarial gains / (losses) on re-measurement of employees' end of service benefits	1,622	(3,650)	83	(25,163)
Change in fair value of equity investments at FVOCI	-	-	365	-
Net total items that will not be reclassified subsequently to profit or loss	1,622	(3,650)	448	(25,163)
Total other comprehensive loss for the period	(10,268)	(5,769)	(51,700)	(29,969)
Total comprehensive income / (loss) for the period	40,788	(36,688)	104,377	(232,921)

The attached notes from 1 to 16 are an integral part of these condensed consolidated interim financial statements.

Chief Financial Officer Chief Executive Officer Authorized Board Member



Ethihad Etisalat Company (A Saudi Joint Stock Company)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)

For the nine-month period ended 30 September 2019

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Share capital	Statutory reserve	Retained earnings	Foreign currency translation reserve	Hedging reserve	Fair value reserve	Total shareholders' equity
As at 1 January 2018	7,700,000	2,648,971	3,911,783	(6,917)	-	-	14,253,837
Adjustment on application of IFRS 15	-	-	62,345	-	-	-	62,345
Adjustment on application of IFRS 9	-	-	(275,923)	-	-	-	(275,923)
As at 1 January 2018 (adjusted)	7,700,000	2,648,971	3,698,205	(6,917)	-	-	14,040,259
Loss for the period	-	-	(202,952)	-	-	-	(202,952)
Other comprehensive loss for the period	-	-	(25,163)	(4,806)	-	-	(29,969)
Total comprehensive loss for the period	-	-	(228,115)	(4,806)	-	-	(232,921)
As at 30 September 2018	7,700,000	2,648,971	3,470,090	(11,723)	-	-	13,807,338
As at 1 January 2019	7,700,000	2,648,971	3,543,131	(10,032)	(12,754)	-	13,869,316
Adjustment on application of IFRS 16	-	-	(99,771)	-	-	-	(99,771)
As at 1 January 2019 (adjusted)	7,700,000	2,648,971	3,443,360	(10,032)	(12,754)	-	13,769,545
Profit for the period	-	-	156,077	-	-	-	156,077
Other comprehensive income / (loss) for the period	-	-	83	(497)	(51,651)	365	(51,700)
Total comprehensive income / (loss) for the period	-	-	156,160	(497)	(51,651)	365	104,377
As at 30 September 2019	7,700,000	2,648,971	3,599,520	(10,529)	(64,405)	365	13,873,922

The attached notes from 1 to 16 are an integral part of these condensed consolidated interim financial statements.

Chief Financial Officer

Chief Executive Officer

Authorized Board Member

Etihad Etisalat Company (A Saudi Joint Stock Company)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (Unaudited)

(All amounts in Saudi Riyals thousands unless otherwise stated)

	For the nine -month period ended	
	2019	2018
OPERATING ACTIVITIES		
Cash flows from operating activities		
Profit / (Loss) for the period	156,077	(202,952)
Adjustments for:		
Change in provision for inventory obsolescence	(26,779)	(49,942)
Depreciation	2,635,532	2,507,122
Amortization of intangible assets	271,424	263,721
Impairment loss on property and equipment	63,000	83,333
Provision for employees' end of service benefits	52,449	51,297
Impairment loss on accounts receivable	87,404	150,633
Provisions	(8,920)	(133,766)
Government grants	(14,425)	(14,423)
Zakat provision	40,299	(23,629)
Loss on sale of property and equipment	1,167	609
Foreign exchange losses	1,428	-
Other expense	2,720	-
Share in results of joint venture	1,483	(285)
Finance expenses	635,475	585,462
Finance income	(32,796)	(22,713)
Changes in:		
Accounts receivable	392,725	(628,372)
Inventories	58,177	147,614
Contract assets	(101,609)	(55,434)
Prepaid expenses and other assets	4,970	(47,455)
Accounts payable	(433,955)	284,557
Contract liabilities	38,677	99,971
Deferred revenue	(219,242)	(333,382)
Accrued expenses and other liabilities	(468,292)	430,371
Utilization of provision for decommissioning liability	(2,609)	(517)
Provision used	(29,379)	-
Due from related parties	(20,785)	(17,737)
Due to related parties	(12,333)	(13,892)
Cash generated from operating activities	3,071,883	3,060,191
End of service benefits paid	(47,652)	(23,415)
Finance expenses paid	(490,650)	(512,419)
Zakat paid	(37,828)	(43,605)
Net cash generated from operating activities	2,495,753	2,480,752
INVESTING ACTIVITIES		
Other financial assets	360,000	(200,000)
Finance income received	44,224	10,417
Purchase of property and equipment	(1,547,334)	(1,132,076)
Proceeds from sales of property and equipment	27	4,793
Acquisition of intangible assets	(100,374)	(2,383)
Net cash outflow from deconsolidation of subsidiary	-	(1,000)
Net cash used in investing activities	(1,243,457)	(1,320,249)
FINANCING ACTIVITIES		
Proceeds from loans and notes payable	444,241	285,902
Payment of loans and notes payable	(1,070,069)	(1,213,734)
Payment of lease liabilities	(490,077)	-
Net cash used in financing activities	(1,115,905)	(927,832)
Net changes in cash and cash equivalents	136,391	232,671
Cash and cash equivalents at 1 January	1,032,850	1,192,181
Cash and cash equivalents at 30 September	1,169,241	1,424,852
Supplementary non-cash information		
Property and equipment purchased credited to capital expenditure payable	(487,649)	337,925

The attached notes from 1 to 16 are an integral part of these condensed consolidated interim financial statements.

Chief Financial Officer

Chief Executive Officer

Authorized Board Member

Etihad Etisalat Company (A Saudi Joint Stock Company)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine-month period ended 30 September 2019

(All amounts in Saudi Riyals thousands unless otherwise stated)

2 BASIS OF ACCOUNTING

2.1 Statement of Compliance

These condensed consolidated interim financial statements comprise the financial information of the Company and its subsidiaries (together referred to as the 'Group').

These unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants.

The condensed consolidated interim financial statements do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with Group's annual consolidated financial statements for the year ended 31 December 2018.

The unaudited condensed consolidated interim financial statements have been approved for issuance on 20 October 2019 (corresponding to 21 Safar 1441H).

2.2 Basis of measurement

These condensed consolidated interim financial statements have been prepared on the historical cost basis unless stated otherwise using the going concern basis of assumption.

2.3 Functional and presentation currency

These condensed consolidated interim financial statements are presented in Saudi Riyal ("SR") which is the functional currency of the Company. All amounts have been rounded off to the nearest thousands unless otherwise stated.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in these condensed consolidated interim financial statements are in accordance with International Financial Reporting Standards "IFRS" that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA which are consistent with those that were applied in the Group's annual consolidated financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group has adopted IFRS 16 retrospectively under which the cumulative effect of initially applying the standard is recognized in retained earnings at the date of initial application (i.e. 1 January 2019). Accordingly, the information presented for 2018 has not been restated.

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The details of the new significant accounting policies and the nature of the changes to previous accounting policies are set out below.

Etihad Etisalat Company (A Saudi Joint Stock Company)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine-month period ended 30 September 2019

(All amounts in Saudi Riyals thousands unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining Whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application.

The Group has used the following practical expedients when applying IFRS 16:

- Not to recognize right-of-use assets and lease liabilities for leases with less than 12 months of remaining lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

B. As a lessee

The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognizes right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

However, the Group has elected not to recognize right-of-use assets and lease liabilities for some leases of short term and low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

i. Significant accounting policies

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgment to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

C. As a lessor

The accounting policies applicable to the Group as a lessor are not different from those under IAS 17. However, when the Group is an intermediate lessor the sub-leases are classified with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor. However, the Group has applied IFRS 15 Revenue from Contracts with Customers to allocate consideration in the contract to each lease and non-lease component.

Etihad Etisalat Company (A Saudi Joint Stock Company)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine-month period ended 30 September 2019

(All amounts in Saudi Riyals thousands unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following table summarizes the impact of adopting IFRS 16 on the Group's condensed consolidated interim financial statements for the period ended 30 September 2019.

Impact on the condensed consolidated interim statement of financial position

	As reported	Adjustment IFRS 16	Amounts without adoption of IFRS 16
Assets			
Non-current assets			
Property and equipment	21,174,791	80,746	21,255,537
Right of use assets	2,299,582	(2,299,582)	-
Intangible assets	8,620,961	-	8,620,961
Capital advances	139,484	-	139,484
Investment in joint venture	-	-	-
Financial assets	7,636	-	7,636
Total non-current assets	32,242,454	(2,218,836)	30,023,618
Current assets			
Inventories	37,962	-	37,962
Contract assets	190,789	-	190,789
Accounts receivable	3,086,589	-	3,086,589
Due from related parties	89,237	-	89,237
Prepaid expenses and other assets	1,005,795	245,123	1,250,918
Other financial assets	640,000	-	640,000
Derivative financial instruments	564	-	564
Cash and cash equivalents	1,169,241	-	1,169,241
Total current assets	6,220,177	245,123	6,465,300
Total assets	38,462,631	(1,973,713)	36,488,918
Shareholders' equity and liabilities			
Shareholders' equity			
Share capital	7,700,000	-	7,700,000
Statutory reserve	2,648,971	-	2,648,971
Retained earnings	3,599,520	116,371	3,715,891
Foreign currency translation reserve	(10,529)	-	(10,529)
Hedging reserve	(64,405)	-	(64,405)
Fair value reserve	365	-	365
Total shareholders' equity	13,873,922	116,371	13,990,293
Non-current liabilities			
Loans and notes payable	10,817,975	-	10,817,975
Lease liabilities	1,749,198	(1,749,198)	-
Provision for employees' end of service benefits	430,788	-	430,788
Deferred revenue	27,865	-	27,865
Deferred government grants income	127,179	-	127,179
Other financial liabilities	275,536	-	275,536
Provision for decommissioning liability	149,371	99,341	248,712
Total non-current liabilities	13,577,912	(1,649,857)	11,928,055
Current liabilities			
Loans and notes payable	1,592,601	-	1,592,601
Lease liabilities	611,184	(611,184)	-
Accounts payable	4,029,218	-	4,029,218
Contract liabilities	189,936	-	189,936
Due to related parties	151,052	-	151,052
Deferred revenue	1,068,454	-	1,068,454
Accrued expenses and other liabilities	2,812,107	163,457	2,975,564
Derivative financial instruments	55,369	-	55,369
Provisions	414,399	7,500	421,899
Zakat provision	67,246	-	67,246
Deferred government grants income	19,231	-	19,231
Total current liabilities	11,010,797	(440,227)	10,570,570
Total liabilities	24,588,709	(2,090,084)	22,498,625
Total shareholders' equity and liabilities	38,462,631	(1,973,713)	36,488,918

Etihad Etisalat Company (A Saudi Joint Stock Company)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine-month period ended 30 September 2019

(All amounts in Saudi Riyals thousands unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impact on the condensed consolidated interim statements of profit or loss and other comprehensive income

	As reported	Adjustment IFRS 16	Amounts without adoption of IFRS 16
Revenue	9,935,589	-	9,935,589
Cost of sales	(4,125,217)	(363,293)	(4,488,510)
Gross profit	5,810,372	(363,293)	5,447,079
Selling and marketing expenses	(925,623)	(44,884)	(970,507)
General and administrative expenses	(1,058,811)	(57,723)	(1,116,534)
Impairment loss on accounts receivable	(87,404)	-	(87,404)
Depreciation and amortization	(2,906,956)	379,501	(2,527,455)
Impairment loss on property and equipment	(63,000)	-	(63,000)
Other income	31,960	2,720	34,680
Operating profit	800,538	(83,679)	716,859
Share in results of joint venture	(1,483)	-	(1,483)
Finance expenses	(635,475)	100,279	(535,196)
Finance income	32,796	-	32,796
Profit before zakat	196,376	16,600	212,976
Zakat	(40,299)	-	(40,299)
Profit for the period	156,077	16,600	172,677
Total comprehensive income for the period	104,377	16,600	120,977

Etihad Etisalat Company (A Saudi Joint Stock Company)

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4 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Group's condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's annual consolidated financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA for the year ended 31 December 2018, except for new significant judgments related to the application of IFRS 16, which are described in Note 3.

4.1 Fair value measurement

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

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

The principal or most advantageous market must be accessible 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 from the asset's highest and best use or by selling it to another market participant that would utilize 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 condensed consolidated interim financial statements are categorized within the fair value hierarchy. This is 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; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

At each reporting date, the Group analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Group also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. For the purpose of fair value disclosures, the Group has determined 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.

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5 PROPERTY AND EQUIPMENT

	Land	Buildings	Leasehold improvements	Telecommunication network equipment	Computer equipment and software	Office equipment and furniture	Vehicles	Capital work in progress	Total
Cost:									
As at 1 January 2019	273,192	1,235,556	836,398	40,234,102	5,513,613	437,220	3,046	3,549	48,536,676
Adjustment on application of IFRS 16	-	-	-	(152,878)	-	-	-	-	(152,878)
Additions	-	(18,620)	7,402	1,237,943	137,487	3,145	-	21,951	1,389,308
Reclassification	-	-	-	316,559	(301,954)	(14,605)	-	-	-
Transfers	-	-	-	22,688	-	-	-	(22,688)	-
Disposals	-	(1,182)	-	(1,386)	(6,064)	(1,798)	-	-	(10,430)
As at 30 September 2019	273,192	1,215,754	843,800	41,657,028	5,343,082	423,962	3,046	2,812	49,762,676
Depreciation:									
As at 1 January 2019	-	303,688	673,240	20,746,870	4,203,076	423,389	2,638	-	26,352,901
Adjustment on application of IFRS 16	-	-	-	(67,887)	-	-	-	-	(67,887)
Charge for the period	-	41,891	26,907	1,859,441	318,334	2,460	74	-	2,249,107
Impairment	-	-	-	63,000	-	-	-	-	63,000
Reclassification	-	-	-	210,673	(194,068)	(16,605)	-	-	-
Disposals	-	(374)	-	(1,019)	(6,059)	(1,784)	-	-	(9,236)
As at 30 September 2019	-	345,205	700,147	22,811,078	4,321,283	407,460	2,712	-	28,587,885
Net book value:									
As at 30 September 2019	273,192	870,549	143,653	18,845,950	1,021,799	16,502	334	2,812	21,174,791
As at 31 December 2018	273,192	931,868	163,158	19,487,232	1,310,537	13,831	408	3,549	22,183,775

During the nine-month ended 30 September 2019, the Group has capitalized borrowing costs amounting to SR 22 million (31 December 2018: SR 10 million) and internal technical salaries amounting to SR 126 million (31 December 2018: SR 176 million).

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6 RIGHT OF USE ASSETS

	Telecommunication network equipment	Buildings	Land	Others	Total
Cost:					
As at 1 January 2019	-	-	-	-	-
Adjustment on application of IFRS 16	3,452,069	389,896	53,263	255,691	4,150,919
As at 1 January 2019 (adjusted)	3,452,069	389,896	53,263	255,691	4,150,919
Additions	258,115	21,871	-	66,371	346,357
Lease cancellation	(99,745)	(58,947)	-	(34,063)	(192,755)
As at 30 September 2019	3,610,439	352,820	53,263	287,999	4,304,521
Depreciation:					
As at 1 January 2019	-	-	-	-	-
Adjustment on application of IFRS 16	1,453,487	167,094	11,810	67,091	1,699,482
As at 1 January 2019 (adjusted)	1,453,487	167,094	11,810	67,091	1,699,482
Charge for the period	296,291	44,130	2,002	44,002	386,425
Lease cancellation	(52,599)	(18,674)	-	(9,695)	(80,968)
As at 30 September 2019	1,697,179	192,550	13,812	101,398	2,004,939
Net book value:					
As at 30 September 2019	1,913,260	160,270	39,451	186,601	2,299,582

7 INTANGIBLE ASSETS

	Telecommunication services licenses	Goodwill	Indefeasible Right of Use (IRU)	Others	Total
Cost:					
As at 1 January 2019	13,534,100	1,466,865	1,151,215	97,689	16,249,869
Additions	46,200	-	28,020	-	74,220
Reclassification	5,050	-	(5,050)	-	-
As at 30 September 2019	13,585,350	1,466,865	1,174,185	97,689	16,324,089
Amortization:					
As at 1 January 2019	6,812,172	-	521,843	97,689	7,431,704
Charge for the period	207,351	-	64,073	-	271,424
Reclassification	370	-	(370)	-	-
As at 30 September 2019	7,019,893	-	585,546	97,689	7,703,128
Net book value:					
As at 30 September 2019	6,565,457	1,466,865	588,639	-	8,620,961
As at 31 December 2018	6,721,928	1,466,865	629,372	-	8,818,165

8 ACCOUNTS RECEIVABLE

	30 September 2019	31 December 2018
Accounts receivable	5,160,916	5,591,274
Less: allowance for impairment of accounts receivable	(2,074,327)	(2,024,556)
	3,086,589	3,566,718

The movement of the allowance for impairment of accounts receivable is as follows:

	30 September 2019	31 December 2018
Opening balance	(2,024,556)	(1,636,529)
Adjustment on application of IFRS 9	-	(276,499)
Opening balance (adjusted)	(2,024,556)	(1,913,028)
Charge for the period / year	(87,404)	(111,528)
Written off during the period / year	37,633	-
Closing balance	(2,074,327)	(2,024,556)

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9 RELATED PARTIES TRANSACTIONS AND BALANCES

During the period, the Group transacted with following related parties:

<u>Party</u>	<u>Relationship</u>
Emirates Telecommunication Corporation	Founding shareholder
Emirates Data Clearing House	Affiliate to Emirates Telecommunication Corporation
Etisalat Misr	Subsidiary to Emirates Telecommunication Corporation
Etisalat Afghanistan	Subsidiary to Emirates Telecommunication Corporation
Etisalat Al Maghrib S.A (Maroc Telecom)	Subsidiary to Emirates Telecommunication Corporation
Pakistan Telecommunication Company Limited	Subsidiary to Emirates Telecommunication Corporation

The Group transacted with related parties in ordinary course of business. Following are the details of major transactions with the related parties:

	<u>30 September 2019</u>	<u>30 September 2018</u>
Interconnection services and roaming services rendered	81,013	99,590
Interconnection services and roaming services received	298,765	255,594
Management fees	21,094	16,893
Other management expenses	1,270	48,184
Telecommunication services	4,584	3,190

<u>Balances with related parties</u>	<u>30 September 2019</u>	<u>31 December 2018</u>
Balance due from	89,237	68,452
Balance due to	151,052	163,385

Compensation and benefits to key management personnel

	<u>30 September 2019</u>	<u>30 September 2018</u>
Short term employee benefits	61,504	53,493
Post-employment benefits	1,703	1,830
Total compensation and benefits to key management personnel	63,207	55,323

Services rendered to related parties comprise of the provision of telecommunication service, interconnection services and roaming services by the Group based on normal commercial terms. Services received from related parties comprise of telecommunication service, interconnection services and roaming services to the Group based on normal commercial terms. Management fees and other management expenses are calculated based on the relevant agreements with Emirates Telecommunication Corporation. The balances due to and from related parties are unsecured and will be settled in cash.

Transactions with key management personnel comprise of remunerations to Board of Directors and other senior management members who are key management personnel of the Group.

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10 LOANS AND NOTES PAYABLE

	30 September 2019	31 December 2018
Long-term loans	12,410,576	13,021,679
Less: current portion	(1,592,601)	(1,033,891)
Non-current	<u>10,817,975</u>	<u>11,987,788</u>

a) Maturity profile of loans and notes payable:

	30 September 2019	31 December 2018
Less than one year	1,592,601	1,033,891
Between one to five years	9,922,834	8,704,052
Over five years	895,141	3,283,736

11 FINANCIAL ASSETS AND LIABILITIES

11.1 FINANCIAL ASSETS

	30 September 2019	31 December 2018
Financial assets at fair value:		
Financial assets - fair value through other comprehensive income *	7,636	7,271
Derivative financial instruments**	564	8,095
Total financial assets at fair value	<u>8,200</u>	<u>15,366</u>
Financial assets at amortized cost:		
Accounts receivable	3,086,589	3,566,718
Due from related parties	89,237	68,452
Other financial assets	640,000	1,000,000
Cash and cash equivalents	1,169,241	1,032,850
Total financial assets at amortized cost	<u>4,985,067</u>	<u>5,668,020</u>
Total financial assets	<u>4,993,267</u>	<u>5,683,386</u>
Current financial assets	4,985,631	5,676,115
Non-current financial assets	7,636	7,271
Total financial assets	<u>4,993,267</u>	<u>5,683,386</u>

11.2 FINANCIAL LIABILITIES

	30 September 2019	31 December 2018
Financial liabilities at fair value:		
Derivative financial instruments**	55,369	11,249
Total financial liabilities at fair value	<u>55,369</u>	<u>11,249</u>
Financial liabilities at amortized cost:		
Loans and notes payable	12,410,576	13,021,679
Lease liabilities	2,360,382	-
Accounts payable	4,029,218	5,154,712
Due to related parties	151,052	163,385
Other financial liabilities	275,536	299,640
Total financial liabilities at amortized cost	<u>19,226,764</u>	<u>18,639,416</u>
Total financial liabilities	<u>19,282,133</u>	<u>18,650,665</u>
Current financial liabilities	6,439,424	6,363,237
Non-current financial liabilities	12,842,709	12,287,428
Total financial liabilities	<u>19,282,133</u>	<u>18,650,665</u>

* The fair value of these unquoted equity shares was categorized as level 3.

** The fair value of these derivatives financial instruments was categorized as level 2.

Fair values of financial assets and financial liabilities measured at amortized cost are not significantly different from their carrying amounts.

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12 REVENUE

	<u>Consumer</u>	<u>Business</u>	<u>Wholesale</u>	<u>Outsourcing</u>	<u>Total</u>
<u>For the three-month period ended 30 September 2019</u>					
Usage	2,030,175	153,438	258,923	-	2,442,536
Activation and subscription fees	469,003	110,962	-	-	579,965
Others	114,899	190,313	30,244	45,757	381,213
	<u>2,614,077</u>	<u>454,713</u>	<u>289,167</u>	<u>45,757</u>	<u>3,403,714</u>
<u>For the three-month period ended 30 September 2018</u>					
Usage	1,732,078	152,735	215,312	-	2,100,125
Activation and subscription fees	526,660	84,816	-	-	611,476
Others	102,035	103,215	25,181	34,037	264,468
	<u>2,360,773</u>	<u>340,766</u>	<u>240,493</u>	<u>34,037</u>	<u>2,976,069</u>
<u>For the nine-month period ended 30 September 2019</u>					
Usage	5,906,747	380,122	690,074	-	6,976,943
Activation and subscription fees	1,398,049	309,134	-	-	1,707,183
Others	460,576	535,527	124,797	130,563	1,251,463
	<u>7,765,372</u>	<u>1,224,783</u>	<u>814,871</u>	<u>130,563</u>	<u>9,935,589</u>
<u>For the nine-month period ended 30 September 2018</u>					
Usage	5,156,834	449,199	526,213	-	6,132,246
Activation and subscription fees	1,507,751	259,291	-	-	1,767,042
Others	372,797	266,089	75,756	89,366	804,008
	<u>7,037,382</u>	<u>974,579</u>	<u>601,969</u>	<u>89,366</u>	<u>8,703,296</u>

13 BASIC AND DILUTED PROFIT / (LOSS) PER SHARE

Basic profit / (loss) per share is calculated by dividing the profit / (loss) for the period attributable to ordinary equity holders of the company by the weighted average number of ordinary shares outstanding during the period.

The diluted profit / (loss) per share is same as the basic profit / (loss) per share as the Group does not have any dilutive instruments in issue.

	<u>For the three-month period ended 30 September</u>		<u>For the nine-month period ended 30 September</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Profit / (Loss) for the period	<u>51,056</u>	<u>(30,919)</u>	<u>156,077</u>	<u>(202,952)</u>
Weighted average number of shares	<u>770,000</u>	<u>770,000</u>	<u>770,000</u>	<u>770,000</u>
Basic and diluted profit / (loss) per share (in SR)	<u>0.07</u>	<u>(0.04)</u>	<u>0.20</u>	<u>(0.26)</u>

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14 COMMITMENTS AND CONTINGENCIES

14.1 Capital commitments

The Group has capital commitments resulting from contracts for supply of property and equipment, which were entered into and not yet executed at the condensed consolidated statement of financial position date in the amount of SR 819 million as at 30 September 2019 (31 December 2018: SR 1.2 billion).

14.2 Contingent liabilities

The Group had contingent liabilities in the form of letters of guarantee and letters of credit amounting to SR 836 million as at 30 September 2019 (31 December 2018: SR 769 million).

The CITC's violation committee has issued several penalty resolutions against the Group which the Group has opposed to in accordance with the Telecom Status and its implementing regulations. The reasons of issuing these resolutions vary between the manner followed in issuing prepaid SIM Cards and providing promotions that have not been approved by CITC and/or other reasons.

Multiple lawsuits were filed by the Group against CITC at the Board of Grievances in order to oppose to such resolutions of the CITC's violation committee in accordance with the Telecom Status and its regulations, as follows:

- There are (829) lawsuits filed by the Group against CITC amounting to SR 710 million as of 30 September 2019.
- The Board of Grievance has issued (177) verdicts in favor of the Group voiding (177) resolutions of the CITC's violation committee with a total penalties amounting to SR 505 million as of 30 September 2019.
- Some of these preliminary verdicts have become conclusive (after they were affirmed by the appeal court) cancelling penalties with a total amounting to SR 503 million as of 30 September 2019.

Management and the Board of Directors believe that, based on the status of these lawsuits as of 30 September 2019, adequate and sufficient provisions have been recorded.

There are 182 lawsuits filed by some of the shareholders against the Group before the Committee for the Resolutions of Security Disputes and still being adjudicated by such committee. The Company has received (3) preliminary verdicts and (153) final verdicts in its favor and (11) dismissals while (1) case has been maintained (2) cases have been abandoned and (12) cases are on-going as of 30 June 2019.

The Group is subject to zakat according to the regulations of the General Authority of Zakat and Tax (GAZT) in the Kingdom of Saudi Arabia. The Group files its zakat returns on a consolidated basis, starting from the financial year ended 31 December 2009 and thereafter, where it includes the Company and its subsidiaries due to the fact that the Group is one economic entity wholly owned and managed by the Company.

The Group has filed its zakat returns with GAZT for the years through 2018 and settled its zakat thereon. During the year ended 31 December 2016, the Group submitted adjusted zakat returns for the years 2013 and 2014, as a result of restatement of the consolidated financial statements for the said years.

The Group has finalized its zakat status and obtained the final zakat assessments for the years until 2006. During the first quarter of 2019, the tax and zakat status for the year 2008 has been finalized. The Group has received zakat assessments for the years 2007, 2009, 2010 and 2011 that showed additional zakat and withholding tax assessments of SR 279 million and SR 232 million respectively, which have been appealed against by the Group at the Preliminary and Higher Appeal Committees. Recently, the Higher Appeal Committee has issued certain rulings in favor of the company related to zakat and withholding tax disputes. Management believes that it has sufficient grounds to contest the matters included in the assessments and the eventual outcome of the appeal process will not result in any significant liability.

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15 SEGMENT INFORMATION

Information regarding the Group's operating segments is set out below in accordance with IFRS 8 Operating Segments. IFRS 8 requires operating segments to be identified on the basis of internal reports that are regularly reviewed by the Group's chief operating decision maker ("CODM") and used to allocate resources to the segments and to assess their performance.

The Group is engaged in a single line of business, being the supply of telecommunications services and related products. The majority of the Group's revenues, profits and assets relate to its operations in the Saudi Arabia. The operating segments that are regularly reported to the CODM are Consumer, Business, Wholesale and Outsourcing.

The CODM used to receive other operational financial aggregates on a group consolidated level. This is the measure reported to the Group's Board of Directors for the purpose of resource allocation and assessment of segment performance.

	For the three-month period ended 30 September		For the nine-month period ended 30 September	
	2019	2018	2019	2018
Consumer revenues	2,614,077	2,360,773	7,765,372	7,037,382
Business revenues	454,713	340,766	1,224,783	974,579
Wholesale revenues	289,167	240,493	814,871	601,969
Outsourcing revenues	45,757	34,037	130,563	89,366
Total revenue	3,403,714	2,976,069	9,935,589	8,703,296
Total cost of sales	(1,388,352)	(1,217,672)	(4,125,217)	(3,507,237)
Total operating expense	(738,514)	(671,159)	(2,039,878)	(2,006,000)
Depreciation and amortization	(993,448)	(895,769)	(2,906,956)	(2,770,843)
Impairment loss on property and equipment	(21,000)	(83,333)	(63,000)	(83,333)
Total non-operating expense	(195,248)	(194,252)	(604,162)	(562,464)
Capital expenditures	337,403	754,500	1,463,528	2,112,825

16 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period's presentation.