

**ETIHAD ETISALAT COMPANY**  
(A Saudi Joint Stock Company)  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 31 December 2019**  
Together with  
**Independent Auditors' Report**

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## Independent auditors' report

To the Shareholders of Etihad Etisalat Company

### 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 2019, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, 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 2019, 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 period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

# Independent auditors' report

To the Shareholders of Etihad Etisalat Company (Continued)

Key Audit Matters (continued)	
Revenue recognition	
See Note 28 to the consolidated financial statements.	
The key audit matter	How the matter was addressed in our audit
<p>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.</p> <p>Significant management judgment is required in determining the appropriate measurement and timing of recognition of different elements of revenue within bundled products.</p> <p>Due to the estimates and judgment involved in the application of revenue recognition standard and the complexity of the related IT systems and processes, we have identified this matter as a key audit matter.</p>	<p>In responding to this area, our audit procedures included testing of relevant controls and substantive procedures. In particular:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• 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;</li> <li>• 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;</li> <li>• Performing tests on the accuracy of customer invoice generation on a sample basis and testing the credits and discounts applied;</li> <li>• Performing analytical reviews of significant revenue streams;</li> <li>• Performing specific procedures to test the completeness and accuracy of adjustments relating to contracts containing multiple performance obligations.</li> </ul>

# Independent auditors' report

To the Shareholders of Etihad Etisalat Company (Continued)

Key Audit Matters (continued)	
Impairment testing of Goodwill	
See Note 10.1 to the consolidated financial statements.	
The key audit matter	How the matter was addressed in our audit
<p>As a result of past acquisitions, the Group carries capitalized goodwill with a value of SR 1,467 million as at 31 December 2019. Management performs an impairment assessment on an annual basis as required by IAS 36 Impairment of Assets. The impairment assessment for 2019 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 35 to the consolidated financial statements.</p> <p>The determination of recoverable amount, being the higher of fair value less costs to sell and value in use, requires judgment by the 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.</p> <p>We considered goodwill impairment to be a key audit matter due to the extent of judgment and assumptions involved in the assessment process.</p>	<p>We performed an evaluation of management's 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.</p> <p>Our procedures included challenging management on the suitability of the impairment model and reasonableness of the assumptions through performing the following:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• Recalculation of the discount rate by our internal valuation specialists using external information and comparison to management's assumptions;</li> <li>• Testing the mathematical accuracy of the cash flow model and agreeing relevant data to the Board approved strategic long term plan;</li> <li>• Assessing the reliability of management's forecast through a retrospective review of actual performance against previous forecasts;</li> <li>• Assessing and validating the appropriateness of the disclosures made in the consolidated financial statements.</li> </ul>

# Independent auditors' report

To the Shareholders of Etihad Etisalat Company (Continued)

Key Audit Matters (continued)	
Capitalisation of assets and the assessment of useful lives and residual values for Property and equipment and Intangible assets	
See Notes 8 and 10 to the consolidated financial statements.	
The key audit matter	How the matter was addressed in our audit
<p>Property and equipment and Intangible assets represent a significant proportion of the Group's asset base. The estimates and assumptions made to determine the carrying amounts, including whether and when to capitalise or expense certain costs, and the determination of depreciation and amortisation charges are material to the Group's financial position and performance. The charges in respect of periodic depreciation and amortisation are derived after estimating an asset's expected useful life and the expected residual value. Changes to assets' carrying amounts, expected useful lives or residual values could result in a material impact on the consolidated financial statements and is a matter of significance to our audit.</p> <p>The details of critical accounting judgments and carrying values of Property and equipment and Intangible assets are given in Notes 8 and 10 respectively.</p> <p>We considered the valuation of Property and equipment and Intangible assets to be a key audit matter due to the extent of judgment and assumptions involved in the assessment of useful lives and residual values.</p>	<p>We obtained an understanding of and tested the relevant management controls relating to the capitalisation of Property and equipment and Intangible assets, and the controls relevant to management's review of useful lives and residual values.</p> <p>We evaluated the capitalisation policies and assessed the timeliness of the transfer of assets under construction by agreeing the date that depreciation commenced to the date that the asset is ready for use.</p> <p>Our substantive testing of the determination of estimated useful lives and residual values included the following:</p> <ul style="list-style-type: none"> <li>• Considering management's judgments, including the appropriateness of the useful life assumptions and residual values applied in the calculation of depreciation and amortization.</li> <li>• Testing on a sample basis the accuracy of the cost capitalization and capex accrual.</li> </ul>



# Independent auditors' report

To the Shareholders of Etihad Etisalat Company (Continued)

Key Audit Matters (continued)	
First Time adoption of IFRS 16 – “Leases”	
See Note 6 to the consolidated financial statements.	
The Key audit matter	How the matter was addressed in our audit
<p>The Group adopted IFRS 16 “Leases” with effect from 1 January 2019 which superseded the requirements of IAS 17.</p> <p>IFRS 16 introduces a new lease accounting model, where lessees are required to recognise a right of use (ROU) asset and a lease liability arising from a lease, in the Statement of Financial Position.</p> <p>The Group has applied IFRS 16 initially on 1 January 2019 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 is recognised as an adjustment to the opening Retained Earnings at 1 January 2019, with no restatement of comparative information.</p> <p>As a result, as at 1 January 2019, the Group has recorded Right of Use (ROU) assets of SR 2,451 million, lease liabilities of SR 2,560 million, and a decrease in retained earnings of SR 99.8 million.</p> <p>The application and adoption of IFRS 16 is complex within the telecommunications industry given the high volume of lease agreements. Significant judgement is required in the assumptions and estimates made in order to determine the ROU asset and lease liability. The assumptions and estimates include identifying contracts that meet the lease definition, assessment of lease term, componentisation of the ROU asset where appropriate, and the determination of appropriate discount rates. The adjustments arising from applying IFRS 16 are material to the Group and as a result the adoption of IFRS 16 has been identified as a Key audit matter.</p>	<p>We performed the following procedures in relation to the implementation of IFRS 16:</p> <ul style="list-style-type: none"> <li>• Reviewed the gap analysis and impact assessment report provided by the Group in respect of classification and measurement of its right of use assets and lease liabilities and assessed the approach taken towards implementation of IFRS 16.</li> <li>• Verified the accuracy of the underlying lease data by agreeing a sample of leases to the original contract or other supporting information.</li> <li>• Tested lease schedules, on a sample basis, by recalculating the amounts underlying the right of use assets and lease liabilities, based on the terms of the lease contracts and checked the arithmetical accuracy of those individual lease schedules.</li> <li>• Assessed the appropriateness of the discount rates applied by management in determining the lease liabilities with input from our internal valuation specialist.</li> <li>• Assessed the appropriateness of the disclosures made in the consolidated financial statements.</li> </ul>

# Independent auditors' report

To the Shareholders of Etihad Etisalat Company (Continued)

## 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 once it is made available to us, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

## Responsibilities of Management and the Board of Directors for the Consolidated Financial Statements

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

The Group's Board of Directors is 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.



## Independent auditors' report

To the Shareholders of Etihad Etisalat Company (Continued)

### Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- 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.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of Etihad Etisalat Company ("the Company") and its subsidiaries ("the Group").

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

**For KPMG Al Fozan & Partners**  
**Certified Public Accountants**

**Khalil Ibrahim Al Sedais**  
License No. 371



Riyadh on: 17 February 2020  
Corresponding to: 23 Jumada II 1441H

Etihaad Etisalat Company (A Saudi Joint Stock Company)  
Consolidated statement of financial position  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	31 December 2019	31 December 2018
<b>Assets</b>			
<b>Non-current assets</b>			
Property and equipment	8	21,651,369	22,183,775
Right of use assets	9	2,378,958	-
Intangible assets	10	8,566,577	8,818,165
Capital advances		99,469	450,250
Investment in joint venture		-	1,483
Financial assets		7,636	7,271
<b>Total non-current assets</b>		<b>32,704,009</b>	<b>31,460,944</b>
<b>Current assets</b>			
Inventories	11	104,747	69,360
Contract assets	24	387,879	256,267
Accounts receivable	12	3,034,222	3,570,598
Due from related parties	13	90,266	61,721
Prepaid expenses and other assets	14	850,658	1,102,183
Other financial assets	15	839,000	1,000,000
Derivatives financial instruments		-	8,095
Cash and cash equivalents	16	1,251,680	1,032,850
<b>Total current assets</b>		<b>6,558,452</b>	<b>7,101,074</b>
<b>Total assets</b>		<b>39,262,461</b>	<b>38,562,018</b>
<b>Shareholders' equity and liabilities</b>			
<b>Shareholders' equity</b>			
Share capital	1	7,700,000	7,700,000
Statutory reserve	27	2,648,971	2,648,971
Retained earnings		3,469,231	3,543,131
Foreign currency translation reserve		(10,979)	(10,032)
Hedging reserve		(56,238)	(12,754)
Fair value reserve		365	-
<b>Total shareholders' equity</b>		<b>13,751,350</b>	<b>13,869,316</b>
<b>Non-current liabilities</b>			
Loans and notes payable	17	11,227,540	11,987,788
Lease liabilities		1,857,052	-
Provision for employees' end of service benefits	18	438,030	426,074
Contract liabilities	24	22,292	44,582
Deferred government grants income	19	122,373	141,604
Other financial liabilities		275,536	299,640
Provision for decommissioning liability	20	154,787	239,654
<b>Total non-current liabilities</b>		<b>14,097,610</b>	<b>13,139,342</b>
<b>Current liabilities</b>			
Loans and notes payable	17	1,157,017	1,033,891
Lease liabilities		651,972	-
Accounts payable	21	5,092,583	5,154,712
Contract liabilities	24	1,137,091	1,422,238
Due to related parties	13	264,765	163,385
Accrued expenses and other liabilities	22	2,512,947	3,250,424
Derivatives financial instruments		56,238	11,249
Provisions		445,295	433,455
Zakat provision	23	76,362	64,775
Deferred government grants income	19	19,231	19,231
<b>Total current liabilities</b>		<b>11,413,501</b>	<b>11,553,360</b>
<b>Total liabilities</b>		<b>25,511,111</b>	<b>24,692,702</b>
<b>Total shareholders' equity and liabilities</b>		<b>39,262,461</b>	<b>38,562,018</b>

The attached notes from 1 to 37 are an integral part of these consolidated financial statements.

Chief Financial Officer

Chief Executive Officer

Authorized Board Member

Etiihad 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 2019	31 December 2018
Revenue	28	13,449,974	11,864,912
Cost of sales	29	(5,649,987)	(5,282,709)
<b>Gross profit</b>		<b>7,799,987</b>	<b>6,582,203</b>
Selling and marketing expenses	30	(1,237,061)	(1,286,397)
General and administrative expenses	31	(1,549,032)	(747,384)
Impairment loss on accounts receivable and contract assets	12,24-1	(109,859)	(111,528)
Depreciation and amortization	8,9,10	(3,916,802)	(3,809,478)
Impairment loss on property and equipment	8	(63,000)	(118,333)
Other income		42,780	93,809
<b>Operating profit</b>		<b>967,013</b>	<b>602,892</b>
Share in results of joint venture		(1,483)	755
Finance expenses	32	(929,481)	(799,239)
Finance income	15	44,504	35,282
<b>Profit / (Loss) before zakat</b>		<b>80,553</b>	<b>(160,310)</b>
Zakat	23	(49,370)	37,644
<b>Profit / (Loss) for the year</b>		<b>31,183</b>	<b>(122,666)</b>
<b>Earnings / (Loss) per share:</b>			
Basic and diluted earnings / (loss) per share (in SR)	33	<b>0.04</b>	<b>(0.16)</b>

The attached notes from 1 to 37 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 comprehensive income  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	31 December 2019	31 December 2018
<b>Profit / (Loss) for the year</b>	<b>31,183</b>	<b>(122,666)</b>
<i>Items that will be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of foreign operations	(947)	(3,115)
Cash flow hedge - change in fair value	(60,710)	(12,754)
Cash flow hedge - reclassified to profit or loss	17,226	-
<b>Net total items that will be reclassified subsequently to profit or loss</b>	<b>(44,431)</b>	<b>(15,869)</b>
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Actuarial losses on re-measurement of employees' end of service benefits	(5,312)	(31,832)
Change in fair value of equity investments at FVOCI	365	-
<b>Net total items that will not be reclassified subsequently to profit or loss</b>	<b>(4,947)</b>	<b>(31,832)</b>
<b>Other comprehensive loss for the year</b>	<b>(49,378)</b>	<b>(47,701)</b>
<b>Total comprehensive loss for the year</b>	<b>(18,195)</b>	<b>(170,367)</b>

The attached notes from 1 to 37 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 2019  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Share capital	Statutory reserve	Retained earnings	Foreign currency translation reserve	Hedging reserve	Fair value reserve	Total shareholders' equity
As at 1 January 2018	7,700,000	2,648,971	3,911,783	(6,917)	-	-	14,253,837
Adjustment on application of IFRS 15	-	-	62,345	-	-	-	62,345
Adjustment on application of IFRS 9	-	-	(276,499)	-	-	-	(276,499)
As at 1 January 2018 (adjusted)	7,700,000	2,648,971	3,697,629	(6,917)	-	-	14,039,683
Loss for the year	-	-	(122,666)	-	-	-	(122,666)
Other comprehensive loss for the year	-	-	(31,832)	(3,115)	(12,754)	-	(47,701)
Total comprehensive loss for the year	-	-	(154,498)	(3,115)	(12,754)	-	(170,367)
As at 31 December 2018	7,700,000	2,648,971	3,543,131	(10,032)	(12,754)	-	13,869,316
As at 1 January 2019	7,700,000	2,648,971	3,543,131	(10,032)	(12,754)	-	13,869,316
Adjustment on application of IFRS 16	-	-	(99,771)	-	-	-	(99,771)
As at 1 January 2019 (adjusted)	7,700,000	2,648,971	3,443,360	(10,032)	(12,754)	-	13,769,545
Profit for the year	-	-	31,183	-	-	-	31,183
Other comprehensive (loss) / income for the year	-	-	(5,312)	(947)	(43,484)	365	(49,378)
Total comprehensive income / (loss) for the year	-	-	25,871	(947)	(43,484)	365	(18,195)
As at 31 December 2019	7,700,000	2,648,971	3,469,231	(10,979)	(56,238)	365	13,751,350

The attached notes from 1 to 37 are an integral part of these consolidated financial statements.

Chief Financial Officer

Chief Executive Officer

Authorized Board Member



Etiihad Etisalat Company (A Saudi Joint Stock Company)  
Consolidated statement of cash flows  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	31 December 2019	31 December 2018
<b>OPERATING ACTIVITIES</b>			
Profit / (Loss) for the year		31,183	(122,666)
<b>Adjustments for:</b>			
Change in provision for inventory obsolescence		(76,156)	(47,056)
Depreciation	8,9	3,554,879	3,456,321
Amortization of intangible assets	10	361,923	353,157
Impairment loss on property and equipment	8	63,000	118,333
Provision for employees' end of service benefits	18	69,306	50,585
Impairment loss on accounts receivable and contract assets	12,24-1	109,859	111,528
Provisions		22,220	(685,262)
Government grants		(19,231)	(19,231)
Zakat	23	49,370	(37,644)
Loss on sale of property and equipment		6,597	2,926
Foreign exchange losses		1,592	-
Other income		(775)	-
Share in results of joint venture		1,483	(755)
Finance expenses	32	929,481	799,239
Finance income		(44,504)	(35,282)
<b>Changes in:</b>			
Accounts receivable		455,840	(276,077)
Inventories		40,769	118,278
Contract assets		(160,935)	(189,127)
Prepaid expenses and other assets		30,786	148,796
Derivatives financial instruments		850	(9,600)
Accounts payable		(349,222)	446,410
Contract liabilities		(307,437)	(365,194)
Accrued expenses and other liabilities		(532,832)	446,241
Utilization of provision for decommissioning liability		(3,077)	(995)
Provisions used		(29,623)	-
Due from related parties		(28,545)	(9,302)
Due to related parties		101,380	70,795
<b>Cash generated from operating activities</b>		<b>4,278,181</b>	<b>4,324,418</b>
End of service benefits paid	18	(62,662)	(35,755)
Finance expenses paid		(668,630)	(711,711)
Zakat paid	23	(37,783)	(43,722)
<b>Net cash generated from operating activities</b>		<b>3,509,106</b>	<b>3,533,230</b>
<b>INVESTING ACTIVITIES</b>			
Other financial assets		161,000	-
Finance income received		51,798	20,435
Purchase of property and equipment		(1,968,253)	(1,759,496)
Proceeds from sale of property and equipment		34	5,385
Acquisition of intangible assets		(136,490)	(31,275)
Net cash outflow from deconsolidation of a subsidiary		-	(1,000)
<b>Net cash used in investing activities</b>		<b>(1,891,911)</b>	<b>(1,765,951)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from loans and notes payable		9,460,785	614,305
Payment of loans and notes payable and related fees		(10,245,376)	(2,540,915)
Payment of lease liabilities		(613,774)	-
<b>Net cash used in financing activities</b>		<b>(1,398,365)</b>	<b>(1,926,610)</b>
Net changes in cash and cash equivalents		218,830	(159,331)
Cash and cash equivalents at 1 January		1,032,850	1,192,181
<b>Cash and cash equivalents at 31 December</b>	16	<b>1,251,680</b>	<b>1,032,850</b>
<b>Supplementary non-cash information</b>			
Property and equipment purchased credited to capital expenditure payable		315,601	310,819

The attached notes from 1 to 37 are an integral part of these consolidated financial statements.

Chief Financial Officer

Chief Executive Officer

Authorized Board Member

## 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 I 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 II 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 follows:

Name	Country of incorporation	Ownership percentage				Initial investment
		31 December 2019		31 December 2018		
		Direct	Indirect	Direct	Indirect	
Mobily Infotech India Private Limited	India	99.99%	0.01%	99.99%	0.01%	1,836
Bayanat Al-Oula for Network Services Company S.P.C. *	Saudi Arabia	100.00%	-	99.00%	1.00%	1,500,000
Zajil International Network for Telecommunication Company	Saudi Arabia	96.00%	4.00%	96.00%	4.00%	80,000
National Company for Business Solutions	Saudi Arabia	95.00%	5.00%	95.00%	5.00%	9,500
National Company for Business Solutions FZE	United Arab of Emirates	-	100.00%	-	100.00%	184
Mobily Ventures Holding S.P.C.	Bahrain	100.00%	-	100.00%	-	2,510

\* During the year 2019, the Company acquired the remaining 1% owned by National Company for Business Solutions.

## **1 CORPORATE INFORMATION (CONTINUED)**

### **1.2 Subsidiary companies (continued)**

The main activities of the subsidiaries are as follows:

- IT services, applications, billing and testing support, product marketing, process management, support services and call center services.
- Contractual establishment and maintenance of wired telecommunication networks and related works and the installation and maintenance of computer systems, marketing and importing services for third parties.
- Installation and maintenance of wire and wireless telecommunication networks; import, export, sale, and distribution of equipment, machinery, telecommunication systems and smart building systems; in addition to marketing and distributing of telecommunication services and managing the centers related to those services; providing computer services and related programs and equipment and providing consultation services in the telecommunication, computer, software, and media production domains.
- Wholesale and retail trade of computers and electronic equipment, maintenance and operation of such equipment, and provision of related services.
- 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 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 Mobily Infotech India Private Limited share capital was acquired by National Company for Business Solutions, a subsidiary of the Company. The financial year end of Mobily Infotech India Private Limited is March 31 however, the Company uses the financial statements of Mobily Infotech India Private Limited for the same reporting period in preparing the Group's consolidated financial statements.

#### **1.2.2 Bayanat Al-Oula for Network Services Company S.P.C.**

During the year 2008, the Company acquired 99% of the partners' shares in Bayanat Al-Oula for Network Services Company ("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 1,467 million on the acquisition date. The remaining 1% is owned by National Company for Business Solutions, a subsidiary of the Company.

During the year 2019, the Company acquired the remaining 1% owned by National Company for Business Solutions.

#### **1.2.3 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 CORPORATE INFORMATION (CONTINUED)**

### **1.2 Subsidiary companies (continued)**

#### **1.2.4 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% (2018: 10%).

#### **1.2.5 National Company for Business Solutions FZE**

During 2014, 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.

#### **1.2.6 Mobily Ventures Holding S.P.C.**

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

Mobily Ventures Holding S.P.C. owns participation in the following companies;

- Anghami LLC (Cayman Islands): 7.94% (2018: 8.16%)
- MENA 360 DWC LLC (United Arab of Emirates): 2.33% (2018: 2.48%)
- Dokkan Afkar (British Virgin Islands): 3.28% (2018: 4.2%)

## **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 with 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 (SOCPA).

The principal accounting policies applied in the preparation of these consolidated financial statements have been consistently applied to all periods presented except for IFRS 16 "Leases" which have been applied for the first time.

These consolidated financial statements have been approved for issuance by Board of Directors on 17 February 2020 (corresponding to 23 Jumada II 1441H).

### **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.

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 effective applicable to the Group's consolidated financial statements but not expected to have a significant impact are listed below:

- a) Amendments to References to Conceptual Framework in IFRS standards.
- b) Definition of a Business (Amendments to IFRS 3).
- c) Definition of Material (Amendments to IAS 1 and IAS 8).
- d) Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform.



## **5 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.

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

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 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **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.

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 in results of the associate and joint venture. Any change in consolidated statement of comprehensive income of those investees is presented as part of the Group's consolidated statement of 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 consolidated statement of changes in shareholders' 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 in results of associate and joint venture is shown separately on the face of the consolidated statement of profit or loss.

The 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 in results of associate and 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 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 months or less from acquisition date.

## 5 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 5.5 Financial instruments – initial recognition, subsequent measurement and derecognition

#### 5.5.1 Financial assets

##### (a) Initial recognition and measurement

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

##### (b) Classification and subsequent measurement

On initial recognition, financial assets are classified as measured at: amortized cost; Fair Value through Other Comprehensive Income (FVOCI) – debt investment; FVOCI – equity investment; or Fair Value through Profit and Loss (FVTPL).

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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

<b>Financial assets at amortized cost</b>	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in consolidated statement of profit or loss. Any gain or loss on derecognition is recognized in consolidated statement of profit or loss.
<b>Financial assets at FVOCI - Debt investments</b>	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in consolidated statement of profit or loss. Other net gains and losses are recognized in consolidated statement of comprehensive income. On derecognition, gains and losses accumulated in consolidated statement of comprehensive income are reclassified to consolidated statement of profit or loss.
<b>Financial assets at FVOCI - Equity investments</b>	These assets are subsequently measured at fair value. Dividends are recognized as income in consolidated statement of profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in consolidated statement of comprehensive income and are never reclassified to consolidated statement of profit or loss.
<b>Financial assets at FVTPL</b>	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in consolidated statement of profit or loss.

## 5 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 5.5 Financial instruments – initial recognition, subsequent measurement and derecognition (continued)

#### 5.5.1 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

The Group recognizes a loss allowance for expected credit losses (ECL) on debt instruments that are measured at amortized cost or at FVOCI, accounts receivable, contract assets, lease receivables and financial guarantee contracts. No impairment loss is recognized for investments in equity instruments. The amount of expected credit losses reflects changes in credit risk since initial recognition of the respective financial instrument.

The Group applies the simplified approach to calculate impairment on accounts receivable and contract assets and this always recognizes lifetime ECL on such exposures. ECL on these financial assets are estimated using a flow rate based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group applies the general approach to calculate impairment. Lifetime ECL is recognized when there has been a significant increase in credit risk since initial recognition and 12 month ECL is recognized when the credit risk on the financial instrument has not increased significantly since initial recognition.

The assessment of whether credit risk of the financial instrument has increased significantly since initial recognition is made through considering the change in risk of default occurring over the remaining life of the financial instrument.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the end of the reporting period with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available.

The Group considers the default in case of accounts receivable occurs when a customer balance moves into the "Inactive" category based on its debt age analysis.

For all other financial assets, the Group considers the following as constituting an event of default as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay his dues.

The Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if; i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the percentage of the loss if there is a default) and the exposure at default. The assessment of the probability of default is based on historical data adjusted by forward-looking information.

The Group recognizes an impairment loss or reversals in the consolidated statement of profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVOCI, for which the loss allowance is recognized in consolidated statement of comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the consolidated statement of financial position.

## **5 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **5.5 Financial instruments – initial recognition and subsequent measurement derecognition (continued)**

#### **5.5.2 Financial liabilities**

##### ***Recognition and measurement***

Financial liabilities are classified, at initial recognition, as measured at amortized cost or financial liabilities at fair value through profit or loss. 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 recognised in consolidated statement of profit or loss as incurred.

##### **5.5.3 Derivatives**

Derivatives are initially measured at fair value. Subsequent to initial recognition, any change in fair value is generally recognized in consolidated statement of profit or loss.

The Group designates derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in profit rates.

Hedge effectiveness is determined at the inception of the hedge relationship and periodically to ensure that an economic relationship exists between the hedged item and hedging instrument. The Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item.

At the inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in consolidated statement of comprehensive income and accumulated in the hedging reserve shown under shareholders' equity. The effective portion of changes in the fair value of the derivative that is recognized in consolidated statement of comprehensive income is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in consolidated statement of profit or loss. The amount accumulated in shareholders' equity is reclassified to consolidated statement of profit or loss in the same period or periods during which the hedged expected future cash flows affect profit or loss.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, terminated or exercised, then hedge accounting is discontinued prospectively.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in shareholders' equity are immediately reclassified to consolidated statement of profit or loss.



## 5 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 5.6 Property and equipment

Property and equipment are 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 labor 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	10% - 33%
Office equipment and furniture	14% - 33%
Vehicles	20% - 25%

Depreciation methods, estimated useful lives and residual values are reviewed annually and revised if the current methods, estimated useful lives or residual values are 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.

### 5.7 Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less 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.

#### 5.7.1 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.

#### 5.7.2 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 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **5.7 Intangible Assets (continued)**

#### **5.7.3 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.

#### **5.7.4 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.

### **5.8 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 an 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.

### **5.9 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 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **5.10 Zakat and income tax**

The Group is subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax (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.

### **5.11 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 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.

### **5.12 Revenues**

The Group is in the business of providing mobile telecommunication services. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

#### *(a) Service*

Revenue from services comprises airtime usage, text messaging, data service (fixed and mobile internet) and other telecom services. The Group offers services in fixed term contracts and short term arrangement. Revenue from service is recognized when obligation is performed or services are rendered. When services include multiple performance obligations, the Group allocates transaction price to each distinct performance obligation based on respective standalone selling price. The standalone selling price is the observable price for which the good or service is sold by the Group in similar circumstances to similar customers. If performance obligations are not distinct, revenue is recognized over the contract term. In arrangements, where Group is acting as agent, revenue from service is at net off amount transferred to third party. Revenue from additional consumption is recognized when services are rendered.

#### *(b) Sale of devices*

Revenue from sale of devices is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the devices, the amount invoiced is recognized as revenue. Devices sales may be separate from or bundled with a service offering. The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated based on respective standalone selling price. When devices sale is bundled with service offering and identified as distinct performance obligation, the amount allocated to devices is recognized as revenue at the point in time when control of the asset is transferred to the customer. When devices sale is bundled with service offering and identified as combined performance obligation, revenue is recognized over contract term.

## 5 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 5.12 Revenues (continued)

#### (c) *Installation and activation services*

Revenue from sale of SIM is recognized at the point in time upon activation when end customer takes control of the SIM.

The Group provides installation services that are bundled together with the sale of devices to a customer.

Contracts for bundled sales of devices and installation services are comprised of one performance obligations because the promises to transfer devices and provide installation services are not capable of being distinct. Accordingly, the Group recognizes revenue from bundled sales of devices and installation services over time, using an input method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Group.

#### (d) *Loyalty points program*

Customer loyalty scheme give rise to a separate performance obligation because it generally provides a material right to the customer. The Group allocates a portion of the transaction price to the loyalty scheme liability based on relative standalone selling price of loyalty point and liability is recognized as revenue when points are redeemed or expired.

#### (e) *Service offering to carrier (wholesale)*

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.

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.

Revenue from other wholesales service is recognized on the basis of gross value over contract term.

#### (f) *Determination of Transaction Price*

In determining the transaction price, the Group considers the effects of variable consideration, the existence of significant financing components, non-cash consideration and consideration payable to the customer (if any).

##### (i) Variable consideration

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

##### (ii) Significant financing component

Generally, the Group receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

If the Group receives long-term advances from customers, the transaction price for such contracts is discounted, using the rate that would be reflected in a separate financing transaction between the Group and its customers at contract inception, to take into consideration the significant financing component.

##### (iii) Non-cash consideration

The fair value of such non-cash consideration received from the customer is included in the transaction price.

##### (iv) Consideration payable to the customer

Consideration payable to the customer includes cash amount that the Group pays or expect to pay to the customers and is accounted for as reduction of transaction price.

When contract include contractual clause covering commercial discount or free offers, the Group defers these discounts or free offers over the contract term.

## **5 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **5.13 Contract balances**

#### *(i) Contract assets*

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

#### *(ii) Contract liabilities*

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made. Contract liabilities are recognized as revenue when the Group performs under the contract.

### **5.14 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.

#### *(d) Contract cost*

##### *i. Cost to obtain a contract*

Cost to obtain a contract represents incremental cost and directly related to obtain a contract or groups of contracts and would not be paid in the absence of the contract. The Group capitalized such costs of obtaining a contract on the consolidated statement of financial position as a contract acquisition cost when incurred to the extent of recoverability and the related liability is recorded.



## **5 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **5.14 Costs and expenses (continued)**

#### *(d) Contract cost (continued)*

##### *ii. Costs to fulfill a contract*

The Group capitalizes costs to fulfill a contract when:

- (a) The costs relate directly to a specific contract;
- (b) The costs generate or enhance resources of the Group that will be used in satisfying performance obligations in the future; and
- (c) The costs are expected to be recovered.

Cost related to performance obligations that have been satisfied are included in the consolidated statement of profit or loss.

##### *iii. Amortization*

Assets recognized in respect of: (i) the costs to obtain a contract and (ii) the costs to fulfill a contract, is amortized in line with the pattern of revenue recognition.

### **5.15 Dividends**

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

### **5.16 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 consolidated statement of profit or loss reflects the amount that arises from using this method.

#### *(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 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 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 comprehensive income or consolidated statement of profit or loss are also recognized in consolidated statement of comprehensive income or consolidated statement of profit or loss, respectively).

## **5 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **5.16 Foreign currency transactions (continued)**

#### *(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 recognized in consolidated statement of comprehensive income. On disposal of a foreign operation, the component of consolidated statement of comprehensive income relating to that particular foreign operation is recognized in consolidated statement of profit or loss.

### **5.17 Leases**

#### *Policy applicable from 1 January 2019*

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

#### **A. As a lessee**

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

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of the costs of dismantling and removing the underlying asset and restoring the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

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

After initial recognition, the lease liability is measured by (a) increasing the carrying amount to reflect interest on the lease liability; (b) reducing the carrying amount to reflect the lease payments made; and (c) re-measuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

Where, (a) there is a change in the lease term as a result of reassessment of certainty to exercise an exercise option, or not to exercise a termination option; or (b) there is a change in the assessment of an option to purchase the underlying asset, assessed considering the events and circumstances in the context of a purchase option, the Group re-measures the lease liabilities to reflect changes to lease payments by discounting the revised lease payments using a revised discount rate. The Group determines the revised discount rate as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or the incremental borrowing rate at the date of reassessment, if the interest rate implicit in the lease cannot be readily determined.

Where, (a) there is a change in the amounts expected to be payable under a residual value guarantee; or (b) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, including a change to reflect changes in market rental rates following a market rent review, the Group re-measures the lease liabilities by discounting the revised lease payments using an unchanged discount rate, unless the change in lease payments results from a change in floating interest rates. In such case, the Group use a revised discount rate that reflects changes in the interest rate.

The Group recognizes the amount of the re-measurement of lease liability as an adjustment to the right-of-use asset. Where the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Group recognizes any remaining amount of the re-measurement in consolidated statement of profit or loss.

## **5 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **5.17 Leases (continued)**

#### **A. As a lessee (continued)**

The Group accounts for a lease modification as a separate lease if both:

- a. the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- b. the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

Lease modification that is not accounted for as a separate lease, the Group at the effective date of the lease modification: (a) allocates the consideration in the modified contract; (b) determines the lease term of the modified lease; and (c) remeasures the lease liability by discounting the revised lease payments using a revised discount rate.

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

#### **B. As a lessor**

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

The Group recognizes lease payments received under operating leases as income on a straight-line basis over the lease term in consolidated statement of profit or loss.

#### *Policy applicable before 1 January 2019*

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.

#### **(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.

### **5.18 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.

## **5 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **5.19 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 recognized as finance cost in the consolidated statement of profit or loss.

#### *(b) Asset retirement obligation*

The provision for asset retirement obligation arose on rental of the networking sites. A corresponding asset is recognized in right of use assets. 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 liability. The unwinding of the discount is expensed as incurred and recognized in the consolidated statement of profit or loss as a finance expenses. 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.

### **5.20 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.

### **5.21 Inventories**

Inventories comprise of mobile phones (handsets) and equipment, SIM cards, prepaid 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 sales in the consolidated statement of profit or loss.

### **5.22 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.

When 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 CHANGE IN SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

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

## 6 CHANGE IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following table summarizes the impact of adopting IFRS 16 on the Group's consolidated financial statements for the year ended 31 December 2019.

Impact on the consolidated statement of financial position

	As reported	Adjustment IFRS 16	Amounts without adoption of IFRS 16
<b>Assets</b>			
<b>Non-current assets</b>			
Property and equipment	21,651,369	79,467	21,730,836
Right of use assets	2,378,958	(2,378,958)	-
Intangible assets	8,566,577	-	8,566,577
Capital advances	99,469	-	99,469
Financial assets	7,636	-	7,636
<b>Total non-current assets</b>	<b>32,704,009</b>	<b>(2,299,491)</b>	<b>30,404,518</b>
<b>Current assets</b>			
Inventories	104,747	-	104,747
Contract assets	387,879	-	387,879
Accounts receivable	3,034,222	-	3,034,222
Due from related parties	90,266	-	90,266
Prepaid expenses and other assets	850,658	209,187	1,059,845
Other financial assets	839,000	-	839,000
Cash and cash equivalents	1,251,680	-	1,251,680
<b>Total current assets</b>	<b>6,558,452</b>	<b>209,187</b>	<b>6,767,639</b>
<b>Total assets</b>	<b>39,262,461</b>	<b>(2,090,304)</b>	<b>37,172,157</b>
<b>Shareholders' equity and liabilities</b>			
<b>Shareholders' equity</b>			
Share capital	7,700,000	-	7,700,000
Statutory reserve	2,648,971	-	2,648,971
Retained earnings	3,469,231	119,499	3,588,730
Foreign currency translation reserve	(10,979)	-	(10,979)
Hedging reserve	(56,238)	-	(56,238)
Fair value reserve	365	-	365
<b>Total Shareholders' equity</b>	<b>13,751,350</b>	<b>119,499</b>	<b>13,870,849</b>
<b>Non-current liabilities</b>			
Loans and notes payable	11,227,540	-	11,227,540
Lease liabilities	1,857,052	(1,857,052)	-
Provision for employees' end of service benefits	438,030	-	438,030
Contract liabilities	22,292	-	22,292
Deferred government grants income	122,373	-	122,373
Other financial liabilities	275,536	-	275,536
Provision for decommissioning liability	154,787	97,320	252,107
<b>Total non-current liabilities</b>	<b>14,097,610</b>	<b>(1,759,732)</b>	<b>12,337,878</b>
<b>Current liabilities</b>			
Loans and notes payable	1,157,017	-	1,157,017
Lease liabilities	651,972	(651,972)	-
Accounts payable	5,092,583	-	5,092,583
Contract liabilities	1,137,091	-	1,137,091
Due to related parties	264,765	-	264,765
Accrued expenses and other liabilities	2,512,947	188,026	2,700,973
Derivative financial instruments	56,238	-	56,238
Provisions	445,295	10,000	455,295
Zakat provision	76,362	3,875	80,237
Deferred government grants income	19,231	-	19,231
<b>Total current liabilities</b>	<b>11,413,501</b>	<b>(450,071)</b>	<b>10,963,430</b>
<b>Total liabilities</b>	<b>25,511,111</b>	<b>(2,209,803)</b>	<b>23,301,308</b>
<b>Total Shareholders' equity and liabilities</b>	<b>39,262,461</b>	<b>(2,090,304)</b>	<b>37,172,157</b>

## 6 CHANGE IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

	As reported	Adjustment IFRS 16	Amounts without adoption of IFRS 16
Revenue	13,449,974	-	13,449,974
Cost of sales	(5,649,987)	(483,669)	(6,133,656)
<b>Gross profit / (loss)</b>	<b>7,799,987</b>	<b>(483,669)</b>	<b>7,316,318</b>
Selling and marketing expenses	(1,237,061)	(63,820)	(1,300,881)
General and administrative expenses	(1,549,032)	(80,545)	(1,629,577)
Impairment loss on accounts receivable and contract assets	(109,859)	-	(109,859)
Depreciation and amortization	(3,916,802)	518,313	(3,398,489)
Impairment loss on property and equipment	(63,000)	-	(63,000)
Other income	42,780	(775)	42,005
<b>Operating profit / (loss)</b>	<b>967,013</b>	<b>(110,496)</b>	<b>856,517</b>
Share in results of joint venture	(1,483)	-	(1,483)
Finance expenses	(929,481)	134,099	(795,382)
Finance income	44,504	-	44,504
<b>Profit before zakat</b>	<b>80,553</b>	<b>23,603</b>	<b>104,156</b>
Zakat	(49,370)	(3,875)	(53,245)
<b>Profit for the year</b>	<b>31,183</b>	<b>19,728</b>	<b>50,911</b>
<b>Total comprehensive (loss) / income for the year</b>	<b>(18,195)</b>	<b>19,728</b>	<b>1,533</b>

On transition to IFRS 16, when measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019.

	1 January 2019
Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the Group's consolidated financial statements (adjusted)	3,062,240
Discounted using the incremental borrowing rate at 1 January 2019	2,560,483
Lease liabilities recognized at 1 January 2019	2,560,483

## **7 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS**

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 reporting date.

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.

### **7.1 Provisions**

#### *(a) Impairment loss on accounts receivable and contract assets*

The Group uses a provision matrix to calculate ECLs for accounts receivable and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions.

#### *(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 right of use assets and subsequently allocates them to expense using a systematic and rational method over the lease useful life, and records the accretion of the liability as a charge to finance expenses.

### **7.2 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.



## **7 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUE)**

### **7.3 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, withdrawal rate and mortality rates. 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.

### **7.4 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 of disposal and its value in use. This complex valuation process used to determine fair value less costs of disposal 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.

### **7.5 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 at least each financial year-end 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.

### **7.6 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 depending 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.

### **7.7 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.

## **7 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)**

### **7.8 Fair value measurement**

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

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

The principal or most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

All assets and liabilities for which fair value is measured or disclosed in the 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 re-measured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Group also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

## **7 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)**

### **7.9 Revenue**

#### *(a) Identifying performance obligations in a bundled sale of devices and services*

The Group provides services that are either sold separately or bundled together with the sale of devices to a customer. The Group analyses whether devices and services are capable of being distinct or not

#### *(b) Gross versus net presentation*

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

Whether the Group is principal or agent, depends on whether the control of goods or services is transferred to customers, and it has the ability to direct the use of the devices or obtain benefits from the devices or service. Below is the 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; and
- The Group has latitude in establishing prices, either directly or indirectly, for example by providing additional goods or services.

#### *(c) Consideration of significant financing component in a contract*

The Group analyses significant financing component in a contract where payment terms are exceeding more than one year for the date of services rendered. In determining the interest to be applied to the amount of consideration, the Group uses discount rate as appropriate in the circumstances.

#### *(d) Determining whether the loyalty points provide material rights to customers*

The Group assessed whether the loyalty points provide a material right to the customer that needs to be accounted for as a separate performance obligation. The Group determined that the loyalty points provide a material right that the customer would not receive without entering into the contract. The free products or services the customer would receive by exercising the loyalty points do not reflect the stand-alone selling price that a customer without an existing relationship with the Group would pay for those products or services.

### **7.10 Leases**

In determining the lease term, the Group considers all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease. The Group revises the lease term if there is a change in the non-cancellable period of a lease.

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**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
<b>Cost:</b>									
At 1 January 2019	273,192	1,235,556	836,398	40,234,102	5,513,613	437,220	3,046	3,549	48,536,676
Adjustment on application of IFRS 16	-	-	-	(152,878)	-	-	-	-	(152,878)
Additions	-	(18,620)	26,746	2,273,183	340,851	5,667	-	21,951	2,649,778
Reclassification	-	-	-	316,559	(301,954)	(14,605)	-	-	-
Transfers	-	-	-	24,862	-	-	-	(24,862)	-
Disposals	-	(1,448)	(10,416)	(21,758)	(95,047)	(4,921)	(272)	-	(133,862)
At 31 December 2019	273,192	1,215,488	852,728	42,674,070	5,457,463	423,361	2,774	638	50,899,714
<b>Depreciation and impairment:</b>									
At 1 January 2019	-	303,688	673,240	20,746,870	4,203,076	423,389	2,638	-	26,352,901
Adjustment on application of IFRS 16	-	-	-	(67,887)	-	-	-	-	(67,887)
Charge for the year	-	56,794	35,867	2,508,684	422,803	3,320	94	-	3,027,562
Impairment	-	-	-	63,000	-	-	-	-	63,000
Reclassification	-	-	-	210,673	(194,068)	(16,605)	-	-	-
Disposals	-	(494)	(10,365)	(17,985)	(93,233)	(4,882)	(272)	-	(127,231)
At 31 December 2019	-	359,988	698,742	23,443,355	4,338,578	405,222	2,460	-	29,248,345
<b>Net book value:</b>									
At 31 December 2019	273,192	855,500	153,986	19,230,715	1,118,885	18,139	314	638	21,651,369
At 31 December 2018	273,192	931,868	163,158	19,487,232	1,310,537	13,831	408	3,549	22,183,775

The Group has capitalized borrowing costs during the year ended 31 December 2019 amounting to SR 22 million (31 December 2018: SR 10 million) and internal technical salaries amounting to SR 164 million (31 December 2018: SR 176 million).

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**9 RIGHT OF USE ASSETS**

	Telecommunication network equipment	Buildings	Land	Total
<b>Cost:</b>				
As at 1 January 2019	-	-	-	-
Adjustment on application of IFRS 16	3,452,069	645,587	53,263	4,150,919
As at 1 January 2019 (adjusted)	3,452,069	645,587	53,263	4,150,919
Additions	342,205	202,131	-	544,336
Lease cancellation	(99,745)	(63,340)	(1,068)	(164,153)
As at 31 December 2019	3,694,529	784,378	52,195	4,531,102
<b>Depreciation:</b>				
As at 1 January 2019	-	-	-	-
Adjustment on application of IFRS 16	1,453,487	234,185	11,810	1,699,482
As at 1 January 2019 (adjusted)	1,453,487	234,185	11,810	1,699,482
Charge for the year	396,728	127,965	2,624	527,317
Lease cancellation	(52,599)	(21,121)	(935)	(74,655)
As at 31 December 2019	1,797,616	341,029	13,499	2,152,144
<b>Net book value:</b>				
As at 31 December 2019	1,896,913	443,349	38,696	2,378,958

The Group's main leases are in respect of land and buildings which is used for base stations, sales outlets, offices, warehouses and technical facilities. The lease period typically is for 10 years but ranges between 2 years to 25 years, and frequently includes an option to renew the lease at the end of the initial lease term. Lease payments are renegotiated on renewal of agreement. For certain leases, the Group is required to restore the premises to as near as possible to the condition they were at time of entering into lease. Previously, these leases were classified as operating leases under IAS 17.

**10 INTANGIBLE ASSETS**

	Telecommunication services licenses	Goodwill	Indefeasible Right of Use (IRU)	Others	Total
<b>Cost:</b>					
1 January 2019	13,534,100	1,466,865	1,151,215	97,689	16,249,869
Additions	46,200	-	64,135	-	110,335
Reclassification	5,050	-	(5,050)	-	-
31 December 2019	13,585,350	1,466,865	1,210,300	97,689	16,360,204
<b>Amortization:</b>					
1 January 2019	6,812,172	-	521,843	97,689	7,431,704
Charge for the year	276,548	-	85,375	-	361,923
Reclassification	370	-	(370)	-	-
31 December 2019	7,089,090	-	606,848	97,689	7,793,627
<b>Net book value:</b>					
At 31 December 2019	6,496,260	1,466,865	603,452	-	8,566,577
At 31 December 2018	6,721,928	1,466,865	629,372	-	8,818,165

## 10 INTANGIBLE ASSETS (CONTINUED)

### 10.1 GOODWILL

Goodwill acquired through business combinations is allocated as follows:

	<b>31 December 2019</b>	31 December 2018
Bayanat Al-Oula for Network Services Company S.P.C.	<b><u>1,466,865</u></b>	<u>1,466,865</u>

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 1.5%.

The recoverable amount of the CGU as at 31 December 2019 amounted to SR 12.8 billion (31 December 2018: SR 13.8 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 2018: 10%) and cash flows beyond the 5 years period are extrapolated using a 1.5% growth rate (31 December 2018: 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.

#### 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

#### *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 shareholders' equity. The cost of shareholders' 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 2018: 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 2018: 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 19.97% (i.e., +9.97 %) (31 December 2018: 23% (i.e., +13 %)) 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 2018: 0%) in the long-term growth rate would not result in an impairment loss.

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**11 INVENTORIES**

	<b>31 December 2019</b>	<b>31 December 2018</b>
Handsets and equipment	<b>232,298</b>	259,434
SIM cards	<b>21,687</b>	32,772
Prepaid vouchers and scratch cards	<b>3,803</b>	9,886
	<b>257,788</b>	302,092
Less: provision for inventory obsolescence	<b>(153,041)</b>	(232,732)
	<b>104,747</b>	69,360

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

	<b>31 December 2019</b>	<b>31 December 2018</b>
Balance at the beginning of the year	<b>(232,732)</b>	(282,794)
Reversal during the year	<b>76,156</b>	47,056
Written off during the year	<b>3,535</b>	3,006
Balance at the end of the year	<b>(153,041)</b>	(232,732)

**12 ACCOUNTS RECEIVABLE**

	<b>31 December 2019</b>	<b>31 December 2018</b>
Accounts receivable	<b>4,662,411</b>	5,595,154
Less: allowance for impairment loss on accounts receivable	<b>(1,628,189)</b>	(2,024,556)
	<b>3,034,222</b>	3,570,598

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

	<b>31 December 2019</b>	<b>31 December 2018</b>
Balance at the beginning of the year	<b>(2,024,556)</b>	(1,636,529)
Adjustment on application of IFRS 9	-	(276,499)
Balance at the beginning of the year (adjusted)	<b>(2,024,556)</b>	(1,913,028)
Charge for the year	<b>(80,536)</b>	(111,528)
Written off during the year	<b>476,903</b>	-
Balance at the end of the year	<b>(1,628,189)</b>	(2,024,556)



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**13 RELATED PARTY TRANSACTIONS AND BALANCES**

**13.1 RELATED PARTY TRANSACTIONS**

The Group has the following related parties:

<b>Party</b>	<b>Relationship</b>
Emirates Telecommunication Group Company PJSC	Founding shareholder
Emirates Data Clearing House	Affiliate to Founding shareholder
Etisalat Misr S.A.E.	Affiliate - Subsidiary to Founding shareholder
Etisalat Afghanistan	Affiliate - Subsidiary to Founding shareholder
Etisalat Al Maghrib S.A (Maroc Telecom)	Affiliate - Subsidiary to Founding shareholder
Pakistan Telecommunication Company Limited	Affiliate - Subsidiary to Founding shareholder
Emirates Cable TV and Multimedia LLC	Affiliate - Subsidiary to Founding shareholder
Sehati for Information Service Company	Joint venture

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

	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>Interconnection services and roaming services rendered</b>		
Founding shareholder	<b>96,344</b>	112,681
Affiliates	<b>8,526</b>	6,863
<b>Interconnection services and roaming services received</b>		
Founding shareholder	<b>280,358</b>	261,758
Affiliates	<b>108,957</b>	103,945
<b>Management fees</b>		
Founding shareholder	<b>112,517</b>	-
<b>Other management expenses</b>		
Founding shareholder	<b>5,696</b>	29,673
<b>Other telecommunication services</b>		
Affiliates	<b>6,939</b>	4,079

*Compensation and benefits to key management personnel*

	<b>31 December 2019</b>	<b>31 December 2018</b>
Short term employee benefits	<b>72,678</b>	66,974
Post-employment benefits	<b>2,378</b>	2,428
<b>Total compensation and benefits to key management personnel</b>	<b>75,056</b>	69,402

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

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

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**13 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)**

**13.2 RELATED PARTY BALANCES**

	31 December 2019	31 December 2018
<b>Due from related parties</b>		
Founding shareholder	77,676	49,547
Affiliates	4,424	4,008
Joint venture	8,166	8,166
	<u>90,266</u>	<u>61,721</u>
<b>Due to related parties</b>		
Founding shareholder	233,214	132,277
Affiliates	31,551	31,108
	<u>264,765</u>	<u>163,385</u>

**14 PREPAID EXPENSES AND OTHER ASSETS**

	31 December 2019	31 December 2018
Prepaid expenses	59,974	303,689
Deferred costs	445,777	389,372
Advance payments to trade suppliers	12,621	92,809
Others	332,286	316,313
	<u>850,658</u>	<u>1,102,183</u>

**15 OTHER FINANCIAL ASSETS**

Financial asset at amortized cost represents 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 are reported under finance income in the consolidated statement of profit or loss.

**16 CASH AND CASH EQUIVALENTS**

	31 December 2019	31 December 2018
Cash on hand	446	728
Cash at banks	294,934	582,122
Short-term deposits	956,300	450,000
	<u>1,251,680</u>	<u>1,032,850</u>

**17 LOANS AND NOTES PAYABLE**

	31 December 2019	31 December 2018
Long-term loans	12,384,557	13,021,679
Less: current portion	(1,157,017)	(1,033,891)
Non-current	<u>11,227,540</u>	<u>11,987,788</u>

a) Maturity profile of loans and notes payable:

	31 December 2019	31 December 2018
Less than one year	1,157,017	1,033,891
Between one to five years	5,329,673	8,704,052
Over five years	<u>5,897,867</u>	<u>3,283,736</u>

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**17 LOANS AND NOTES PAYABLE (CONTINUED)**

b) The details of loans and notes payable as at 31 December 2019 are as follows:

Lender	Borrowing Company	Loan nature	Borrowing Purpose	Issue date	Currency	Principal amount	Utilized amount	Profit rate	Payment terms	Period	Current portion	Non-Current portion	Total	Other terms
Local banks Syndicated	Mobily	Long-term refinancing facility agreement Sharia' compliant	Replace the 2017 Syndicate financing	Q4, 2019	Saudi Riyals	Saudi Riyals 7,619 million	Saudi Riyals 7,619 million	SIBOR plus profit margin	Semi-annual repayments	7 years	Saudi Riyals 181 million	Saudi Riyals 7,374 million	Saudi Riyals 7,555 million	Repayment period of 7 years
Export Credit Agency of Finland (Finnvera)	Mobily	Long-term financing agreement Sharia' compliant	Acquiring network equipment from Nokia to upgrade and enhance the infrastructure capabilities, introduce new technologies, and strengthen the Company's competitiveness in the business segment	Q3, 2013, Q1, 2014 & Q4, 2018	US Dollars	USD 720 million (Saudi Riyals 2,700 million)	USD 665 million (Saudi Riyals 2,494 million)	Fixed rate per annum	Semi-annual repayments	10 years	Saudi Riyals 315 million	Saudi Riyals 1,058 million	Saudi Riyals 1,373 million	Utilization period of 1.5 years, repayment period of 8.5 years

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**17 LOANS AND NOTES PAYABLE (CONTINUED)**

Lender	Borrowing Company	Loan nature	Borrowing Purpose	Issue date	Currency	Principal amount	Utilized amount	Profit rate	Payment terms	Period	Current portion	Non-Current portion	Total	Other terms
Export Credit Agency of Sweden (EKN)	Mobily	Long-term financing agreement Sharia' compliant	Acquiring network equipment from Ericsson to upgrade and enhance the infrastructure capabilities, introduce new technologies, and strengthen the Company's competitiveness in the business segment	Q3, 2013, Q1, 2014 & Q4, 2018	USD Dollars	USD 652 million (Saudi Riyals 2,444 million)	USD 629 million (Saudi Riyals 2,358 million)	Fixed rate per annum	Semi-annual repayments	10 years	Saudi Riyals 268 million	Saudi Riyals 1,009 million	Saudi Riyals 1,277 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	Q4, 2013	Saudi Riyals	Saudi Riyals 1,500 million	Saudi Riyals 1,500 million	SIBOR plus profit margin	Semi-annual repayments	7.5 years	Saudi Riyals 347 million	Saudi Riyals 319 million	Saudi Riyals 666 million	Utilization period of 6 months, repayment period of 7 years
CISCO Systems International	Mobily	Vendor financing agreement	Acquiring CISCO network equipment and software solutions	Q2, 2015, Q3, 2016, Q1, 2017	US Dollars	USD 173.79 million (Saudi Riyals 652.4 million)	USD 131.90 million (Saudi Riyals 495.15 million)	Fixed rate	Semi-annual repayments	3 - 5 years	Saudi Riyals 5 million	Saudi Riyals 5 million	Saudi Riyals 10 million	Utilization period of 6 months, repayment period of 3 years

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**17 LOANS AND NOTES PAYABLE (CONTINUED)**

Lender	Borrowing Company	Loan nature	Borrowing Purpose	Issue date	Currency	Principal amount	Utilized amount	Profit rate	Payment terms	Period	Current portion	Non-Current portion	Total	Other terms
Export Development of Canada (EDC)	Mobily	Long-term financing agreement Sharia' compliant	Acquiring a telecom-munication 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 165 million	Saudi Riyals 206 million	Utilization period of 2 years, repayment period of 8.5 years
Alinma Bank	Mobily	Long-term financing agreement Sharia' compliant	Replace the December 2016 financing with bank Alinma and for the general corporate purposes including capital expenditure	Q4, 2019	Saudi Riyals	Saudi Riyals 3,000 million	Saudi Riyals 1,300 million	SIBO R plus profit margin	Semi-annual repayments	10 years	-	Saudi Riyals 1,298 million	Saudi Riyals 1,298 million	Payable over a period of 10 years with 3 years grace period
		<b>Total</b>									<b>Saudi Riyals 1,157 million</b>	<b>Saudi Riyals 11,228 million</b>	<b>Saudi Riyals 12,385 million</b>	

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**17 LOANS AND NOTES PAYABLE (CONTINUED)**

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

	<b>31 December 2019</b>			<b>31 December 2018</b>
	<b>Loans and notes payable</b>	<b>Lease liabilities</b>	<b>Total</b>	<b>Loans and notes payable</b>
Balance as 1 January	13,021,679	-	13,021,679	14,879,672
Adjustment on application of IFRS 16	-	2,560,483	2,560,483	-
As at 1 January 2019 (adjusted)	13,021,679	2,560,483	15,582,162	14,879,672
<b>Changes from financing activities</b>				
Proceeds from loans and notes payable	9,460,785	-	9,460,785	614,305
Payment of loans and notes payable and related fees	(10,245,376)	-	(10,245,376)	(2,540,915)
Payment of lease liabilities	-	(613,774)	(613,774)	-
<b>Total changes from financing activities</b>	<b>(784,591)</b>	<b>(613,774)</b>	<b>(1,398,365)</b>	<b>(1,926,610)</b>
<b>Other changes</b>				
Foreign exchange losses	1,592	-	1,592	-
Finance expenses	792,082	137,399	929,481	799,239
Other finance expenses	(23,483)	-	(23,483)	(28,279)
Capitalized borrowing cost	21,794	-	21,794	10,167
Cash flow hedges - reclassified to profit or loss	(8,750)	-	(8,750)	-
Finance expenses paid	(668,630)	-	(668,630)	(711,711)
Accrued interest payable movement	32,864	-	32,864	(799)
Lease additions, net	-	424,916	424,916	-
<b>Total liability related to other changes</b>	<b>147,469</b>	<b>562,315</b>	<b>709,784</b>	<b>68,617</b>
<b>Balance as 31 December</b>	<b>12,384,557</b>	<b>2,509,024</b>	<b>14,893,581</b>	<b>13,021,679</b>

**18 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:*

	<b>31 December 2019</b>	<b>31 December 2018</b>
Service cost	49,169	35,288
Interest cost	20,137	15,297
	<b>69,306</b>	<b>50,585</b>

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

	<b>31 December 2019</b>	<b>31 December 2018</b>
Balance at the beginning of the year	426,074	379,412
Charge recognized in consolidated statement of profit or loss	69,306	50,585
Actuarial loss recognized in the consolidated statement of comprehensive income	5,312	31,832
Benefits paid	(62,662)	(35,755)
Balance at the end of the year	<b>438,030</b>	<b>426,074</b>

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**18 PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS (CONTINUED)**

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

	31 December 2019	31 December 2018
Discount rate	4.7%	4.7%
Future salary increase rate	2.2%	2.3%
Death while in service	0%	0%
Withdrawal before normal retirement life	3.7%	3.5%

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

Sensitivity Level	31 December 2019		31 December 2018	
	Increase of 1%	Decrease of 1%	Increase of 1%	Decrease of 1%
Discount rate	(48,245)	52,798	(47,347)	54,602
Future salary increase rate	58,521	(45,435)	57,918	(45,830)

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 2019, the weighted-average duration of the defined benefit plan was 12.7 years (2018: 13.01 years).

**19 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.

**20 PROVISION FOR DECOMMISSIONING LIABILITY**

	31 December 2019	31 December 2018
Balance at the beginning of the year	239,654	221,518
Adjustment on application of IFRS 16	(100,947)	-
Balance at the beginning of the year (adjusted)	138,707	221,518
Additions during the year	10,408	6,735
Unwind of discount	8,749	12,396
Utilization during the year	(3,077)	(995)
Balance at the end of the year	154,787	239,654

**21 ACCOUNTS PAYABLE**

	31 December 2019	31 December 2018
Capital expenditure payable	2,182,918	1,895,825
Trade accounts payable	2,909,665	3,258,887
	5,092,583	5,154,712

**22 ACCRUED EXPENSES AND OTHER LIABILITIES**

	31 December 2019	31 December 2018
Accrued telecommunication expenses	745,447	1,265,405
Accrued services and maintenance expenses	463,479	412,165
Accrued selling and marketing expenses	233,349	368,302
Others	1,070,672	1,204,552
	2,512,947	3,250,424



## 23 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 31 December 2009 and thereafter, where it includes the Company and its subsidiaries due to the fact that the Group is one economic entity wholly owned and managed by the Company.

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

The Group has finalized its zakat status for the years up to 2008. The Group has received zakat and withholding tax assessments for the years 2009, 2010 and 2011 that showed additional zakat and withholding tax liabilities of SR 226 million and SR 159 million respectively, which have been appealed against by the Group at the Preliminary and Higher Appeal Committees. Recently, the Higher Appeal Committee has issued certain rulings in favor of the company related to zakat and withholding tax disputes. Management believes that it has sufficient grounds to contest the matters included in the assessments and the eventual outcome of the appeal process will not result in any significant liability.

### 23.1 CALCULATION OF ADJUSTED NET LOSS

	31 December 2019	31 December 2018
Profit / (Loss) before zakat	80,553	(160,310)
Provisions	(377,236)	(656,262)
<b>Adjusted net loss for the year</b>	<b>(296,683)</b>	<b>(816,572)</b>

### 23.2 ZAKAT BASE CALCULATION

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

	Note	31 December 2019	31 December 2018
Adjusted net loss for the year	23.1	(296,683)	(816,572)
Shareholder's equity at beginning of the year		13,792,331	14,260,754
Provisions at beginning of the year		3,282,516	4,012,732
Loans and notes payable		12,384,557	13,021,679
Other additions		5,446,127	2,337,068
Property and equipment and intangible assets		(30,217,946)	(31,001,940)
Other deductions		(2,484,580)	(457,521)
<b>Total zakat base</b>		<b>1,906,322</b>	<b>1,356,200</b>

### 23.3 PROVISION FOR ZAKAT

	31 December 2019	31 December 2018
Balance at the beginning of the year	64,775	48,878
Charge during the year *	49,370	59,619
Payments during the year	(37,783)	(43,722)
<b>Balance at the end of the year</b>	<b>76,362</b>	<b>64,775</b>

\* During 2018, in addition to the above charge of SR 59.6 million, an amount of SR 97.2 million was reversed, which represents remaining reversal of the excess zakat paid to GAZT as a result of restated consolidated financial statements for the years 2013 and 2014. The Company has submitted revised zakat returns for the said years during 2016.

## 24 CONTRACT BALANCES

### 24.1 CONTRACT ASSETS

The contract assets primarily relate to the Group's rights to consideration for work completed but not yet billed at the reporting date. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer.

	31 December 2019	31 December 2018
Contract Assets	417,202	256,267
Less: allowance for impairment loss on contract assets	(29,323)	-
	<u>387,879</u>	<u>256,267</u>

Significant change in the contract assets during the year are as follows:

	31 December 2019	31 December 2018
Transfer from contract assets recognized at the beginning of the year	(240,875)	(285,800)
Increase as a result of change in the measure of the progress	401,810	256,267
	<u>160,935</u>	<u>(29,533)</u>

The movement of the allowance for impairment loss on contract assets is as follows:

	31 December 2019
Balance at the beginning of the year	-
Charge for the year	(29,323)
Balance at the end of the year	<u>(29,323)</u>

### 24.2 CONTRACT LIABILITIES

The contract liabilities primarily relate to the unredeemed customer loyalty points and the advance consideration received from customers for which revenue is recognized overtime.

	31 December 2019	31 December 2018
Current	1,137,091	1,422,238
Non-Current	22,292	44,582
	<u>1,159,383</u>	<u>1,466,820</u>

Significant change in the contract liabilities during the period are as follows:

	31 December 2019	31 December 2018
Revenue recognized that was included in the contract liability balance at the beginning of the year	(1,465,624)	(1,966,425)
Increase due to cash received, excluding amounts recognized as revenue during the year	1,158,187	1,463,967
	<u>(307,437)</u>	<u>(502,458)</u>

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**25 FINANCIAL ASSETS AND LIABILITIES**

**25.1 FINANCIAL ASSETS**

	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>Financial assets at fair value:</b>		
Financial assets - fair value through other comprehensive income *	7,636	7,271
Derivatives financial instruments**	-	8,095
<b>Total financial assets at fair value</b>	<b>7,636</b>	<b>15,366</b>
<b>Financial assets at amortized cost:</b>		
Accounts receivable	3,034,222	3,570,598
Due from related parties	90,266	61,721
Other financial assets	839,000	1,000,000
Cash and cash equivalents	1,251,680	1,032,850
<b>Total financial assets at amortized cost</b>	<b>5,215,168</b>	<b>5,665,169</b>
<b>Total financial assets</b>	<b>5,222,804</b>	<b>5,680,535</b>
Current financial assets	5,215,168	5,673,264
Non-current financial assets	7,636	7,271
<b>Total financial assets</b>	<b>5,222,804</b>	<b>5,680,535</b>

**25.2 FINANCIAL LIABILITIES**

	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>Financial liabilities at fair value:</b>		
Derivatives financial instruments**	56,238	11,249
<b>Total financial liabilities at fair value</b>	<b>56,238</b>	<b>11,249</b>
<b>Financial liabilities at amortized cost:</b>		
Loans and notes payable	12,384,557	13,021,679
Lease liabilities	2,509,024	-
Accounts payable	5,092,583	5,154,712
Due to related parties	264,765	163,385
Other financial liabilities	275,536	299,640
<b>Total financial liabilities at amortized cost</b>	<b>20,526,465</b>	<b>18,639,416</b>
<b>Total financial liabilities</b>	<b>20,582,703</b>	<b>18,650,665</b>
Current financial liabilities	7,222,575	6,363,237
Non-current financial liabilities	13,360,128	12,287,428
<b>Total financial liabilities</b>	<b>20,582,703</b>	<b>18,650,665</b>

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

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

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

At 31 December 2019, the Group had financial derivatives that were designated as cash flow hedge instruments to cover cash flow fluctuations arising from profit rates that are subject to market price fluctuations.

At 31 December 2019, the Group had profit rate swap agreements in place with a total notional amount of SAR 1,218 million.

Level 2 derivative financial instruments, these derivatives are valued using widely recognized valuation models. The Group relies on the counterparty for the valuation of these derivatives. The valuation techniques applied by the counterparties include the use of forward pricing standard models using present value calculations and mid-market valuations. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, credit spreads, foreign exchange rates and forward and spot prices.

## 25 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

### 25.3 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 the 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.

#### 25.3.1 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 related parties, other financial assets and derivative financial instruments.

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

#### Cash and cash equivalents and other financial assets

Cash and cash equivalents and other financial asset 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 contracts/ accepting their purchase orders.

The receivables are shown net of allowance for impairment loss on accounts receivable. The Group applies the simplified approach to calculate impairment loss on accounts receivable and this always recognizes lifetime ECL on such exposures. ECL on these financial assets are estimated using a flow rate based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. Credit and Collection Operations provide inputs on the aging of financial assets on a periodic basis.

The Group has two major customers representing 19% of total accounts receivable as at 31 December 2019 (31 December 2018: 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:

	<b>31 December 2019</b>	31 December 2018
Current	<b>670,339</b>	641,726
Within two months	<b>465,078</b>	609,868
From two months to three months	<b>120,944</b>	149,260
More than three months	<b>1,777,861</b>	2,169,744
	<b>3,034,222</b>	3,570,598

## 25 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

### 25.3 RISK MANAGEMENT (CONTINUED)

#### 25.3.2 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
<i>At 31 December 2019</i>					
Loans and notes payable	1,371,187	7,246,219	6,157,983	14,775,389	12,384,557
Lease liabilities	769,796	1,536,513	564,148	2,870,457	2,509,024
Accounts payable	5,092,583	-	-	5,092,583	5,092,583
Due to related parties	264,765	-	-	264,765	264,765
Other financial liabilities	-	155,354	192,499	347,853	275,536
Derivatives financial instruments	56,238	-	-	56,238	56,238
	<u>7,554,569</u>	<u>8,938,086</u>	<u>6,914,630</u>	<u>23,407,285</u>	<u>20,582,703</u>
<i>At 31 December 2018</i>					
Loans and notes payable	1,697,387	10,480,937	3,434,230	15,612,554	13,021,679
Accounts payable	5,154,712	-	-	5,154,712	5,154,712
Due to related parties	163,385	-	-	163,385	163,385
Other financial liabilities	-	155,354	231,338	386,692	299,640
Derivatives financial instruments	11,249	-	-	11,249	11,249
	<u>7,026,733</u>	<u>10,636,291</u>	<u>3,665,568</u>	<u>21,328,592</u>	<u>18,650,665</u>

#### 25.3.3 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.

## 25 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

### 25.3 RISK MANAGEMENT (CONTINUED)

#### 25.3.3 MARKET RISK (CONTINUED)

##### Profit rates risk

Profit rate risk is the risk that the fair value of 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 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.

The Group seeks to ensure that on the medium term a significant portion of its borrowings is at a fixed rate. This is achieved partly by entering into fixed rate instruments and partly by borrowing at a floating rate and using profit rate swaps as hedges of the variability in cash flows attributable to movements in profit rates.

The Group determines the existence of an economic relationship between the hedging instrument and hedged item based on the reference profit rates, tenors, re-pricing dates, maturities and the notional amounts.

## 26 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 shareholders' equity. Net debt is calculated as loans and notes payable and other financial liabilities less cash and cash equivalents and other financial assets.

The Group's Net debt to shareholders' equity ratio at the end of the year is as follows:

	31 December 2019	31 December 2018
Loans and notes payable and other financial liabilities	12,660,093	13,321,319
Less: Cash and cash equivalents and other financial assets	(2,090,680)	(2,032,850)
<b>Net debt</b>	<b>10,569,413</b>	<b>11,288,469</b>
Total shareholders' equity	13,751,350	13,869,316
<b>Net debt to shareholders' equity</b>	<b>0.77</b>	<b>0.81</b>

## 27 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 30% of the share capital. This reserve is not available for dividend distribution.

## 28 REVENUE

	Consumer	Business	Wholesale	Outsourcing	Total
<b>31 December 2019</b>					
Usage	7,904,566	496,809	945,414	-	9,346,789
Activation and subscription fees	1,880,535	427,858	-	-	2,308,393
Others	774,204	682,562	157,614	180,412	1,794,792
	<b>10,559,305</b>	<b>1,607,229</b>	<b>1,103,028</b>	<b>180,412</b>	<b>13,449,974</b>
<b>31 December 2018</b>					
Usage	6,936,485	581,108	707,493	-	8,225,086
Activation and subscription fees	2,066,868	352,262	-	-	2,419,130
Others	580,742	404,894	108,768	126,292	1,220,696
	<b>9,584,095</b>	<b>1,338,264</b>	<b>816,261</b>	<b>126,292</b>	<b>11,864,912</b>

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**29 COST OF SALES**

	<b>31 December 2019</b>	<b>31 December 2018</b>
Network access charges	1,628,935	1,344,506
Rental and maintenance of network equipment expenses	889,808	1,388,208
Cost of utilized inventories	932,131	769,367
Government contribution fees in trade earnings	1,101,056	1,016,608
Frequency wave fees	217,356	176,390
National transmission and interconnection costs	105,329	102,254
License fees	110,106	102,165
Provision for inventory obsolescence	(79,691)	(50,062)
Others	744,957	433,273
	<b>5,649,987</b>	<b>5,282,709</b>

**30 SELLING AND MARKETING EXPENSES**

	<b>31 December 2019</b>	<b>31 December 2018</b>
Advertisement, promotion and sales commissions	546,222	585,883
Salaries, wages and employees' benefits	665,335	613,079
Rental expenses	25,504	87,435
	<b>1,237,061</b>	<b>1,286,397</b>

**31 GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>31 December 2019</b>	<b>31 December 2018</b>
Salaries, wages and employees' benefits	764,720	769,793
Maintenance	260,322	279,041
Rentals	12,559	84,902
Consulting and professional services	93,222	139,175
Management fees	28,125	(22,524)
Travel and transportation	17,778	18,774
Board of Directors' remunerations and allowances	3,158	3,121
Others	369,148	(524,898)
	<b>1,549,032</b>	<b>747,384</b>

**32 FINANCE EXPENSES**

	<b>31 December 2019</b>	<b>31 December 2018</b>
Financing expense on loans and notes payable	768,599	770,960
Financing expense on lease liability	137,399	-
Other finance expenses	23,483	28,279
	<b>929,481</b>	<b>799,239</b>

**33 BASIC AND DILUTED EARNINGS / (LOSS) PER SHARE**

Basic earnings / (loss) per share is calculated by dividing the profit / (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 earnings / (loss) per share is same as the basic earnings / (loss) per share as the Group does not have any dilutive instruments in issue.

	<b>31 December 2019</b>	<b>31 December 2018</b>
Profit / (Loss) for the year	31,183	(122,666)
Weighted average number of shares	770,000	770,000
Basic and diluted earnings / (loss) per share (in SR)	<b>0.04</b>	<b>(0.16)</b>



## **34 COMMITMENTS AND CONTINGENCIES**

### **34.1 Capital commitments**

The Group has capital commitments resulting from contracts for supply of property and equipment, which were entered into and not yet executed at the consolidated statement of financial position date in the amount of SR 2.26 billion as at 31 December 2019 (31 December 2018: SR 1.2 billion).

### **34.2 Contingent liabilities**

The Group had contingent liabilities in the form of letters of guarantee and letters of credit amounting to SR 1,209 million as at 31 December 2019 (31 December 2018: SR 769 million).

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

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

- There are (831) lawsuits filed by the Group against CITC amounting to SR 710 million as of 31 December 2019.
- The Board of Grievance has issued (192) verdicts in favor of the Group voiding (192) resolutions of the CITC's violation committee with a total penalties amounting to SR 506 million as of 31 December 2019.
- Some of these preliminary verdicts have become conclusive (after they were affirmed by the appeal court) cancelling penalties with a total amounting to SR 505 million as of 31 December 2019.

Management and the Board of Directors believe that, based on the status of these lawsuits as of 31 December 2019, adequate and sufficient provisions have been recorded.

There are 182 lawsuits filed by some of the shareholders against the Group before the Committee for the Resolutions of Security Disputes and still being adjudicated by the said committee. As of 31 December 2019, the Company has received (3) preliminary verdicts and (153) final verdicts in its favor whereas, (11) cases have been dismissed, (1) case is maintained, (2) cases are abandoned and (12) cases remain on-going.

### 35 SEGMENT INFORMATION

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

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

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

	<b>31 December 2019</b>	<b>31 December 2018</b>
Consumer revenues	<b>10,559,305</b>	9,584,095
Business revenues	<b>1,607,229</b>	1,338,264
Wholesale revenues	<b>1,103,028</b>	816,261
Outsourcing revenues	<b>180,412</b>	126,292
<b>Total revenue</b>	<b>13,449,974</b>	<b>11,864,912</b>
 Total cost of sales	 <b>(5,649,987)</b>	 (5,282,709)
Total operating expense	<b>(2,853,172)</b>	(2,051,500)
Depreciation and amortization	<b>(3,916,802)</b>	(3,809,478)
Impairment loss on property and equipment	<b>(63,000)</b>	(118,333)
Total non-operating expense	<b>(886,460)</b>	(763,202)
Capital expenditures	<b>2,760,113</b>	2,819,174

### 36 COMPARATIVE FIGURES

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

### 37 SUBSEQUENT EVENTS

No material events occurred subsequent to the reporting date which could materially affect the consolidated financial statements and the related disclosures for the year ended 31 December 2019.