ETIHAD ETISALAT COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017
Together with
Independent Auditors' Report

Contents

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Independent auditors' report

To the Shareholders of Etihad Etisalat Company
(A Saudi Joint Stock Company)
Riyadh, Kingdom of Saudi Arabia

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of **Etihad Etisalat Company** ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. 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 professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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 year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KPMG Al Fozan & Partners Certified Public Accountants, a registered company in the Kingdom of Saudi Arabia, and a non-partner member firm of the KPMG network of independent firms affiliated with KPMG International Cooperative, a Swiss entity.

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<table>
<tr><th colspan="2">Key Audit Matters (Continued)</th></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>Revenue recognition

See Note 26 to the consolidated financial statements. There is an inherent risk relating to the completeness and accuracy of recorded revenue given the complexity of the systems, the high volumes of data and the combination of different services into different products which are sold at varying prices.

Significant management judgment can be required in determining the appropriate measurement and timing of recognition of different elements of revenue within bundled products.

Due to the estimates and judgment involved in the application of revenue recognition standards and the complexity of the related IT systems and processes, we have identified this matter as a key audit matter.</td><td>In responding to this area, our audit procedures included testing of relevant controls and substantive procedures. In particular:

• Assessing the appropriateness of the revenue recognition policy that is applied to different products and combination of products to assess whether it is in accordance with the applicable accounting framework;

• Assessing, with the assistance of our internal IT specialists, the design, implementation and operating effectiveness of management's key internal controls over the IT environment in which the business systems operate, including access controls, program change controls, program development controls and IT operation controls;

• Assessing with the assistance of our internal IT specialists, the design, implementation and operating effectiveness of management's key internal IT controls over the completeness and accuracy of rating and bill generation and the end to end reconciliation controls from the rating and billing systems to the accounting system;

• Performing tests on the accuracy of customer invoice generation on a sample basis and testing the credits and discounts applied;

• Performing data analytics and analytical reviews of significant revenue streams;

• Performing specific procedures to test the completeness and accuracy of adjustments relating to multiple element contracts.</td></tr>
<tr><td>Impairment of goodwill

See Note 9.1 to the consolidated financial statements

As a result of past acquisitions, the Group carries capitalised goodwill with a value of SR1,467 million as at 31 December 2017. Management performs an impairment assessment on an annual basis as required by IAS 36 Impairment of Assets. The impairment assessment for 2017 has been performed at the Group level which is consistent with the judgment that the Group has a single operating segment as discussed in Note 33 to the financial statements.</td><td>We performed an evaluation of managements' assessment of the operating segment based on the criteria included in IFRS 8 Operating segments. Our evaluation included discussion with management, review of the internal reporting structure, the decision making process and how resources are allocated among business units of the Group. We subsequently evaluated the impairment assessment made by management to also ensure they were in accordance with IFRS.</td></tr>
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<table>
<tr><th colspan="2">Key Audit Matters (Continued)</th></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>

Impairment of goodwill (continued)

The determination of recoverable amount, being the higher of fair value less costs to sell and value in use, requires judgment by management in both identifying and then valuing the operating segment. Recoverable amounts are based on management's view of variables such as future average revenue per user (ARPU), average customer numbers and customer churn, timing and approval of capital expenditure, spectrum and the appropriate discount rate.

We considered goodwill impairment to be a key audit matter due to the extent of judgment and assumptions involved in the assessment process

</td><td>

Our procedures included challenging management on the suitability of the impairment model and reasonableness of the assumptions through performing the following:

- Benchmarking the key market related assumptions in management's valuation models with industry comparators and assumptions made in prior years including revenue and margin trends, capital expenditure on network assets and spectrum, market share and customer churn, against external data where available, utilizing our internal valuation specialists;
- Recalculation of the discount rate by our internal valuation specialists using external information and comparison to management's assumptions;
- Testing the mathematical accuracy of the cash flow model and agreeing relevant data to the Board approved strategic long term plan;
- Assessing the reliability of management's forecast through a review of actual performance against previous forecasts;
- Assessing and validating the appropriateness of the disclosures made in the financial statements.

</td></tr>
<tr><td>

Capitalisation practices and useful lives of Property and Equipment

See Note 8 to the consolidated financial statements

The carrying value of Property and Equipment ("PPE") and the related depreciation charge are impacted by management judgments which include:

- The decision on whether to capitalise or expense;
- The annual asset useful life review including changes in technologies and the Group's strategy;
- The timeliness of the transfer of assets out of Capital Work in Progress;
- Review of the amount being paid as capital advances (and yet to be capitalized).

The details of critical accounting judgments and carrying values of PPE are given in Notes 6 and 8 respectively.

We have considered capitalisation to be a key audit matter due to the significance of the value of PPE and the judgement and assumptions required in the process of PPE capitalization and its related useful life determination.

</td><td>

We tested controls in place over the PPE cycle, evaluated the appropriateness of capitalisation practices, performed tests of details on costs capitalised and assessed the timeliness of the transfer of assets out of Capital work in progress and capital advances.

Our procedures included challenging the judgments made by management, including:

- The nature of the underlying costs capitalised as part of the network roll-out;
- The appropriateness of asset useful lives utilised in the calculation of the depreciation charge.

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Key Audit Matters (Continued)	
The key audit matter	**How the matter was addressed in our audit**
Change in financial reporting framework See Note 7 to the consolidated financial statements For all years up to and including the year ended 31 December 2016, the Group prepared and presented its consolidated financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia issued by SOCPA. For the financial years commencing 1 January, 2017, the applicable regulations require the Group to prepare and present its consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by SOCPA (IFRS as endorsed in the Kingdom of Saudi Arabia). Accordingly, the Group has prepared its consolidated financial statements, for the year ended 31 December 2017, under IFRS as endorsed in the Kingdom of Saudi Arabia using IFRS 1 - "First time Adoption of International Financial Reporting Standards" (IFRS 1). As part of this transition to IFRS as endorsed in the Kingdom of Saudi Arabia, the Group's management performed a detailed gap analysis to identify differences between the previous reporting framework and IFRS as endorsed in the Kingdom of Saudi Arabia, determined the transition adjustments in light of this gap analysis and relevant requirements of IFRS 1, and assessed the additional disclosures required in the financial statements. We considered this as a key audit matter as the transitional adjustments due to the change in the financial reporting framework and transition related disclosures in the financial statements require additional attention during our audit.	We performed the following procedures in relation to change in financial reporting framework: • Considered the Group's governance process around the adoption of IFRS as endorsed in the Kingdom of Saudi Arabia, especially, in relation to matters requiring management to exercise its judgment; Obtained an understanding of the analysis performed by management to identify all significant differences between previous reporting framework and IFRS as endorsed in the Kingdom of Saudi Arabia which can impact the Group's financial statements; • Evaluated the results of management's analysis and key decisions taken in respect of the transition using our knowledge of the relevant requirements of the IFRS as endorsed in the Kingdom of Saudi Arabia and our understanding of the Group's business and its operations; • Tested the transition adjustments by considering management's gap analysis, the underlying financial information and the computation of these adjustments; and Evaluated the disclosures made in relation to the transition to IFRS as endorsed in the Kingdom of Saudi Arabia by considering the relevant requirements of IFRS 1.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available 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.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee.

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Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, Company's By-laws and the provisions of Regulations for Companies 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.

Audit Committee are responsible for overseeing the Group's financial reporting process.

Auditors' 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 auditors' 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, 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, then 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.
- 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.

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We communicate with the Audit Committee 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 of **Etihad Etisalat Company** ("the Company") and its subsidiaries ("the Group").

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

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year 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.

For KPMG Al Fozan & Partners
Certified Public Accountants

KPMG Certified Public Accountants KPMG Al Fozan & Partners

Khalil Ibrahim Al Sedais
License No. 371

Riyadh on: 13 February 2018
Corresponding to: 27 Jumada'I 1439H

Etihad Etisalat Company (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts in Saudi Riyals thousands unless otherwise stated)

As at

	Notes	31 December 2017	31 December 2016 (Adjusted - Note7)	1 January 2016 (Adjusted - Note7)
Assets				
Non-current assets				
Property and equipment	8	**23,428,341**	24,495,374	24,559,075
Intangible assets	9	**8,690,547**	8,987,693	9,493,611
Capital advances		**867,175**	895,212	982,048
Available for sale investments		**7,271**	7,271	7,271
Total non-current assets		**32,993,334**	34,385,550	35,042,005
Current assets				
Inventories	10	**140,582**	200,072	485,859
Accounts receivable	11	**3,630,803**	3,701,340	3,424,090
Due from a related party	12	**52,419**	69,568	36,508
Prepaid expenses and other assets	13	**1,458,843**	1,698,854	1,664,542
Held to maturity investments	14	**1,000,000**	350,000	1,250,000
Cash and cash equivalents	15	**1,192,181**	866,109	497,570
Total current assets		**7,474,828**	6,885,943	7,358,569
Total assets		**40,468,162**	41,271,493	42,400,574
Equity and liabilities				
Equity				
Share capital	1	**7,700,000**	7,700,000	7,700,000
Statutory reserve	25	**2,648,971**	2,648,971	2,648,971
Retained earnings		**3,911,783**	4,615,120	4,831,447
Foreign currency translation reserve		**(6,917)**	(9,111)	(8,168)
Total shareholders' equity		**14,253,837**	14,954,980	15,172,250
Non-controlling interest		**-**	1,500	1,500
Total Equity		**14,253,837**	14,956,480	15,173,750
Non-current liabilities				
Loans and notes payable	16	**13,469,034**	7,600,851	8,508,553
Provision for employees' end of service benefits	17	**379,412**	342,742	306,048
Deferred revenue		**66,875**	89,167	-
Deferred government grants income	18	**160,833**	180,064	121,987
Provision for decommissioning liability	19	**221,518**	209,374	196,448
Total non-current liabilities		**14,297,672**	8,422,198	9,133,036
Current liabilities				
Loans and notes payable	16	**1,410,638**	7,607,902	5,766,262
Accounts payable	20	**4,808,002**	4,521,432	6,535,866
Due to related parties	12	**92,590**	138,420	210,970
Accrued expenses and other liabilities	21	**4,340,294**	4,393,204	4,361,418
Provisions		**1,197,020**	1,158,108	1,122,971
Zakat provision	22	**48,878**	54,518	77,711
Deferred government grants income	18	**19,231**	19,231	18,590
Total current liabilities		**11,916,653**	17,892,815	18,093,788
Total liabilities		**26,214,325**	26,315,013	27,226,824
Total equity and liabilities		**40,468,162**	41,271,493	42,400,574

The attached notes from 1 to 33 are an integral part of these consolidated financial statements.

Chief Financial Officer   Chief Executive Officer   Authorized Board Member

Etihad Etisalat Company (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	**31 December 2017**	31 December 2016 (Adjusted - Note 7)
Revenue	26	**11,351,301**	12,569,397
Cost of sales	27	**(4,820,994)**	(5,144,112)
Gross profit		**6,530,307**	7,425,285
Selling and marketing expenses	28	**(1,234,103)**	(1,270,168)
General and administrative expenses	29	**(1,683,768)**	(2,137,819)
Depreciation and amortization	8,9	**(3,626,355)**	(3,781,829)
Other income		**33,190**	51,207
Operating profit		**19,271**	286,676
Finance expenses	30	**(678,443)**	(566,384)
Finance income	14	**11,641**	22,741
Loss before zakat		**(647,531)**	(256,967)
Zakat	22	**(61,410)**	43,331
Loss for the year		**(708,941)**	(213,636)
Loss attributable to:			
Owners of the Company		**(708,941)**	(213,636)
Non-controlling interest		**-**	-
Loss for the year		**(708,941)**	(213,636)
Loss per share:			
Basic and diluted loss per share (in SR)	31	**(0.92)**	(0.28)

The attached notes from 1 to 33 are an integral part of these consolidated financial statements.

Chief Financial Officer

Chief Executive Officer

Authorized Board Member

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in Saudi Riyals thousands unless otherwise stated)

	31 December 2017	31 December 2016
Loss for the year	**(708,941)**	(213,636)
Items that will be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**2,194**	(943)
Net total items that will be reclassified subsequently to profit or loss	**2,194**	(943)
Items that will not be reclassified subsequently to profit or loss:		
Actuarial gain / (loss) on re-measurement of employees' end of service benefits	**5,604**	(2,691)
Net total items that will not be reclassified subsequently to profit or loss	**5,604**	(2,691)
Total other comprehensive income/(loss) for the year	**7,798**	(3,634)
Total comprehensive loss for the year	**(701,143)**	(217,270)
Total comprehensive loss for the year attributable to:		
Owners of the Company	**(701,143)**	(217,270)
Non-controlling interest	**-**	-
Total comprehensive loss for the year	**(701,143)**	(217,270)

The attached notes from 1 to 33 are an integral part of these consolidated financial statements.

Chief Financial Officer	Chief Executive Officer	Authorized Board Member

Etihad Etisalat Company (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Share capital	Statutory reserve	Retained earnings (Adjusted – Note 7)	Foreign currency translation reserve	Total shareholders' equity	Non-controlling interest	Total equity
As at 1 January 2016	7,700,000	2,648,971	4,831,447	(8,168)	15,172,250	1,500	15,173,750
Loss for the year	-	-	(213,636)	-	(213,636)	-	(213,636)
Other comprehensive loss for the year	-	-	(2,691)	(943)	(3,634)	-	(3,634)
Total comprehensive loss for the year	-	-	(216,327)	(943)	(217,270)	-	(217,270)
As at 31 December 2016	7,700,000	2,648,971	4,615,120	(9,111)	14,954,980	1,500	14,956,480
As at 1 January 2017	7,700,000	2,648,971	4,615,120	(9,111)	14,954,980	1,500	14,956,480
Loss for the year	-	-	(708,941)	-	(708,941)	-	(708,941)
Other comprehensive income for the year	-	-	5,604	2,194	7,798	-	7,798
Total comprehensive (loss) / income for the year	-	-	(703,337)	2,194	(701,143)	-	(701,143)
Non-controlling interest	-	-	-	-	-	(1,500)	(1,500)
As at 31 December 2017	**7,700,000**	**2,648,971**	**3,911,783**	**(6,917)**	**14,253,837**	-	**14,253,837**

The attached notes from 1 to 33 are an integral part of these consolidated financial statements.

Chief Financial Officer   Chief Executive Officer   Authorized Board Member

Etihad Etisalat Company (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	31 December 2017	31 December 2016 (Adjusted)
OPERATING ACTIVITIES			
Cash flows from operating activities			
Loss for the year		**(708,941)**	(213,636)
Adjustments for:			
Change in provision for inventory obsolescence		**(7,267)**	22,004
Depreciation	8	**3,299,145**	3,245,260
Amortization of intangible assets	9	**327,210**	536,569
Provision for employees' end of service benefits	17	**60,943**	58,042
Provision for doubtful debts	11	**233,896**	551,692
Provisions		**38,912**	35,137
Government grants		**(19,231)**	(18,590)
Zakat provision	22	**61,410**	(43,331)
Loss/(gain) on sale of property and equipment		**5,343**	(54)
Finance expenses	30	**678,443**	566,384
Finance income		**(11,641)**	(22,741)
Changes in:			
Accounts receivable		**(163,359)**	(828,942)
Inventories		**66,757**	263,783
Prepaid expenses and other assets		**93,110**	(194,623)
Accounts payable		**496,365**	563,101
Accrued expenses and other liabilities		**(88,917)**	121,211
Utilization of the decommissioning provision		**(791)**	-
Due from a related party		**17,149**	(33,060)
Due to related parties		**(45,830)**	(72,550)
Cash generated from operating activities		**4,332,706**	4,535,656
Employees' end of service benefits paid	17	**(18,669)**	(24,039)
Finance expenses paid		**(652,573)**	(515,930)
Zakat paid	22	**(67,050)**	(77,125)
Net cash generated from operating activities		**3,594,414**	3,918,562
INVESTING ACTIVITIES			
Held to maturity investments		**(650,000)**	900,000
Finance income received		**13,062**	22,481
Purchase of property and equipment		**(2,183,727)**	(5,574,349)
Proceeds from sales of property and equipment		**6**	76
Acquisition of intangible assets		**(156,967)**	(30,651)
Government grants received		**-**	77,308
Net cash used in investing activities		**(2,977,626)**	(4,605,135)
FINANCING ACTIVITIES			
Proceeds from loans and notes payable		**9,270,506**	4,137,216
Payment of loans and notes payable		**(9,559,722)**	(3,082,104)
Non-controlling interest		**(1,500)**	-
Net cash (used in) / generated from financing activities		**(290,716)**	1,055,112
Net changes in cash and cash equivalents		**326,072**	368,539
Cash and cash equivalents at the beginning of the year		**866,109**	497,570
Cash and cash equivalents at the end of the year	15	**1,192,181**	866,109
Supplementary non-cash information			
Property and equipment purchased credited to capital expenditure payable		**(209,027)**	(2,577,535)

The attached notes from 1 to 33 are an integral part of these consolidated financial statements.

Chief Financial Officer | Chief Executive Officer | Authorized Board Member

(All amounts in Saudi Riyals thousands unless otherwise stated)

1 CORPORATE INFORMATION

1.1 Etihad Etisalat Company

Etihad Etisalat Company ("Mobily" or the "Company"), a Saudi Joint Stock Company, is registered in the Kingdom of Saudi Arabia under commercial registration number 1010203896 issued in Riyadh on 14 December 2004 (corresponding to Dhul Qa'adah 2, 1425H). The main address for the Company is P.O. Box 23088, Riyadh 11321, Kingdom of Saudi Arabia.

The Company was incorporated pursuant to the Royal decree number M/40 dated 18 August 2004 (corresponding to Rajab 2, 1425H) approving the Council of Ministers resolution number 189 dated 10 August 2004 (corresponding to Jumada II 23, 1425H) to approve the award of the license to incorporate a Saudi Joint Stock Company under the name of "Etihad Etisalat Company".

Pursuant to the Council of Ministers resolution number 190 dated 10 August 2004 (corresponding to Jumada II 23, 1425H), the Company obtained the licenses to install and operate 2G and 3G mobile telephone network including all related elements and the provision of all related services locally and internationally through its own network.

Pursuant to the Communication and Information Technology Commission (CITC) resolution number 5125 dated 21 February 2017 (corresponding to Jumada I 24, 1438H), the Company obtained a Unified License to provide all licensed telecommunication services including fixed line voice services and fixed internet.

The Company's main activity is to establish and operate mobile wireless telecommunications network, fiber optics networks and any extension thereof, manage, install and operate telephone networks, terminals and communication unit systems, in addition to sell and maintain mobile phones and communication unit systems in the Kingdom of Saudi Arabia. The Group commenced its commercial operations on 25 May 2005 (corresponding to Rabi Al-Thani 17, 1426H).

The authorized, issued and paid up share capital of the Company is SR 7,700 million divided into 770 million shares of SR 10 each.

1.2 Subsidiary Companies

Below is the summary of Company's subsidiaries and ownership percentage as at 31 December 2017 and 31 December 2016:

		Ownership percentage		
Name	Country of incorporation	Direct	Indirect	Initial investment
Mobily Ventures Holding SPC	Bahrain	100.00%	-	2,510
Mobily InfoTech India Private Limited	India	99.99%	0.01%	1,836
Bayanat Al-Oula for Network Services Company	Saudi Arabia	99.00%	1.00%	1,500,000
Zajil International Network for Telecommunication Company	Saudi Arabia	96.00%	4.00%	80,000
National Company for Business Solutions	Saudi Arabia	95.00%	5.00%	9,500
Sehati for Information Service Company	Saudi Arabia	90.00%	10.00%	900
Mobily Plug & Play LLC (Liquidated)	Saudi Arabia	60.00%	-	2,250
National Company for Business Solutions FZE	United Arab Emirates	-	100.00%	184

1 CORPORATE INFORMATION (CONTINUED)

1.2 Subsidiary companies (continued)

The main activities of the subsidiaries are as follows:

- Development of technology software programs for the Group use, and to provide information technology support.
- Execution of contracts for the installation and maintenance of wire and wireless telecommunications networks and the installation of computer systems and data services.
- Wholesale and retail trade in equipment and machinery, electronic and electrical devices, wire and wireless telecommunications' equipment, smart building systems and import and export to third parties, in addition to marketing and distributing telecommunication services and providing consultation services in the telecommunication domain.
- Wholesale and retail trade in computers and electronic equipment, maintenance and operation of such equipment, and provision of related services.
- Providing television channels service over internet protocol (IPTV).
- Establishment, management and operation of, and investment in service and industrial projects.
- Establishment, operating and maintenance of telecommunications networks, computer and its related works, and establishment, maintenance and operating of computer software, importing and exporting and sale of equipment, devices and programs of telecommunication systems and computer software.
- Establish and own companies specializing in commercial activities.
- Manage its affiliated companies or to participate in the management of other companies in which it owns shares, and to provide the necessary support for such companies.
- Invest funds in shares, bonds and other securities.
- Own real estate and other assets necessary for undertaking its activities within the limits pertained by law.
- Own or to lease intellectual property rights such as patents and trademarks, concessions and other intangible rights to exploit and lease or sub-lease them to its affiliates or to others.
- Have interest or participate in any manner in institutions which carry on similar activities or which may assist the Company in realizing its own objectives in the Kingdom of Bahrain or abroad. The Company may acquire such entities or merge therewith.
- Perform all acts and services relating to the realization of the foregoing objects.

The consolidated financial statements of the Company include the financial information of the following subsidiaries (collectively hereafter referred as "Group"):

1.2.1 Mobily Ventures Holding SPC

During 2014, the Company completed the legal formalities pertaining to the investment in a new subsidiary, Mobily Ventures Holding, Single Person Company (SPC), located in the Kingdom of Bahrain owned 100% by the Company.

Mobily Ventures Holding SPC owns participation in the following companies;

- Anghami LLC (Cayman Islands) : 8.16% (2016 : 8.14%)
- MENA 360 DWC LLC (United Arab Emirates) : 2.48% (2016 : 3.63%)

1.2.2 Mobily InfoTech India Private Limited

During the year 2007, the Company invested in 99.99% of the share capital of a subsidiary company, Mobily InfoTech India Private Limited incorporated in Bangalore, India which commenced its commercial activities during the year 2008. Early 2009, the remaining 0.01% of the subsidiary's share capital was acquired by National Company for Business Solutions, a subsidiary of the Company. The financial year end of the subsidiary is March 31 however, the Company uses the financial statements of the subsidiary for the same reporting period in preparing the Group's consolidated financial statements.

1.2.3 Bayanat Al-Oula for Network Services Company

During the year 2008, the Company acquired 99% of the partners' shares in Bayanat, a Saudi limited liability company. The acquisition included Bayanat's rights, assets, obligations, commercial name as well as its current and future trademarks for a total price of Saudi Riyals 1.5 billion, resulting in goodwill of Saudi Riyals 1.466 billion on the acquisition date. The remaining 1% is owned by National Company for Business Solutions, a subsidiary of the Company.

1 CORPORATE INFORMATION (CONTINUED)

1.2 Subsidiary companies (continued)

1.2.4 Zajil International Network for Telecommunication Company

During the year 2008, the Company acquired 96% of the partners' shares in Zajil International Network for Telecommunication Company ("Zajil"), a Saudi limited liability company. The acquisition included Zajil's rights, assets, obligations, commercial name as well as its current and future trademarks for a total price of Saudi Riyals 80 million, resulting in goodwill of Saudi Riyals 63 million on the acquisition date. The remaining 4% is owned by National Company for Business Solutions, a subsidiary of the Company. The goodwill has been fully impaired during the year ended 31 December 2014.

1.2.5 National Company for Business Solutions

During the year 2008, the Company invested in 95% of the share capital of National Company for Business Solutions, a Saudi limited liability company. The remaining 5% is owned by Bayanat, a subsidiary of the Company.

National Company for Business Solution owns participation in Ecommerce Taxi Middle East (Luxembourg) : 10% (2016 : 10%).

1.2.6 Sehati for Information Service Company

During 2014, the Company completed the legal formalities pertaining to the investment of 90% in Sehati for Information Service Company. The remaining 10% is owned by Bayanat, a subsidiary of the Company.

1.2.7 Mobily Plug & Play LLC (Liquidated)

During 2014, the Company completed the legal formalities pertaining to the investment of 60% in Mobily Plug & Play LLC. The remaining 40% is owned by Plug & Play International, a Company incorporated in USA. The Company completed the legal formalities for liquidation on 31 December 2017.

1.2.8 National Company for Business Solutions FZE

During 2014, the National Company for Business Solutions (KSA) completed the legal formalities pertaining to the investment of 100% in National Company for Business Solutions FZE, a Company incorporated in the United Arab of Emirates.

2 BASIS OF ACCOUNTING

2.1 Statement of Compliance

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

These consolidated financial statements have been prepared in accordance International Financial Reporting Standards (IFRS) that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants. Up to and including the year ended 31 December 2016, the Group prepared its annual consolidated financial statements in accordance with Generally Accepted Accounting Standards as issued by Saudi Organization for Certified Public Accountants (SOCPA). These consolidated financial statements are the first IFRS annual financial statements, therefore IFRS 1 'First-time Adoption of International Financial Reporting Standards' that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants has been applied by the Group to prepare these consolidated financial statements. The reader must also take into account the explanations of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Group as provided in Note 7.

The principal accounting policies applied in the preparation of these consolidated financial statements have been consistently applied to all periods presented.

The consolidated financial statements were authorized for issuance by the Board of Directors on 13 February 2018 (corresponding to 27 Jumada'I 1439H).

2 BASIS OF ACCOUNTING (CONTINUED)

2.2 Basis of measurement

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

2.3 Functional and presentation currency

These consolidated 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 BASIS OF CONSOLIDATION

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including the contractual arrangement(s) with the other vote holders of the investee, rights arising from other contractual arrangements and the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, unrealized income and expenses and cash flows relating to transactions are eliminated in full on consolidation.

Non-controlling interest are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

3 BASIS OF CONSOLIDATION (CONTINUED)

If the Group loses control over a subsidiary, it:

- De-recognizes the assets (including goodwill) and liabilities of the subsidiary;
- De-recognizes the carrying amount of any non-controlling interest;
- De-recognizes the cumulative translation differences, recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in consolidated statement of profit or loss;
- Reclassifies the Group’s share of components previously recognized in consolidated statement of other comprehensive income to consolidated statement of profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

4 NEW STANDARDS AND AMENDMENTS ISSUED BUT NOT YET EFFECTIVE

Standards and amendments issued but not yet applicable to the Group’s consolidated financial statements are listed below. This listing of standards and amendments issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. Following are standards and amendments issued but not yet effective:

IFRS 9 - Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Group is in the process of completing its evaluation of impact of expected credit loss model on impairment of its financial assets.

IFRS 15 Revenue from contracts with customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Group is in the process of completing its evaluation of impact of IFRS 15 on its revenue recognition policy.

4 NEW STANDARDS AND AMENDMENTS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

IFRS 16 Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognizes a right of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16. The Group has started an initial assessment of the potential impact of IFRS 16 on its consolidated financial statements.

Other amendments

The following new or amended standards are not expected to have a significant impact on the Group's consolidated financial statements.

a) Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).
b) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.
A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.2 Business combination and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at the acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred is recognized at fair value at the acquisition date. All contingent consideration (except that which is classified as equity) is remeasured at fair value at each reporting date with the changes in fair value recognized in consolidated statement of profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in consolidated statement of profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is from the acquisition date allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed off, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash generating unit retained.

5.3 Investment in an associate and a joint venture

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The considerations made in determining whether significant influence or joint control are similar to those necessary to determine control over subsidiaries.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.3 Investment in an associate and a joint venture (continued)

The Group's investments in its associates and joint ventures are accounted for using the equity method. Under the equity method, the investment in an associate or joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

The consolidated statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in consolidated statement of other comprehensive income of those investees is presented as part of the Group's consolidated statement of other comprehensive income. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate and joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of consolidated statement of profit or loss of an associate and a joint venture is shown separately on the face of the consolidated statement of profit or loss.

The consolidated financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is any objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the loss as part of 'Share of profit of an associate and a joint venture' in the consolidated statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retaining investment and proceeds from disposal is recognized in the consolidated statement of profit or loss.

5.4 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.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.4 Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the consolidated 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 consolidated 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 remeasured 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.

5.5 Cash and cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents consist of cash on hand, bank current accounts and Murabaha facilities with original maturities of three month or less from acquisition date.

5.6 Financial instruments – initial recognition and subsequent measurement derecognition

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

5.6.1 *Financial assets*

(a) Initial recognition and measurement

Financial assets are classified at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets, available for sale financial assets, or designated as hedging instruments in an effective hedge, as appropriate.

All financial assets other than financial assets at fair value through profit or loss, are initially measured at fair value plus any directly attributable transaction costs. Transaction costs for financial assets at fair value through profit or loss are recognised in consolidated statement of profit or loss as incurred.

The group has the following financial assets: available for sale investments, cash and cash equivalents, accounts receivable, due from a related party, held to maturity investments.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.6 Financial instruments – initial recognition and subsequent measurement derecognition (continued)

5.6.1 *Financial assets* (continued)

(b) Subsequent measurement

The subsequent measurement of financial assets depends on their classification, as described below:

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, less accumulated impairment losses.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The effective interest rate amortization is included in finance income in the consolidated statement of profit or loss. The losses arising from impairment are recognized in the consolidated statement of profit or loss in finance costs for loans and in other operating expenses for receivables.

(ii) Available for sale investments

Available for sale investments include equity and debt securities. Equity investments classified as an Available For Sale (AFS) are those neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available for sale investments are subsequently measured at fair value with unrealised gains or losses recognised in consolidated statement of other comprehensive income in the AFS reserve until the investment is derecognised, at which time, the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, at which time, the cumulative loss is reclassified to the consolidated statement of profit or loss in finance costs and removed from the AFS reserve. Interest income on available for sale debt securities is calculated using the effective interest method and is recognised in consolidated statement of profit or loss. The Group evaluates its available for sale financial assets to determine whether the ability and intention to sell them in the near term is still appropriate.

When the Group is unable to trade these financial assets due to inactive markets and management’s intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. For a financial asset reclassified out of the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to consolidated statement of profit or loss over the remaining life of the investment using the Effective Interest Rate (EIR). Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of profit or loss.

(iii) Held to maturity financial assets

Investments with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held to maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less any accumulated impairment losses, with income recognised on an effective yield basis. The Group considers the credit risk of counterparties in its assessment of whether such financial instruments are impaired.

Held to maturity investments include placements with banks and other short-term highly liquid investments with original maturities of three months or more but not more than one year from the purchase date.

The Group does not have any financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.6 Financial instruments – initial recognition and subsequent measurement derecognition (continued)

5.6.1 *Financial assets* (continued)

(c) Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is primarily derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  (i) the Group has transferred substantially all the risks and rewards of the asset, or

  (ii) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(d) Impairment of financial assets

For financial assets not classified at fair value through profit or loss, the Group assesses at each reporting date whether there is any objective evidence that such financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has or have occurred after the initial recognition of the asset and a loss event has an impact on the estimated future cash flows of the financial asset or the Group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that debtors or a Group of debtors are experiencing significant financial difficulty, default or delinquency in principal payments, the probability that they will enter into bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in consolidated statement of profit or loss. Interest income (recorded as finance income in the consolidated statement of profit or loss) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(All amounts in Saudi Riyals thousands unless otherwise stated)

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.6 Financial instruments – initial recognition and subsequent measurement derecognition (continued)

5.6.1 *Financial assets* (continued)

(d) Impairment of financial assets (continued)

(i) Financial assets carried at amortized cost (continued)

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to general and administrative in the consolidated statement of profit or loss.

(ii) Financial assets classified as available for sale

For AFS investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and the duration or extent to which the fair value of an investment is less than its cost.

5.6.2 *Financial liabilities*

Recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, as appropriate. All financial liabilities other than financial liabilities at fair value through profit or loss are recognized initially at fair value net of directly attributable transaction costs. Financial liabilities at fair value through profit or loss are measured initially and subsequently at fair value, and any related transaction costs are are recognised in consolidated statement of profit or loss as incurred.The Group's financial liabilities include loans and notes payable, accounts payable, due to related parties

5.7 Property and equipment

Property and equipment are only measured at cost, less accumulated depreciation and any accumulated impairment losses. Cost comprises the cost of equipment and materials, including freight and insurance, charges from contractors for installation and building works, direct labour costs, capitalized borrowing costs and an estimate of the costs of dismantling and removing the equipment and restoring the site on which it is located. If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items of property and equipment.

Depreciation on property and equipment is charged to the consolidated statements of profit or loss using the straight line method over their estimated useful lives at the following annual depreciation rates.

	Depreciation Rate
Buildings	5%
Leasehold improvements	10 %
Telecommunication network equipment	4% - 20%
Computer equipment and software	16% - 33%
Office equipment and furniture	14% - 33%
Vehicles	20% - 25%

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.7 Property and equipment (continued)

Depreciation methods, rates and residual values are reviewed annually and revised if the current method, estimated useful life or residual value is different from that estimated previously. The effect of such changes is recognized in the consolidated statements of profit or loss prospectively.

Major renovations and improvements are capitalized if they increase the productivity or the operating useful life of the assets as well as direct labor and other direct costs. Repairs and maintenance are expensed when incurred. Gain or loss on disposal of property and equipment which represents the difference between the sale proceeds and the carrying amount of these assets, is recognized in the consolidated statement of profit or loss.

Capital work in progress is stated at cost until the construction on installation is complete. Upon the completion of construction or installation, the cost of such assets together with cost directly attributable to construction or installation, including capitalized borrowing cost, are transferred to the respective class of asset. No depreciation is charged on capital work in progress.

5.8 Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is recognized in the consolidated statement of profit or loss in the period in which the expenditure is incurred.

5.8.1 Licenses

Acquired telecommunication licenses are initially recorded at cost or, if part of a business combination, at fair value.

Licenses are amortized on a straight line basis over their estimated useful lives from when the related networks are available for use.

5.8.2 Goodwill

Goodwill is the amount that results when the fair value of consideration transferred for an acquired business exceeds the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. When the Group enters into a business combination, the acquisition method of accounting is used. Goodwill is assigned, as of the date of the business combination, to cash generating units that are expected to benefit from the business combination. Each cash generating unit represents the lowest level at which goodwill is monitored for internal management purposes and it is never larger than an operating segment.

5.8.3 Indefeasible rights of use "IRU"

IRUs correspond to the right to use a portion of the capacity of a terrestrial or submarine transmission cable granted for a fixed period. IRUs are recognized at cost as an intangible asset when the Group has the specific indefeasible right to use an identified portion of the underlying asset, generally optical fibers or dedicated wavelength bandwidth, and the duration of the right is for the major part of the underlying asset's economic life. They are amortized on a straight line basis over the shorter of the expected period of use and the life of the contract.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.8 Intangible Assets (Continued)

5.8.4 Computer Software

Computer software licenses purchased from third parties are initially recorded at cost. Costs directly associated with the production of internally developed software, where it is probable that the software will generate future economic benefits, are recognized as intangible assets.

5.9 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective asset. Where funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred. Where surplus funds are available for a short term from money borrowed specifically to finance a project, the income generated from the temporary investment of such amounts is deducted from the total capitalized borrowing cost. Where the funds used to finance a project form part of general borrowings, the amount capitalized is calculated using a applicable weighted average rates.

All other borrowing costs are expensed in the period in which they incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Borrowing costs incurred on or after the date of transition (1 January 2016) for all eligible qualifying assets are capitalized. The borrowing costs capitalized under SOCPA on qualifying assets to the date of transition to IFRS are included in the carrying amount of assets at that date.

5.10 Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or CGU’s fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

Goodwill is tested annually for impairment and any impairment loss in respect of goodwill is not reversed.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group’s CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognized in the consolidated statement of profit or loss in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset’s or CGU’s recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of profit or loss.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.11 Zakat and income tax

The Group is subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax (the "GAZT"). Provision for zakat for the Group and zakat related to the Group's ownership in the Saudi Arabian subsidiaries is charged to the consolidated statement of profit or loss. Foreign shareholders in the consolidated Saudi Arabian subsidiaries are subject to income taxes. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined. The Group and its Saudi Arabian subsidiaries withhold taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

Foreign subsidiaries are subject to income taxes in their respective countries of domicile. Such income taxes are charged to the consolidated statement of profit or loss.

5.12 Employee termination benefits

The Group operates a defined benefit plan for employees in accordance with Saudi Labor and Workman Law as defined by the conditions stated in the laws of the Kingdom of Saudi Arabia. The cost of providing the benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements for actuarial gains and losses are recognized in the consolidated statement of financial position with a corresponding credit to retained earnings through consolidated statement of other comprehensive income in the period in which they occur.

Remeasurements are not reclassified to consolidated statement of profit or loss in subsequent periods.

Past service cost are recognized in consolidated statement of profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date the Group recognizes related restructuring costs

5.13 Revenues

Revenue comprises the fair value of the consideration received or receivable from the sale of goods and services in the ordinary course of the Group's activities. Revenue is stated net of trade discounts, incentives and volume rebates and after eliminating revenue within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group; and when specific criteria have been met for each of the Group's activities, as described below.

The Group's revenue comprises revenue from mobile telecommunications services as summarized below:

(a) Revenue from mobile telecommunications comprises amounts charged to customers in respect of connection or activation, airtime usage, text messaging, the provision of other mobile telecommunications services including data services, and fees for connecting users of other fixed line and mobile networks to the Group's network.

(b) Airtime, text messaging and data usage by customers is invoiced and recorded as part of a periodic billing cycle and recognized as revenue over the related access period. Unbilled revenue resulting from services already provided from the billing cycle date to the end of each accounting period is accrued and unearned revenue from services provided in periods after each accounting period is deferred and recognized as the customer uses the airtime.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.13 Revenues (continued)

(c) Connection or activation fees, are non-refundable, one-off, fees charged to customers when they connect to the network and are recognized in full as revenue in the period in which the underlying obligation is fulfilled. The fees to the Group are not contingent upon resale or payment by the end user as the Group has no further obligations related to bringing about resale or delivery, and all other revenue recognition criteria have been met.

(d) Subscription fees are monthly access fees that do not vary according to usage and are recognized as revenue on a straight-line basis over the service period.

(e) Interconnect revenue is recognized on the basis of the gross value of invoices raised on other operators for termination charges based on the airtime usage, text messaging, and the provision of other mobile telecommunications services for the billing period as per the agreed rate.

(f) Roaming revenue is recognized on the basis of the gross value of invoices raised on other roaming partners based on actual traffic delivered during the billing period.

(g) Revenue from sale of handsets and replaced sim cards is recognized upon delivery of the products to the customers in the period during which the sale transaction took place.

(h) In arrangements involving the delivery of bundled products and services, those bundled products and services are separated into individual elements, each with its own separate revenue contribution, evaluated from the perspective of the customer. Total arrangement consideration is allocated to each deliverable based on the relative fair value of the individual element. The Group generally determines the fair value of individual elements based on an objective and reliable assessment of the prices at which the deliverable is regularly sold on a standalone basis.

(i) An exchange of good or services of similar nature is not regarded as a transaction that generates revenue. However, exchange of dissimilar items is regarded as generating revenue.

5.14 Loyalty program

The Group operates a loyalty program that provides a variety of benefits for customers. Loyalty award credits are based on a customer’s telecommunications usage. The Group accounts for the loyalty award credits as a separately identifiable component of the sale transaction in which they are granted.

The consideration in respect of the initial sale is allocated to award credits based on their fair value and is accounted for as a liability in the consolidated statement of financial position until the awards are utilized. The fair value is determined using estimation techniques that take into account the fair value of the benefits for which the awards could be redeemed and is net of awards credit which are expected to expire (breakage). The Group also sells award credits to third parties for use in promotional activities. The revenue from such sales is recognized when the awards are ultimately utilized.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.15 Costs and expenses

(a) Cost of services and sales

Represent the cost of services and sales incurred during the period which include the costs of goods sold, inventory obsolescence, direct labor, governmental charges, interconnection costs and other overheads related to the revenues recognized.

i. Governmental charges

Governmental charges represent government contribution fees in trade earnings, license fees, frequency waves' fees and costs charged to the Group against the rights to use telecommunications and data services in the Kingdom of Saudi Arabia as stipulated in the license agreements. These fees are recorded in the related periods during which these fees are incurred and included under cost of services in the consolidated statement of profit or loss.

ii. Interconnection costs

Interconnection costs represent connection charges to national and international telecommunication networks. Interconnection costs are recorded in the period when relevant calls are made and are included in the cost of services caption in the consolidated statement of profit or loss.

(b) Selling and marketing expenses

Represent expenses resulting from the Group's management efforts with regard to the marketing function or the selling and distribution function. Selling and marketing expenses include direct and indirect costs not specifically part of cost of revenues. Allocations between selling and marketing expenses and cost of revenues, when required, are made on a consistent basis.

(c) General and administrative expenses

Represent expenses relating to the administration and not to the revenue earning function or the selling and distribution functions. General and administrative expenses include direct and indirect costs not specifically part of cost of revenues. Allocations between general and administrative expenses and cost of revenues, when required, are made on a consistent basis.

5.16 Dividends

Dividends are recorded in the consolidated financial statements in the period in which they are approved by the shareholders of the Company.

5.17 Foreign currency transactions

(a) Reporting currency and functional currency

The Group's consolidated financial statements are presented in Saudi Riyals, which is also the Company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to consolidate statement of profit or loss reflects the amount that arises from using this method.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.17 Foreign currency transactions (continued)

(b) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rate at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

Differences arising on settlement or translation of monetary items are recognized in consolidated statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognized in consolidated statement of other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is classified to consolidated statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in consolidated statement of other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary measured at fair value is treated in line with the recognition of gain or loss on change in fair value in the item (i.e., the translation differences on items whose fair value gain or loss is recognized in consolidated statement of other comprehensive income or consolidated statement of profit or loss are also recognized in consolidated statement of other comprehensive income or consolidated statement of profit or loss, respectively).

(c) Group companies

The results and financial position of foreign subsidiaries and associates, not operating in a hyper-inflationary economy, having reporting currencies other than Saudi Riyals are translated into Saudi Riyals as follows:

i. assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that consolidated statement of financial position;
ii. Income and expenses for each the consolidated statement of profit or loss are translated at average exchange rates; and
iii. Components of the shareholders' equity accounts are translated at the exchange rates in effect at the dates the related items originated.

Cumulative adjustments resulting from the translations of the financial statements of foreign subsidiaries and associates into Saudi Riyals are reported as a separate component of shareholders' equity. The exchange differences arising on translation for consolidation are recognised in consolidated statement of other comprehensive income. On disposal of a foreign operation, the component of consolidated statement of other comprehensive income relating to that particular foreign operation is recognised in consolidated statement of profit or loss.

5.18 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.18 Leases (continued)

(a) Group as a lessee

Finance leases that transfer to the Group substantially all of the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and a reduction in the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the consolidated statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognized as an operating expense in the consolidated statement of profit or loss on a straight-line basis over the lease term.

(b) Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

5.19 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed by the Group's Chief Operating Decision Maker "CODM" to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available (see note 33).

5.20 Provisions

(a) General

A provision is recognized in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount thereof can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of liability is recognised as finance cost in the consolidated statement of profit or loss.

(b) Asset retirement obligation

The provision for asset retirement obligation arose on construction of the networking sites. A corresponding asset is recognized in property and equipment. Asset retirement obligation is provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre tax rate that reflects the risks specific to the site restoration liability. The unwinding of the discount is expensed as incurred and recognized in the consolidated statement of profit or loss as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.21 Contingent liabilities

A contingent liability is a possible obligation which may arise from past events and 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 Group, or a present obligation that is not recognized because it is not probable that an outflow of resources will be required to settle the obligation. If the amount of the obligation cannot be measured with sufficient reliability, then the Group does not recognize the contingent liability but discloses it in the consolidated financial statements.

5.22 Inventories

Inventories comprise of mobile phones (handsets) and other customer-premise equipment (CPE), SIM cards, pre-paid vouchers and scratch cards. Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined by using the weighted average method. The Group provides for slow-moving and obsolete inventories in the cost of services and sales in the consolidated statement of profit or loss.

5.23 Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

When the Group receives non-monetary grants, the asset and the grant are recorded gross at nominal amounts and released to consolidated statement of profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual installments. When loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favorable interest is regarded as a government grants.

6 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The estimates at date of transition to IFRS and as at the end of earliest reporting period presented are consistent with those made for the same dates in accordance with SOCPA (after adjustments to reflect any differences in accounting policies) apart from post-employment benefits and decommissioning costs creating an asset retirement obligation where application of SOCPA did not require estimation.

The estimates used by the Group to present these amounts in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA reflect conditions at the date of transition to IFRS and as at the end of earliest reporting period presented.

The preparation of the Group’s consolidated 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 key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

6 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

6.1 Provisions

(a) Provision for impairment of accounts receivable

The impairment charge reflects estimates of losses arising from the failure or inability of the parties concerned to make the required payments. The charge is based on the aging of the counter party accounts, historic experience and the information available on the parties' financial position. Changes to the estimated impairment provision may be required if the financial condition of the parties was to improve or deteriorate.

(b) Asset retirement obligation

In the course of the Group's activities, network and other assets are utilized on leased premises which are expected to have costs associated with decommissioning these assets and restoring the location where these assets are situated upon ceasing their use on those premises. The associated cash outflows, which are long-term in nature, are generally expected to occur at the dates of exit of the assets to which they relate. These decommissioning and restoration costs are calculated on the basis of the identified costs for the current financial year, extrapolated into the future based on management's best estimates of future trends in prices, inflation, and other factors, and are discounted to present value at a risk-adjusted rate specifically applicable to the liability. Forecasts of estimated future provisions are revised in light of future changes in business conditions or technological requirements.

The Group records these decommissioning and restoration costs as property and equipment and subsequently allocates them to expense using a systematic and rational method over the asset's useful life, and records the accretion of the liability as a charge to finance costs.

6.2 Financial risk management and financial instruments

The fair value of derivative instruments, investments in publicly traded and private companies, and equity instruments is determined on the basis of either prices in regulated markets or quoted prices provided by financial counterparties, or using valuation models which also take into account subjective measurements such as, cash flow estimates or expected volatility of prices.

6.3 Defined benefit obligations

The cost of defined benefit and the present value of the related obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation with at least an 'AA' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are removed from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds.

The mortality rate is based on publicly available mortality tables for the specific countries. Those mortality tables tend to change only at intervals in response to demographic changes. Future salary increases and are based on expected future inflation rates for the respective countries.

6 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

6.4 Impairment of goodwill

The impairment test on CGUs is carried out by comparing the carrying amount of CGUs and their recoverable amount. The recoverable amount of a CGU is the higher of its fair value, less costs to sell and its value in use. This complex valuation process used to determine fair value less costs to sell and/or value in use entails the use of methods such as the discounted cash flow method which uses assumptions to estimate cash flows. The recoverable amount depends significantly on the discount rate used in the discounted cash flow model as well as the expected future cash flows.

6.5 Property and equipment

(a) Useful lives of property and equipment

The useful life of each of the Group's items of property and equipment is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of practices of similar businesses, internal technical evaluation, experience with similar assets and application of judgment as to when the assets become available for use and the commencement of the depreciation charge.

The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property and equipment would increase the recorded operating expenses and decrease non-current assets.

(b) Allocation of costs

The Group enters into arrangements with certain of its key suppliers which may include the provision of multiple products and services including property and equipment, inventories and maintenance and other services across a number of reporting periods. Such arrangements may include the provision of free of charge assets and incentives which enable the Group to obtain further products and services at discounted values. Management aggregates, where appropriate, such arrangements and allocates the net cost of such an aggregation between the multiple products and services based on its best estimate of the fair value of the individual components. The cost of such components is capitalized or expensed according to the relevant accounting policy.

6.6 Zakat assessments

Provision for zakat and withholding taxes is determined by the Group in accordance with the requirements of the General Authority of Zakat and Tax ("GAZT") and is subject to change based on final assessments received from the GAZT. The Group recognizes liabilities for any anticipated zakat and withholding tax based on management's best estimates of whether additional zakat/taxes will be due. The final outcome of any additional amount assessed by the GAZT is dependent on the eventual outcome of the appeal process which the Group is entitled to. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences could impact the consolidated statement of profit or loss in the period in which such final determination is made.

6.7 Contingencies

The Group is currently involved in various legal proceedings. Estimates of the probable costs for the resolution of these claims, if any, have been developed in consultation with internal and external counsels handling the Group's defense in these matters and are based upon the probability of potential results. The Group's management currently believes that these proceedings will not have a material effect on the consolidated financial statements. It is possible, however, that future results of operations could be materially affected depending on the final outcome of the proceedings.

6 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

6.8 Revenue

(a) Gross versus net presentation

When the Group sells goods or services as principal, revenue and payments to partners are reported on a gross basis in revenue and operating costs. If the Group sells goods or services as an agent, revenue and payments to partners are recorded in revenue on a net basis, representing the margin earned.

Whether the Group is considered to be the principal or an agent in the transaction depends on analysis by management of both the legal form and substance of the agreement between the Group and its business partners; such judgments impact the amount of reported revenue and operating expenses but do not impact reported assets, liabilities or cash flows. Below are the four key criteria to determine whether the Group is acting as a principal:

- The Group has the primary responsibility for providing the goods or services to the customer or for fulfilling the order, for example by being responsible for the acceptability of the products or services ordered or purchased by the customer;
- The Group has inventory risk before or after the customer order, during shipping or on return;
- The Group has latitude in establishing prices, either directly or indirectly, for example by providing additional goods or services; and,
- The Group bears the customer's credit risk on the receivable due from the customer.

(a) Multiple element arrangements

In arrangements involving the delivery of bundled products and services, including long-term arrangements, those bundled products and services are separated into individual elements, each with its own separate revenue contribution taking into the consideration the specific contractual details, evaluated from the perspective of the customer. Total arrangement consideration is allocated to each deliverable based on the relative fair value of the individual element. The Group generally determines the fair value of individual elements based on an objective and reliable assessment of the prices at which the deliverables may be sold on a standalone basis, taking into consideration the time value of the money. Multiple contracts with a single customer are normally accounted for as separate arrangements. In instances where multiple contracts are entered into with a customer in a short period of time, they are reviewed as a group to ensure that, as with multiple element arrangements, relative fair values are appropriate.

(b) Customer Loyalty Programs:

The Group estimates the fair value of points awarded under the customer loyalty program estimating the weighted average cost for redemption of the points. Inputs to the models include making assumptions about expected redemption rates, the mix of products that will be available for redemption in the future and customer preferences.

7 FIRST TIME ADOPTION OF IFRS

For all periods up to and including the year ended 31 December 2016, Etihad Etisalat Company prepared its consolidated financial statements based on the generally accepted accounting standards promulgated in Saudi Arabia by SOCPA.

The Group has prepared these consolidated financial statements in accordance with IFRS that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA applicable as at 31 December 2017, together with the comparative period data for the year ended 31 December 2016. In preparing consolidated financial statements, the Group's opening consolidated statement of financial position was prepared as at 1 January 2016, the Group's date of transition to IFRS that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA. This note explains the principal adjustments made by Etihad Etisalat Company in adjusting its SOCPA consolidated financial statements for the year ended 31 December 2016.

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS. The following exemptions are ones adopted by the Group:

- IFRS 3 'Business Combinations' has not been applied to either acquisitions of subsidiaries that are considered businesses under IFRS, or acquisitions of interests in associates and joint ventures that occurred before 1 January 2016. Use of this exemption means that the SOCPA's carrying amounts of assets and liabilities, that are required to be recognized under IFRS, is their deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening consolidated statement of financial position based on IFRS. The Group did not recognize or exclude any previously recognized amounts as a result of IFRS recognition requirements. IFRS 1 also requires that the SOCPA carrying amount of goodwill must be used in the opening consolidated statement of financial position based on IFRS as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA (apart from adjustments for goodwill impairment and recognition or derecognition of intangible assets). In accordance with IFRS 1, the Group has tested goodwill for impairment at the date of transition to IFRS that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA. No goodwill impairment was deemed necessary at 1 January 2016.

- The Group has applied the transitional provisions in IAS 23 'Borrowing Costs' and capitalizes borrowing costs relating to all qualifying assets after the date of transition. Similarly, the Group has not restated for borrowing costs capitalized under SOCPA on qualifying assets prior to the date of transition to IFRS.

Estimates

The estimates at 1 January 2016 and as at 31 December 2016 are consistent with those made for the same dates in accordance with SOCPA (after adjustments to reflect any differences in accounting policies) apart from the following items:

- End of service benefits
- Provision for decommissioning liability

(All amounts in Saudi Riyals thousands unless otherwise stated)

7 FIRST TIME ADOPTION OF IFRS (CONTINUED)

7.1 Group reconciliation of the consolidated statement of financial position and equity as at 1 January 2016 (date of transition to IFRS)

	Notes	SOCPA	Effect of transition	Re-classification	IFRS
Assets					
Non-current assets					
Property and equipment	7(b)	24,466,197	93,411	(533)	24,559,075
Intangible assets		8,026,213	-	1,467,398	9,493,611
Goodwill		1,466,865	-	(1,466,865)	-
Capital advances		982,048	-	-	982,048
Available for sale investments		19,003	(11,732)	-	7,271
Total non-current assets		34,960,326	81,679	-	35,042,005
Current assets					
Inventories		485,859	-	-	485,859
Accounts receivable		3,424,090	-	-	3,424,090
Due from a related party		36,508	-	-	36,508
Prepaid expenses and other assets		1,722,022	-	(57,480)	1,664,542
Held to maturity investments		1,250,000	-	-	1,250,000
Cash and cash equivalents		497,570	-	-	497,570
Total current assets		7,416,049	-	(57,480)	7,358,569
Total assets		42,376,375	81,679	(57,480)	42,400,574
Equity and liabilities					
Equity					
Share capital		7,700,000	-	-	7,700,000
Statutory reserve		2,648,971	-	-	2,648,971
Retained earnings		5,210,295	(378,848)	-	4,831,447
Foreign currency translation reserve		-	-	(8,168)	(8,168)
Total shareholders' equity		15,559,266	(378,848)	(8,168)	15,172,250
Non-controlling interest		1,500	-	-	1,500
Total Equity		15,560,766	(378,848)	(8,168)	15,173,750
Non-current liabilities					
Loans and notes payable		8,508,553	-	-	8,508,553
Provision for employees' end of service benefits	7(a)	239,854	66,194	-	306,048
Deferred government grants income	7(d)	-	179,295	(57,308)	121,987
Provision for decommissioning liability	7(b)	-	196,448	-	196,448
Total non-current liabilities		8,748,407	441,937	(57,308)	9,133,036
Current liabilities					
Loans and notes payable		5,766,262	-	-	5,766,262
Accounts payable		6,535,866	-	-	6,535,866
Due to related parties		210,970	-	-	210,970
Accrued expenses and other liabilities		5,476,393	-	(1,114,975)	4,361,418
Provisions		-	-	1,122,971	1,122,971
Zakat provision		77,711	-	-	77,711
Deferred government grants income	7(d)	-	18,590	-	18,590
Total current liabilities		18,067,202	18,590	7,996	18,093,788
Total liabilities		26,815,609	460,527	(49,312)	27,226,824
Total equity and liabilities		42,376,375	81,679	(57,480)	42,400,574

(All amounts in Saudi Riyals thousands unless otherwise stated)

7 FIRST TIME ADOPTION OF IFRS (CONTINUED)

7.2 Group reconciliation of the consolidated statement of financial position and equity as at 31 December 2016

	Notes	SOCPA	Effect of transition	Re-classification	IFRS
Assets					
Non-current assets					
Property and equipment	7(b)	24,406,393	89,211	(230)	24,495,374
Intangible assets		7,520,598	-	1,467,095	8,987,693
Goodwill		1,466,865	-	(1,466,865)	-
Capital advances		893,816	-	1,396	895,212
Available for sale investments		19,003	(11,732)	-	7,271
Total non-current assets		34,306,675	77,479	1,396	34,385,550
Current assets					
Inventories		200,072	-	-	200,072
Accounts receivable		3,701,340	-	-	3,701,340
Due from a related party		69,568	-	-	69,568
Prepaid expenses and other assets		1,698,949	-	(95)	1,698,854
Held to maturity investments		350,000	-	-	350,000
Cash and cash equivalents		866,109	-	-	866,109
Total current assets		6,886,038	-	(95)	6,885,943
Total assets		41,192,713	77,479	1,301	41,271,493
Equity and liabilities					
Equity					
Share capital		7,700,000	-	-	7,700,000
Statutory reserve		2,648,971	-	-	2,648,971
Retained earnings		5,007,315	(392,195)	-	4,615,120
Foreign currency translation reserve		-	-	(9,111)	(9,111)
Total shareholders' equity		15,356,286	(392,195)	(9,111)	14,954,980
Non-controlling interest		1,500	-	-	1,500
Total Equity		15,357,786	(392,195)	(9,111)	14,956,480
Non-current liabilities					
Loans and notes payable		7,600,851	-	-	7,600,851
Provision for employees' end of service benefits	7(a)	281,737	61,005	-	342,742
Deferred revenue		-	-	89,167	89,167
Deferred government grants income	7(d)	-	180,064	-	180,064
Provision for decommissioning liability	7(b)	-	209,374	-	209,374
Total non-current liabilities		7,882,588	450,443	89,167	8,422,198
Current liabilities					
Loans and notes payable		7,607,902	-	-	7,607,902
Accounts payable		4,520,036	-	1,396	4,521,432
Due to related parties		138,420	-	-	138,420
Accrued expenses and other liabilities		5,631,463	-	(1,238,259)	4,393,204
Provisions		-	-	1,158,108	1,158,108
Zakat provision		54,518	-	-	54,518
Deferred government grants income	7(d)	-	19,231	-	19,231
Total current liabilities		17,952,339	19,231	(78,755)	17,892,815
Total liabilities		25,834,927	469,674	10,412	26,315,013
Total equity and liabilities		41,192,713	77,479	1,301	41,271,493

(All amounts in Saudi Riyals thousands unless otherwise stated)

7 FIRST TIME ADOPTION OF IFRS (CONTINUED)

7.3 Group reconciliation of the consolidated statement of profit or loss for the year ended 31 December 2016

	Notes	SOCPA	Effect of transition	Re-classification	IFRS
Revenue		12,569,397	-	-	12,569,397
Cost of sales		(5,144,112)	-	-	(5,144,112)
Gross profit		7,425,285	-	-	7,425,285
Selling and marketing expenses	7(a)	(1,272,775)	2,607	-	(1,270,168)
General and administrative expenses	7(a)	(2,143,091)	5,272	-	(2,137,819)
Depreciation and amortization	7(b)	(3,774,673)	(7,156)	-	(3,781,829)
Other income	7(d)	-	(1,409)	52,616	51,207
Operating profit / (loss)		234,746	(686)	52,616	286,676
Finance expenses	7(b)	(556,414)	(9,970)	-	(566,384)
Finance income		-	-	22,741	22,741
Other income		75,357	-	(75,357)	-
Loss before zakat		(246,311)	(10,656)	-	(256,967)
			-	-	
Zakat		43,331	-	-	43,331
Loss for the year		(202,980)	(10,656)	-	(213,636)
Loss attributable to:					
Owners of the Company		(202,980)	(10,656)	-	(213,636)
Non-controlling interest		-	-	-	-
Loss for the year		(202,980)	(10,656)	-	(213,636)
Loss per share:					
Basic and diluted loss per share (in SR)		(0.26)	(0.02)	-	(0.28)

(All amounts in Saudi Riyals thousands unless otherwise stated)

7 FIRST TIME ADOPTION OF IFRS (CONTINUED)

7.4 Group reconciliation of the consolidated statement of comprehensive income for the year ended 31 December 2016

	SOCPA	Effect of transition	IFRS
Loss for the year	(202,980)	(10,656)	(213,636)
Items that will be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	-	(943)	(943)
Net total items that will be reclassified subsequently to profit or loss	-	(943)	(943)
Items that will not be reclassified subsequently to profit or loss:			
Actuarial loss on re-measurement of employees' end of service benefits	-	(2,691)	(2,691)
Net total items that will not be reclassified subsequently to profit or loss	-	(2,691)	(2,691)
Total other comprehensive loss for the year	-	(3,634)	(3,634)
Total comprehensive loss for the year	(202,980)	(14,290)	(217,270)
Total comprehensive loss for the year attributable to:			
Owners of the Company	(202,980)	(14,290)	(217,270)
Non-controlling interest	-	-	-
Total comprehensive loss for the year	(202,980)	(14,290)	(217,270)

7 FIRST TIME ADOPTION OF IFRS (CONTINUED)

a) Provision for employees’ end of service benefits

Under SOCPA, the Group recognized costs relating to its employees’ end of service benefits on an accrual basis. Under IFRS as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, costs relating to the employees’ end of service benefits are recognized based on an actuarial valuation.

b) Provision for decommissioning liability

Under SOCPA, a provision for decommissioning liability is not required. However, under IFRS as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the cost of property and equipment should also include an initial estimate of the costs required to settle the obligation, when an entity is obliged to dismantle and remove the related equipment and restore the site to its original condition. The present value of the said liability is accounted for as a non-current liability, is reviewed annually and adjusted as appropriate for changes in the underlying assumptions.

c) Intangible assets

Under SOCPA, there is no guidance in determining whether an asset that combines both intangible and tangible elements should be treated as property and equipment or as an intangible asset. Under IFRS as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, an entity uses judgment in assessing which element is more significant. For example, computer software for a computer-controlled machine that cannot operate without that specific computer software is treated as an integral part of the related hardware and is treated as property and equipment. Similarly, when the software is not an integral part of the related hardware, they are treated as an intangible asset.

d) Government grants

Under SOCPA, grant income was recognized when the conditions attached to the said grant were fulfilled. However, under IFRS as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, government grants income shall be recognized in consolidated statement of profit or loss on a systematic basis, to match them with the related costs for which they are intended to compensate.

(All amounts in Saudi Riyals thousands unless otherwise stated)

8 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:									
At 1 January 2016	274,710	1,221,544	833,648	33,078,502	4,261,581	499,024	3,046	811,810	40,983,865
Additions	-	9,014	12,815	2,143,098	528,463	1,699	-	486,492	3,181,581
Reclassification	-	(103,666)	(7,545)	111,211	-	-	-	-	-
Transfers	-	39,560	-	408,848	12,103	-	-	(460,511)	-
Disposals	-	-	-	-	(153)	-	-	-	(153)
At 31 December 2016	274,710	1,166,452	838,918	35,741,659	4,801,994	500,723	3,046	837,791	44,165,293
Additions	-	12,504	1,630	1,708,788	336,700	2,661	-	175,946	2,238,229
Reclassification	-	(12,981)	-	12,981	-	-	-	-	-
Transfers	-	11,788	-	245,070	10,697	105	-	(267,660)	-
Disposals	-	(354)	(959)	(15,963)	(64)	-	-	-	(17,340)
At 31 December 2017	274,710	1,177,409	839,589	37,692,535	5,149,327	503,489	3,046	746,077	46,386,182
Depreciation:									
At 1 January 2016	-	143,334	542,517	12,761,854	2,537,782	437,682	1,621	-	16,424,790
Charge for the year	-	53,035	69,516	2,552,577	549,531	20,171	430	-	3,245,260
Reclassifications	-	(3,980)	(949)	4,929	-	-	-	-	-
Disposals	-	-	-	-	(131)	-	-	-	(131)
At 31 December 2016	-	192,389	611,084	15,319,360	3,087,182	457,853	2,051	-	19,669,919
Charge for the year	-	46,019	57,017	2,634,732	544,182	16,840	355	-	3,299,145
Reclassification	-	(585)	(439)	585	283	156	-	-	-
Disposals	-	(114)	(929)	(10,118)	(62)	-	-	-	(11,223)
At 31 December 2017	-	237,709	666,733	17,944,559	3,631,585	474,849	2,406	-	22,957,841
Net book value:									
At 31 December 2017	**274,710**	**939,700**	**172,856**	**19,747,976**	**1,517,742**	**28,640**	**640**	**746,077**	**23,428,341**
At 31 December 2016	274,710	974,063	227,834	20,422,299	1,714,812	42,870	995	837,791	24,495,374
At 1 January 2016	274,710	1,078,210	291,131	20,316,648	1,723,799	61,342	1,425	811,810	24,559,075

The Group has capitalized borrowing costs during the year ended 31 December 2017 amounting to SR 106 million (31 December 2016: SR 95 million and 1 January 2016: SR 50 million) and internal technical salaries amounting to SR 169 million (31 December 2016: SR 162 million and 1 January 2016: SR 140 million).

(All amounts in Saudi Riyals thousands unless otherwise stated)

9 INTANGIBLE ASSETS

	Telecommunication services licenses	Goodwill	Indefeasible Right of Use (IRU)	Others	Total
Cost:					
1 January 2016	13,083,795	1,466,865	1,060,030	97,689	15,708,379
Additions	-	-	30,651	-	30,651
31 December 2016	13,083,795	1,466,865	1,090,681	97,689	15,739,030
Additions	-	-	30,064	-	30,064
31 December 2017	13,083,795	1,466,865	1,120,745	97,689	15,769,094
Amortization:					
1 January 2016	5,842,131	-	275,481	97,156	6,214,768
Charge for the year	454,721	-	81,545	303	536,569
31 December 2016	6,296,852	-	357,026	97,459	6,751,337
Charge for the year	245,145	-	81,835	230	327,210
31 December 2017	6,541,997	-	438,861	97,689	7,078,547
Net book value:					
At 31 December 2017	**6,541,798**	**1,466,865**	**681,884**	**-**	**8,690,547**
At 31 December 2016	6,786,943	1,466,865	733,655	230	8,987,693
At 1 January 2016	7,241,664	1,466,865	784,549	533	9,493,611

9.1 GOODWILL

Goodwill acquired through business combinations is allocated as follows:

	31 December 2017	31 December 2016	1 January 2016
Bayanat Al-Oula for Network Services Company	**1,466,865**	1,466,865	1,466,865

The Group has tested separately recognized goodwill for impairment. The recoverable amount has been determined based on value-in-use, using discounted cash flow analysis. The cash flow projections are based on approved budget. The discount rate used is 10% and terminal value growth rate of 1.50%.

The recoverable amount of the CGU as at 31 December 2017 amounted to SR 17.4 billion (31 December 2016: SR 16.7 billion and 1 January 2016: SR 12.2 billion) has been determined based on a value-in-use calculation using cash flow projections from financial budgets covering a five years period. The pre-tax discount rate applied to cash flow projections is 10% (31 December 2016: 10% and 1 January 2016: 10%) and cash flows beyond the 5 years period are extrapolated using a 1.5% growth rate (31 December 2016: 1.5% and 1 January 2016: 1.5%). It was concluded that the carrying value of the goodwill has not exceeded the value-in-use. As a result of this analysis, management has not recognized any impairment loss.

The cash flow forecasts of capital expenditures are based on past experience coupled with additional capital expenditures required for roll out of incremental coverage requirements and to provide enhanced voice and data services.

Key assumptions used in value-in-use calculations

The calculation of value-in-use for telecommunications and network equipment are most sensitive to the following assumptions:

- Discount rate
- Terminal growth rate

(All amounts in Saudi Riyals thousands unless otherwise stated)

9 INTANGIBLE ASSETS (CONTINUED)

9.1 GOODWILL (CONTINUED)

Discount rate
Discount rate represents the current market assessment of the risks specific to each cash generating unit and calculation is based on the specific circumstances of the Group and its operating segments and derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service and segment-specific risk is incorporated. The pre-tax discount rate used is 10% (31 December 2016: 10% and 1 January 2016: 10%).

Terminal growth rate
The growth rate used does not exceed the long term average growth rates of the entity. This rate assumed 1.5% (31 December 2016: 1.5% and 1 January 2016: 1.5%).

Sensitivity to changes in assumptions
The implications of the key assumptions for the recoverable amount are discussed below:

Discount rate
A rise in the pre-tax discount rate beyond 32% (i.e., +22 %) (31 December 2016: 30% (i.e., +20 %) and 1 January 2016: 22% (i.e., +12%)) in the CGU would result in an impairment loss.

Terminal growth rate
Management recognizes that the speed of technological changes and the possibility of new entrants can have a significant impact on terminal growth rate assumptions. The effect of new entrants is not expected to have an adverse impact on the forecasts, but could yield a reasonably possible alternative to the estimated long-term growth rate of 1.5%. A reduction to 0% (31 December 2016: 0% and 1 January 2016: 0%) in the long-term growth rate would not result in an impairment loss.

10 INVENTORIES

	31 December 2017	31 December 2016	1 January 2016
Handsets and Customer premises equipment (CPEs)	**377,648**	482,083	712,284
SIM cards	**38,159**	32,497	59,975
Prepaid vouchers and scratch cards	**7,569**	10,285	17,589
	423,376	524,865	789,848
Less: provision for inventory obsolescence	**(282,794)**	(324,793)	(303,989)
	140,582	200,072	485,859

The movement of the provision for inventory obsolescence is as follows:

	31 December 2017	31 December 2016
Balance at the beginning of the year	**(324,793)**	(303,989)
Reversal / (Charge) during the year	**8,942**	(20,804)
Written off during the year	**33,057**	-
Balance at the end of the year	**(282,794)**	(324,793)

(All amounts in Saudi Riyals thousands unless otherwise stated)

11 ACCOUNTS RECEIVABLE

	31 December 2017	31 December 2016	1 January 2016
Accounts receivable	**5,286,293**	6,431,214	5,809,870
Less: provision for doubtful debts	**(1,655,490)**	(2,729,874)	(2,385,780)
	3,630,803	3,701,340	3,424,090

The movement of the provision for doubtful debts is as follows:

	31 December 2017	31 December 2016
Balance at the beginning of the year	**(2,729,874)**	(2,385,780)
Charge during the year	**(233,896)**	(551,692)
Written off during the year	**1,308,280**	207,598
Balance at the end of the year	**(1,655,490)**	(2,729,874)

12 RELATED PARTIES TRANSACTIONS AND BALANCES

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

Party	**Relationship**
Emirates Telecommunication Corporation – Etisalat and its subsidiaries	Founding shareholder
Emirates Data Clearing House	Affiliate to Emirates Telecommunication Corporation

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

	31 December 2017	31 December 2016
Interconnection services and roaming services rendered	**102,338**	77,383
Interconnection services and roaming services received	**147,491**	80,327
Management fees	**22,524**	36,681
Other management expenses	**28,670**	63,364
Telecommunication services	**4,224**	4,488
Other services	**2,512**	4,380

Balances with related parties	**31 December 2017**	31 December 2016	1 January 2016
Balance due from	**52,419**	69,568	36,508
Balance due to	**92,590**	138,420	210,970

Compensation and benefits to key management personnel

	31 December 2017	31 December 2016
Short term employee benefits	**54,155**	43,742
Post-employment benefits	**1,884**	1,376
Total compensation and benefits to key management personnel	**56,039**	45,118

(All amounts in Saudi Riyals thousands unless otherwise stated)

12 RELATED PARTIES TRANSACTIONS AND BALANCES (CONTINUED)

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.

13 PREPAID EXPENSES AND OTHER ASSETS

	31 December 2017	31 December 2016	1 January 2016
Prepaid expenses	**342,782**	376,666	426,623
Accrued revenues	**251,444**	216,596	356,213
Deferred costs	**227,634**	178,901	173,983
Advance payments to trade suppliers	**78,430**	91,024	116,480
Others	**558,553**	835,667	591,243
	1,458,843	1,698,854	1,664,542

14 HELD TO MATURITY INVESTMENTS

Held to maturity investments represent placements in banks at different profit rates and with maturities between three months to one year. Interest income arising from these held to maturity investments is reported under finance income in the consolidated statement of profit or loss.

15 CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016	1 January 2016
Cash on hand	**1,033**	905	936
Cash at banks	**1,191,148**	865,204	496,634
	1,192,181	866,109	497,570

(All amounts in Saudi Riyals thousands unless otherwise stated)

16 LOANS AND NOTES PAYABLE

	31 December 2017	31 December 2016	1 January 2016
Loans and notes payable	**14,879,672**	15,208,753	14,274,815
Less: Current portion	**(1,410,638)**	(7,607,902)	(5,766,262)
Non-current portion	**13,469,034**	7,600,851	8,508,553

a) Maturity profile of loans and notes payable:

	31 December 2017	31 December 2016	1 January 2016
Less than one year	**1,410,638**	7,607,902	5,766,262
Between one to five years	**8,380,034**	6,488,851	8,508,553
Over five years	**5,089,000**	1,112,000	-

During the year ended 31 December 2017, the Group has successfully refinanced its maturing obligations under the Airtime and Bayanat syndicated facilities amounting to SR 7.8 billion with a new syndicated facility of SR 7.9 billion over 7 years maturity. As a result, SR 6 billion has been re-classified as non-current liabilities compared to 31 December 2016. All the facilities are appropriately classified into current and non-current.

(All amounts in Saudi Riyals thousands unless otherwise stated)

16 LOANS AND NOTES PAYABLE (CONTINUED)

b) The details of loans and notes payable as at 31 December 2017 are as follows:

Lender	Borrowing Company	Loan nature	Borrowing Purpose	Date issue	Currency	Principal amount	Utilized amount	Profit rate	Payment terms	Period	Current portion	Long-term portion	Total	Other terms
Local banks Syndicated	Mobily	Long-term refinancing facility agreement Sharia' compliant	Refinancing the maturing obligations under Airtime and Bayanat Facilities	Q1, 2017	Saudi Riyals	Saudi Riyals 7,889 million	Saudi Riyals 7,889 million	Murabaha rate is based on SIBOR plus a fixed profit margin	Scheduled installments as per loan agreement	7 years	Saudi Riyals -17 million	Saudi Riyals 7,803 million	Saudi Riyals 7,786 million	-
Export Credit Agency of Finland (Finnvera) & Swedish Export Credit Corporation (EKN)	Mobily	Long-term financing agreement Sharia' compliant	Acquiring network equipment from Nokia Siemens Networks (NSN) and Ericsson to upgrade and enhance the infrastructure capabilities, introduce new technologies, and strengthen the Company's competitiveness in the business segment	Q3, 2013	US Dollars	USD 642 million (Saudi Riyals 2.4 billion)	USD 642 million (Saudi Riyals 2.4 billion)	Fixed rate per annum	Scheduled installments	10 years	Saudi Riyals 276 million	Saudi Riyals 1,105 million	Saudi Riyals 1,381 million	Utilization period of 1.5 years, repayment period of 8.5 years

(All amounts in Saudi Riyals thousands unless otherwise stated)

16 LOANS AND NOTES PAYABLE (CONTINUED)

Lender	Borrowing Company	Loan nature	Borrowing Purpose	Date issue	Currency	Principal amount	Utilized amount	Profit rate	Payment terms	Period	Current portion	Long-term portion	Total	Other terms
Export Credit Agency of Finland (Finnvera) & Swedish Export Credit Corporation (EKN))	Mobily	Long-term financing agreement Sharia' compliant	Acquiring network equipment from Nokia Siemens Networks (NSN) and Ericsson to upgrade and enhance the infrastructure capabilities, introduce new technologies, and strengthen the Company's competitiveness in the business segment	Q1, 2014	USD Dollars	USD 444 million (Saudi Riyals 1,664 million)	USD 344 million (Saudi Riyals 1,290 million)	Fixed rate per annum	Scheduled installments	10 years	Saudi Riyals 165 million	Saudi Riyals 1,044 million	Saudi Riyals 1,209 million	Utilization period of 1.5 years, repayment period of 8.5 years
Saudi Investment Bank	Mobily	Long-term financing agreement Sharia' compliant	Financing the Company's working capital requirements	Q1, 2014	Saudi Riyals	Saudi Riyals 1.5 billion	Saudi Riyals 1.5 billion	Murabaha rate is based on SIBOR plus a fixed profit margin.	Scheduled installments	7.5 years	Saudi Riyals 196 million	Saudi Riyals 1,011 million	Saudi Riyals 1,207 million	-
CISCO Systems International	Mobily	Vendor financing agreement	Acquiring CISCO network equipment and software solutions	Q1, 2014	US Dollars	USD 135 million (Saudi Riyals 506.8 million)	USD 93.69 million (Saudi Riyals 351.34 million)	Fixed rate	Semi-annual repayments	3 years	Saudi Riyals 39 million	Saudi Riyals 14 million	Saudi Riyals 53 million	-

(All amounts in Saudi Riyals thousands unless otherwise stated)

16 LOANS AND NOTES PAYABLE (CONTINUED)

Lender	Borrowing Company	Loan nature	Borrowing Purpose	Date issue	Currency	Principal amount	Utilized amount	Profit rate	Payment terms	Period	Current portion	Long-term portion	Total	Other terms
Export Development of Canada (EDC)	Mobily	Long-term financing agreement Sharia' compliant	Acquiring a telecommunication devices and equipment from Alcatel-Lucent	Q2, 2014	US Dollars	USD 122 million (Saudi Riyals 458 million)	USD 101 million (Saudi Riyals 377 million)	Fixed rate per annum	Semi-annual repayments	10.5 years	Saudi Riyals 41 million	Saudi Riyals 248 million	Saudi Riyals 289 million	Utilization period of 2 years, repayment period of 8.5 years
Samba	Mobily	Long-term financing agreement Sharia' compliant	Financing its working capital requirements	Q3, 2014	Saudi Riyals	Saudi Riyals 600 million	Saudi Riyals 600 million	Murabaha rate is based on SIBOR plus a fixed profit margin	Semi-annual scheduled installments	7 years	Saudi Riyals 78 million	Saudi Riyals 327 million	Saudi Riyals 405 million	-
Banque Saudi Fransi	Mobily	Long-term financing agreement Sharia' compliant	Financing its capital expenditures and working capital requirements	Q3, 2014	Saudi Riyals	Saudi Riyals 500 million	Saudi Riyals 500 million	Murabaha rate is based on SIBOR plus a fixed profit margin	Semi-annual scheduled installments	7 years	Saudi Riyals 50 million	Saudi Riyals 337 million	Saudi Riyals 387 million	-
Other debts (promissory notes and discounted invoices)	Mobily & Bayanat	Vendor Financing	Vendor financing Ericson, Huawei, Thales, CCS	-	Saudi Riyals	Saudi Riyals 1,090 million	Saudi Riyals 1,090 million	-	Sporadic payments	3 years	Saudi Riyals 485 million	Saudi Riyals 96 million	Saudi Riyals 581 million	-

(All amounts in Saudi Riyals thousands unless otherwise stated)

16 LOANS AND NOTES PAYABLE (CONTINUED)

Lender	Borrowing Company	Loan nature	Borrowing Purpose	Date issue	Currency	Principal amount	Utilized amount	Profit rate	Payment terms	Period	Current portion	Long-term portion	Total	Other terms
Al-Rajhi Bank	Mobily	Mid-term financing agreement Sharia' compliant	Financing its capital expenditures and working capital requirements	Q1, 2016	Saudi Riyals	Saudi Riyals 400 million	Saudi Riyals 400 million	Murabaha rate is based on SIBOR plus a fixed profit margin	Scheduled payments	3.5 years	Saudi Riyals 99 million	Saudi Riyals 200 million	Saudi Riyals 299 million	-
Alinma Bank	Mobily	Long-term financing agreement Sharia' compliant	Financing its capital expenditures and working capital requirements	Q4, 2016	Saudi Riyals	Saudi Riyals 2,000 million	Saudi Riyals 1,300 million	Murabaha rate is based on SIBOR plus a fixed profit margin	Scheduled installments	10 years	Saudi Riyals -2 million	Saudi Riyals 1,284 million	Saudi Riyals 1,282 million	-
Total											**Saudi Riyals 1,410 million**	**Saudi Riyals 13,469 million**	**Saudi Riyals 14,879 million**	

(All amounts in Saudi Riyals thousands unless otherwise stated)

16 LOANS AND NOTES PAYABLE (CONTINUED)

c) Reconciliation of movement of liabilities to cash flows arising from financing activities;

	Loans and notes payable	**Non-controlling interest**	**Total**
Balance as 1 January 2017	15,208,753	1,500	15,210,253
Changes from financing activities			
Proceeds from loans and notes payable	9,270,506	-	9,270,506
Payment of loans and notes payable	(9,559,722)	-	(9,559,722)
Non-controlling interest	-	(1,500)	(1,500)
Total changes from financing activities	(289,216)	(1,500)	(290,716)
Other changes			
Finance expenses	678,443	-	678,443
Unwind of discount	(9,905)	-	(9,905)
Finance expenses paid	(652,573)	-	(652,573)
Capitalized borrowing cost	105,560	-	105,560
Payment of upfront fees	(145,480)	-	(145,480)
Accrued interest payable movement	(15,910)	-	(15,910)
Total liability related to other changes	(39,865)	-	(39,865)
Balance as 31 December 2017	**14,879,672**	**-**	**14,879,672**

17 PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS

The Group has a post-employment defined benefit plan. The benefits are required by Saudi Labor and Workman Law. The benefit is based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of Saudi Arabia.

The following table summarizes the components of the net benefit expense recognized in the consolidated statement of profit or loss and consolidated statement of comprehensive income and amounts recognized in the consolidated statement of financial position.

Net expense recognized in consolidated statement of profit or loss:

	31 December 2017	31 December 2016
Service cost	**47,482**	44,035
Interest cost	**13,461**	14,007
	60,943	58,042

Movement of provision for employees' end of service benefits recognized in the consolidated statement of financial position is as follows:

	31 December 2017	31 December 2016
Balance at the beginning of the year	**342,742**	306,048
Charge recognized in consolidated statement of profit or loss	**60,943**	58,042
Actuarial (gain)/loss recognized in the consolidated statement of comprehensive income	**(5,604)**	2,691
Benefits paid	**(18,669)**	(24,039)
Balance at the end of the year	**379,412**	342,742

(All amounts in Saudi Riyals thousands unless otherwise stated)

17 PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS (CONTINUED)

Significant assumptions used in determining the provision for employees' end of service benefits includes the following:

	31 December 2017	31 December 2016
Discount rate	**4.3%**	4.6%
Future salary increase rate	**2%**	2%
Death while in service	**0%**	0%
Withdrawal before normal retirement life	**5%**	8%

Reasonably possible change to one of the relevant actuarial assumptions holding other assumptions constant would have effected the provision for employees' end of service benefits by the following amounts:

Sensitivity Level	**31 December 2017**		31 December 2016	
	Increase of 1%	**Decrease of 1%**	Increase of 1%	Decrease of 1%
Discount rate	**(39,878)**	**47,948**	(38,620)	45,800
Future salary increase rate	**3,593**	**(3,206)**	3,922	(2,326)

The sensitivity analysis above may not be representative of an actual change in provision for employees' end of service benefits as it is unlikely that changes in assumptions would occur in isolation of one another.

At 31 December 2017, the weighted-average duration of the defined benefit plan was 13.95 years (2016: 14.53 years).

18 DEFERRED GOVERNMENT GRANTS INCOME

The Group benefited from certain subsidies by Communication and Information Technology Commission under Universal Service Fund service agreement. These subsidies were conditional on implementation of network services in the mandatory service locations. They were initially recognized as deferred government grants income and are being amortized over the useful life of the underlying network assets.

19 PROVISION FOR DECOMISSIONING LIABILITY

	31 December 2017	31 December 2016
Balance at the beginning of the year	**209,374**	196,448
Additions during the year	**3,030**	2,956
Unwind of discount	**9,905**	9,970
Utilization during the year	**(791)**	-
Balance at the end of the year	**221,518**	209,374

20 ACCOUNTS PAYABLE

	31 December 2017	31 December 2016	1 January 2016
Capital expenditure payable	**1,995,283**	2,204,310	4,781,845
Trade accounts payable	**2,812,719**	2,317,122	1,754,021
	4,808,002	4,521,432	6,535,866

(All amounts in Saudi Riyals thousands unless otherwise stated)

21 ACCRUED EXPENSES AND OTHER LIABILITIES

	31 December 2017	31 December 2016	1 January 2016
Deferred revenues	**1,726,522**	1,535,757	1,323,753
Accrued telecommunication expenses	**856,049**	882,779	887,178
Accrued services and maintenance expenses	**327,160**	429,165	482,748
Accrued selling and marketing expenses	**435,043**	412,763	544,428
Others	**995,520**	1,132,740	1,123,311
	4,340,294	4,393,204	4,361,418

22 ZAKAT PROVISION

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 December 31, 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 2016 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. The Group has received zakat assessments for the years 2007 through 2011 that showed additional zakat and withholding tax assessments of SR 317 million and SR 237 million respectively, which have been appealed by the Group at the Preliminary and Higher Appeal Committees. During the year ended 31 December 2016, The Appeal Committee issued its ruling on certain zakat and withholding tax matters and those rulings issued against the Group have been appealed at the Higher Appeal Committee. 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.

22.1 CALCULATION OF ADJUSTED NET LOSS

	31 December 2017	31 December 2016
Loss before zakat	**(647,531)**	(246,311)
Depreciation	**-**	(719,949)
Provisions	**(1,028,657)**	442,570
Adjusted net loss for the year	**(1,676,188)**	(523,690)

22.2 ZAKAT BASE CALCULATION

The significant components of the zakat base under zakat regulations are principally comprised of the following:

	Note	**31 December 2017**	31 December 2016
Adjusted net loss for the year	22.1	**(1,676,188)**	(523,690)
Shareholder’s equity at beginning of the year		**14,964,091**	15,559,266
Provisions at beginning of the year		**4,763,820**	4,031,320
Loans and notes payable		**14,879,672**	15,208,754
Other additions		**1,995,283**	2,204,311
Property and equipment and intangible assets		**(32,118,888)**	(32,582,125)
Other deductions		**(867,175)**	(1,731,606)
Total zakat base		**1,940,615**	2,166,230

Zakat is payable at 2.5 percent of zakat base.

(All amounts in Saudi Riyals thousands unless otherwise stated)

22 ZAKAT PROVISION (CONTINUED)

22.3 PROVISION FOR ZAKAT

	31 December 2017	31 December 2016
Balance at the beginning of the year	**54,518**	77,711
Charge during the year *	**61,410**	53,932
Payments during the year	**(67,050)**	(77,125)
Balance at the end of the year	**48,878**	54,518

* Zakat charge for the year 2016 includes an amount of SR 97.2 million, which represents partial reversal of the excess zakat paid to GAZT as a result of the restatement of consolidated financial statements for the years 2013 and 2014. The Company has submitted revised zakat returns for the said years during 2016.

23 FINANCIAL ASSETS AND LIABILITIES

23.1 FINANCIAL ASSETS

	31 December 2017	31 December 2016	1 January 2016
Financial assets at fair value:			
Available for sale investments - unquoted equity shares	**7,271**	7,271	7,271
Total financial assets at fair value	**7,271**	7,271	7,271
Financial assets at amortized cost:			
Accounts receivables	**3,630,803**	3,701,340	3,424,090
Due from a related party	**52,419**	69,568	36,508
Held to maturity investments	**1,000,000**	350,000	1,250,000
Cash and cash equivalents	**1,192,181**	866,109	497,570
Total financial assets at amortized cost	**5,875,403**	4,987,017	5,208,168
Total financial assets	**5,882,674**	4,994,288	5,215,439
Current financial assets	**5,875,403**	4,987,017	5,208,168
Non-current financial assets	**7,271**	7,271	7,271
Total financial assets	**5,882,674**	4,994,288	5,215,439

Available for sale investments - unquoted equity shares
Available for sale investments include unlisted securities amounting to SR 7.3 million (31 December 2016: SR 7.3 million and 1 January 2016: SR 7.3 million) carried at cost less accumulated impairment losses due to absence of an active market for the equity securities.

(All amounts in Saudi Riyals thousands unless otherwise stated)

23 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

23.2 FINANCIAL LIABILTIIES

	31 December 2017	31 December 2016	1 January 2016
Financial liabilities at amortized cost:			
Loans and notes payable	**14,879,672**	15,208,753	14,274,815
Accounts payable	**4,808,002**	4,521,432	6,535,866
Due to related parties	**92,590**	138,420	210,970
Total financial liabilities at amortized cost	**19,780,264**	19,868,605	21,021,651
Current financial liabilities	**6,311,230**	12,267,754	12,513,098
Non-current financial liabilities	**13,469,034**	7,600,851	8,508,553
Total financial liabilities	**19,780,264**	19,868,605	21,021,651

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

23.3 RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

Risk management is carried out by senior management under policies approved by the Board of Directors. Senior management identifies, evaluates and hedges when appropriate, financial risks in close co-operation with the Group's operating units.

23.3.1 CREDIT RISK

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is exposed to credit risk principally from Cash and cash equivalents, accounts receivable, due from a related party and held to maturity investments.

The carrying amount of financial assets represents the maximum credit exposure.

Cash and cash equivalents and held to maturity investments

Cash and cash equivalents and held to maturity investments are held with counterparties with sound credit ratings. The Group regularly updates its cash flow and, where appropriate, places any excess cash on short-term investments with reputable financial institutions.

Accounts receivable

The Group has established a credit policy under which credit assessment is being made to check the credit worthiness of major customers prior to signing the contract/accepting their purchase order.

The credit quality of financial assets that are neither past due nor impaired are being assessed by reference to customers with appropriate and strong credit history, with minimal account defaults and where the receivables are fully recovered in the past. The Group recognizes provision for impairment of accounts receivable that are assessed to have a significant probability of becoming uncollectible and considering historical write-offs. Credit and Collection Operations provide inputs on the aging of financial assets on a periodic basis.

(All amounts in Saudi Riyals thousands unless otherwise stated)

23 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

23.3 RISK MANAGEMENT (CONTINUED)

23.3.1 CREDIT RISK (CONTINUED)

Accounts receivable (continued)

The Group has two major customers representing 29% of total accounts receivable as at 31 December 2017 (31 December 2016: 31% and 1 January 2016: 34%). The rest of the balances do not have significant concentration of credit risk, with exposure spread over large number of counterparties and customers.

As at 31 December, the age analysis of net accounts receivable is as follows:

	31 December 2017	31 December 2016	1 January 2016
Current	**576,791**	688,293	355,096
Within two months	**552,506**	504,716	430,196
From two months to three months	**168,925**	156,827	119,765
More than three months	**2,332,581**	2,351,504	2,519,033
	3,630,803	3,701,340	3,424,090

23.3.2 LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Group's approach in managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking damage to the Group's reputation.

The management closely and continuously monitors the liquidity risk by performing regular review of available funds, present and future commitments, operating and capital expenditure. Moreover, the Group monitors the actual cash flows and seeks to match the maturity dates of its financial assets and its financial liabilities.

The Group seeks continuously to comply with its legal obligations, including any, relating to its financing agreements.

The following represents the maturities of financial liabilities at the reporting date based on undiscounted contractual cash flows:

	Less than one year	**1 to 5 years**	**More than 5 years**	**Total contractual cash flows**	**Carrying amount**
At 31 December 2017					
Loans and notes payable	**2,201,319**	**10,321,059**	**5,799,298**	**18,321,676**	**14,879,672**
Accounts payable	**4,808,002**	**-**	**-**	**4,808,002**	**4,808,002**
Due to related parties	**92,590**	**-**	**-**	**92,590**	**92,590**
	7,101,911	**10,321,059**	**5,799,298**	**23,222,268**	**19,780,264**
At 31 December 2016					
Loans and notes payable	10,219,011	7,047,740	1,918,157	19,184,908	15,208,753
Accounts payable	4,521,432	-	-	4,521,432	4,521,432
Due to related parties	138,420	-	-	138,420	138,420
	14,878,863	7,047,740	1,918,157	23,844,760	19,868,605
At 1 January 2016					
Loans and notes payable	6,282,150	11,609,149	-	17,891,299	14,274,815
Accounts payable	6,535,866	-	-	6,535,866	6,535,866
Due to related parties	210,970	-	-	210,970	210,970
	13,028,986	11,609,149	-	24,638,135	21,021,651

(All amounts in Saudi Riyals thousands unless otherwise stated)

23 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

23.3 RISK MANAGEMENT (CONTINUED)

23.3.3 MARKET RISK

Market risk is the risk that changes in market prices such as foreign exchange rates, profit 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 optimizing the return.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's transactions are principally in Saudi Riyals and US Dollars. The Saudi Riyal is pegged to the US Dollar.

The management closely and continuously monitors the exchange rate fluctuations. Based on its experience and market feedback, the management does not believe it is necessary to hedge the effect of foreign exchange risks as most of the transactions of foreign currency risk is relatively limited in the medium term.

Profit rates risk

Profit rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market profit rates. The Group's exposure to market risk for changes in profit rates relates primarily to the Group's borrowings which were re-acquired to finance working capital requirements and capital expenditure. These borrowings are re-priced on a periodic basis and expose the Group to profit rate risk. The Group's practice is to manage its financing cost through optimizing available cash and minimizing borrowings.

24 CAPITAL 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 Group monitors its capital base using a ratio of Net debt to Equity. Net debt is calculated as loans and notes payable less cash and cash equivalents and held to maturity investments.

The Group's Net debt to Equity ratio at the end of the year are as follows:

	31 December 2017	31 December 2016
Loans and notes payable	**14,879,672**	15,208,753
Less: Cash and cash equivalents and held to maturity investments	**(2,192,181)**	(1,216,109)
Net debt	**12,687,491**	13,992,644
Total equity	**14,253,837**	14,956,480
Net debt to Equity	**0.89**	0.94

25 STATUTORY RESERVE

In accordance with the Company's By-Laws, the Company establishes at every financial year end a statutory reserve by the appropriation of 10% of the annual net income until the reserve equals 50% of the share capital. This reserve is not available for dividend distribution.

(All amounts in Saudi Riyals thousands unless otherwise stated)

26 REVENUE

	31 December 2017	31 December 2016
Usage	**8,457,420**	9,875,340
Activation and subscription fees	**2,115,410**	1,868,497
Others	**778,471**	825,560
	11,351,301	12,569,397

27 COST OF SALES

	Note	31 December 2017	31 December 2016
Network access charges		**1,666,480**	2,036,157
Rental and maintenance of network equipment expenses		**1,333,061**	1,170,272
Cost of utilized inventories		**626,430**	682,578
Government contribution fees in trade earnings		**679,395**	709,731
Frequency wave fees		**154,019**	142,291
National transmission and interconnection costs		**110,277**	126,286
License fees		**49,339**	51,561
Provision for inventory obsolescence	10	**(8,942)**	20,804
Others		**210,935**	204,432
		4,820,994	5,144,112

28 SELLING AND MARKETING EXPENSES

	31 December 2017	31 December 2016
Advertisement, promotion and sales commissions	**466,500**	592,527
Salaries, wages and employee benefits	**687,573**	607,711
Flagships rental expenses	**80,030**	69,930
	1,234,103	1,270,168

29 GENERAL AND ADMINISTRATIVE EXPENSES

	Note	31 December 2017	31 December 2016
Salaries, wages and employees' benefits		**638,354**	773,727
Provision for doubtful debts	11	**233,896**	551,692
Maintenance		**333,722**	328,171
Rentals		**86,701**	104,977
Consulting and professional services		**79,753**	93,434
Management fees		**22,524**	36,681
Travel and transportation		**16,318**	17,130
Board of Directors' remunerations and allowances		**5,050**	(649)
Others		**267,450**	232,656
		1,683,768	2,137,819

(All amounts in Saudi Riyals thousands unless otherwise stated)

30 FINANCE EXPENSES

	Note	**31 December 2017**	31 December 2016
Financing cost		**668,538**	556,414
Unwind of discount		**9,905**	9,970
		678,443	566,384

31 BASIC AND DILUTED LOSS PER SHARE

Basic loss per share is calculated by dividing the loss for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

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

	31 December 2017	31 December 2016
Loss for the year	**(708,941)**	(213,636)
Weighted average number of shares	**770,000**	770,000
Basic and diluted loss per share (in SR)	**(0.92)**	(0.28)

32 COMMITMENTS AND CONTINGENCIES

32.1 Commitments

Operating lease commitments – Group as lessee
The Group has entered into various commercial leases. The lease terms are between three and ten years.

Future minimum rentals payable are as follows:

	31 December 2017	31 December 2016	1 January 2016
Within one year	**706,719**	784,891	840,378
After one year but not more than five years	**890,488**	1,126,405	1,362,323
More than five years	**233,984**	354,537	475,089

Operating lease commitments – Group as lessor
The Group has entered into various commercial leases. These leases have remaining terms of between 1 month and 15 years.

Future minimum rentals receivable are as follows:

	31 December 2017	31 December 2016	1 January 2016
Within one year	**877,624**	773,466	601,615

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 consolidated statement of financial position date in the amount of SR 1.97 billion as at 31 December 2017 (31 December 2016: SR 2.4 billion and 1 January 2016: SR 4.5 billion).

As a result of frequencies auction held by CITC, the Company has been notified that CITC intends to allocate 2x5 MHz block after the Company meets the allocation requirements and pays the consideration for using the frequencies.

32 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Capital commitments (continued)

Once the conditions attached to the auction and the procedures of granting licenses is completed the license to use frequencies will be granted to the Company. The Company will incur a cost of approximately SR 422 million to acquire the right of using these frequencies, 30% of which has been paid on 10 September 2017 and the remaining 70% will be paid in equal annual installments over a 10 years period.

32.2 Contingent liabilities

The Group had contingent liabilities in the form of letters of guarantee and letters of credit amounting to SR 717 million as at 31 December 2017 (31 December 2016: SR 658 million and 1 January 2016: SR 427 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 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 regulations, as follows:

- There are (635) lawsuits filed by the Group against CITC amounting to SR 672 million as of 31 December 2017.
- The Board of Grievance has issued (163) verdicts in favor of the Group voiding (163) resolutions of the CITC's violation committee with a total penalties amounting to SR 467 million as of 31 December 2017.
- Some of these preliminary verdicts have become conclusive (after they were affirmed by the appeal court) cancelling penalties with a total amounting to SR 432 million as of 31 December 2017.

In addition, 23 legal cases were filed by the Group against CITC in relation to the mechanism of calculating the governmental fees and other subjects in which (16) of them are specifically related to the governmental fees as of 31 December 2017, out of which the Group received eight preliminary judgments and five final judgments in its favor. The remaining cases are still being adjudicated before the Board of Grievance. It is difficult to determine the amount of claims due to the difference in the calculation method. Although the Company believes that these claims have no legal basis, they may have a material impact on the Company's business in case of retroactive change in the regulatory framework which is difficult to assess.

The Group received additional claims from CITC during the year ended 31 December 2017 and has reassessed the provisions required against the claims as at 31 December 2017 and has recorded an appropriate estimate of the amount that it may ultimately have to pay to settle such claims.

The Group is subject to litigations in the normal course of business. Management and Board of Directors believe that it has adequate and sufficient provisions based on the status of these litigations as of 31 December 2017.

Furthermore, there are 176 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 2 preliminary verdicts and 141 final verdicts in its favor in these lawsuits and 13 cases have been either dismissed or abandoned and 20 cases are on-going as of 31 December 2017.

(All amounts in Saudi Riyals thousands unless otherwise stated)

33 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 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 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.

	31 December 2017	31 December 2016
Consumer revenues	**9,459,888**	10,449,734
Business revenues	**1,124,623**	1,357,505
Wholesale revenues	**676,982**	696,565
Outsourcing revenues	**89,808**	65,593
Total revenue	**11,351,301**	12,569,397
Total cost of sales	**(4,820,994)**	(5,144,112)
Total operating expense	**(2,884,681)**	(3,356,780)
Depreciation and amortization	**(3,626,355)**	(3,781,829)
Total non-operating expense	**(666,802)**	(543,643)
Capital expenditures	**2,268,293**	3,212,232