ETIHAD ETISALAT COMPANY
(A Saudi Joint Stock Company)
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
For the three month period ended 31 March 2017
Together with
Independent Auditor's Report

Contents

KPMG

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INDEPENDENT AUDITORS' REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying 31 March 2017 condensed consolidated interim financial statements of **Etihad Etisalat Company** and its subsidiaries (collectively referred to as "the Group") which comprises:

- the condensed consolidated statement of financial position as at 31 March 2017;
- the condensed consolidated statement of profit or loss for the three-month period ended 31 March 2017;
- the condensed consolidated statement of comprehensive income for the three-month period ended 31 March 2017;
- the condensed consolidated statement of changes in equity for the three-month period ended 31 March 2017;
- the condensed consolidated statement of cash flows for the three-month period ended 31 March 2017; and
- the notes to the condensed consolidated interim financial statements.

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 31 March 2017 condensed consolidated interim financial statements of **Etihad Etisalat Company** and its subsidiaries are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia.

For KPMG Al Fozan & Partners
Certified Public Accountants

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License No. 371

Riyadh on: 26 Rajab 1438H
Corresponding to: 23 April 2017

Etihad Etisalat Company (A Saudi Joint Stock Company)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts in Saudi Riyals thousands unless otherwise stated)

As at

	Notes	**Unaudited 31 March 2017**	Audited 31 December 2016 (Adjusted - Note 7)	Audited 1 January 2016 (Adjusted - Note 7)
Assets				
Non-current assets				
Property and equipment	8	**24,028,618**	24,495,374	24,559,075
Intangible assets	9	**8,911,929**	8,987,693	9,493,611
Capital advances		**551,264**	895,212	982,048
Available for sale investments		**7,271**	7,271	7,271
Total non-current assets		**33,499,082**	34,385,550	35,042,005
Current assets				
Cash and cash equivalents		**956,265**	866,109	497,570
Inventories	10	**210,915**	200,072	485,859
Accounts receivable	11	**3,528,796**	3,701,340	3,424,090
Prepaid expenses and other assets		**1,500,454**	1,698,854	1,664,542
Due from a related party	12	**87,235**	69,568	36,508
Held to maturity investments		**550,000**	350,000	1,250,000
Total current assets		**6,833,665**	6,885,943	7,358,569
Total assets		**40,332,747**	41,271,493	42,400,574
Equity and liabilities				
Equity				
Share capital		**7,700,000**	7,700,000	7,700,000
Statutory reserve		**2,648,971**	2,648,971	2,648,971
Retained earnings		**4,457,500**	4,615,120	4,831,447
Foreign currency translation reserve		**(7,514)**	(9,111)	(8,168)
Total shareholders' equity		**14,798,957**	14,954,980	15,172,250
Non-controlling interest		**1,500**	1,500	1,500
Total Equity		**14,800,457**	14,956,480	15,173,750
Non-current liabilities				
Loans and notes payable	14.2.1	**13,218,398**	7,600,851	8,508,553
Provision for employees' end of service benefits		**345,572**	342,742	306,048
Deferred revenue		**83,594**	89,167	--
Deferred government grants income		**175,256**	180,064	121,987
Provision for decommissioning liability	13	**212,312**	209,374	196,448
Total non-current liabilities		**14,035,132**	8,422,198	9,133,036
Current liabilities				
Accounts payable		**3,855,585**	4,521,432	6,535,866
Loans and notes payable	14.2.1	**1,944,291**	7,607,902	5,766,262
Accrued expenses and other liabilities		**4,280,181**	4,393,204	4,361,418
Due to related parties	12	**162,797**	138,420	210,970
Provisions		**1,174,015**	1,158,108	1,122,971
Zakat provision		**61,058**	54,518	77,711
Deferred government grants income		**19,231**	19,231	18,590
Total current liabilities		**11,497,158**	17,892,815	18,093,788
Total liabilities		**25,532,290**	26,315,013	27,226,824
Total equity and liabilities		**40,332,747**	41,271,493	42,400,574

The attached notes from 1 to 17 are an integral part of these condensed interim consolidated financial statements.

Chief Financial Officer　　　Chief Executive Officer　　　Authorized Board Member

Etihad Etisalat Company (A Saudi Joint Stock Company)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Unaudited)

(All amounts in Saudi Riyals thousands unless otherwise stated)

For the three months ended 31 March

	Notes	2017	2016 (Adjusted - Note 7)
Revenue		**2,865,064**	3,440,275
Cost of sales		**(1,200,236)**	(1,515,302)
Gross profit		**1,664,828**	1,924,973
Selling and marketing		**(261,528)**	(320,873)
General and administrative		**(486,931)**	(485,339)
Depreciation and amortization	8 , 9	**(896,601)**	(978,469)
Other income		**15,496**	11,647
Operating profit		**35,264**	151,939
Finance expenses		**(194,553)**	(124,519)
Finance income		**2,726**	6,003
(Loss) / Profit before Zakat		**(156,563)**	33,423
Zakat expense		**(6,540)**	(13,685)
(Loss) / Profit for the period		**(163,103)**	19,738
(Loss) / Profit attributable to:			
Owners of the Company		**(163,103)**	19,738
Non-controlling interest		**--**	--
(Loss) / Profit for the period		**(163,103)**	19,738
(Losses) / Earnings per share:			
Basic and diluted (losses) / earnings per share (in SR)	15	**(0.21)**	0.02

The attached notes from 1 to 17 are an integral part of these condensed interim consolidated financial statements.

Chief Financial Officer

Chief Executive Officer

Authorized Board Member

Etihad Etisalat Company (A Saudi Joint Stock Company)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)
(All amounts in Saudi Riyals thousands unless otherwise stated)
For the three months ended 31 March

	2017	2016
(Loss) / Profit for the period	**(163,103)**	19,738
Items that will be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**1,597**	(41)
Net total items that will be reclassified subsequently to profit or loss	**1,597**	(41)
Items that will not be reclassified subsequently to profit or loss:		
Actuarial gains on re-measurement of employees' end of service benefits	**5,483**	1,869
Net total items that will not to be reclassified subsequently to profit or loss	**5,483**	1,869
Total other comprehensive income for the period	**7,080**	1,828
Total comprehensive (loss) / income for the period	**(156,023)**	21,566
Total comprehensive (loss) / income for the period attributable to:		
Owners of the Company	**(156,023)**	21,566
Non-controlling interest	--	--
Total comprehensive (loss) / income for the period	**(156,023)**	21,566

The attached notes from 1 to 17 are an integral part of these condensed interim consolidated financial statements.

Chief Financial Officer | Chief Executive Officer | Authorized Board Member

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)
(All amounts in Saudi Riyals thousands unless otherwise stated)
For the three months ended 31 March 2017

	Share capital	**Statutory reserve**	**Retained earnings** (Adjusted – Note 7)	**Foreign currency translation reserve**	**Total shareholders' equity**	**Non-controlling interest**	**Total equity**
As at 1 January 2016	7,700,000	2,648,971	4,831,447	(8,168)	15,172,250	1,500	15,173,750
Profit for the period	--	--	19,738	--	19,738	--	19,738
Other comprehensive income / (loss)	--	--	1,869	(41)	1,828	--	1,828
Total comprehensive income / (loss) for the period	--	--	21,607	(41)	21,566	--	21,566
At 31 March 2016	7,700,000	2,648,971	4,853,054	(8,209)	15,193,816	1,500	15,195,316
As at 1 January 2017	7,700,000	2,648,971	4,615,120	(9,111)	14,954,980	1,500	14,956,480
Loss for the period	--	--	(163,103)	--	(163,103)	--	(163,103)
Other comprehensive income	--	--	5,483	1,597	7,080	--	7,080
Total comprehensive (loss) / income for the period	--	--	(157,620)	1,597	(156,023)	--	(156,023)
At 31 March 2017	**7,700,000**	**2,648,971**	**4,457,500**	**(7,514)**	**14,798,957**	**1,500**	**14,800,457**

The attached notes from 1 to 17 are an integral part of these condensed interim consolidated financial statements.

Chief Financial Officer

Chief Executive Officer

Authorized Board Member

Etihad Etisalat Company (A Saudi Joint Stock Company)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

(All amounts in Saudi Riyals thousands unless otherwise stated)

For the three months ended 31 March

	2017	2016 *Adjusted*
Cash flows from operating activities		
(Loss) / Profit for the period	**(163,103)**	19,738
Adjustments for:		
Change in provision for inventory obsolescence	**3,326**	(4,042)
Depreciation	**814,643**	828,125
Amortization of intangible assets	**81,958**	150,344
Provision for end of service benefits	**12,216**	12,593
Provision for doubtful debts	**67,793**	60,725
Provisions	**15,907**	18,079
Government grants	**(4,808)**	(4,423)
Zakat provision	**6,540**	13,685
Gain on sale of property and equipment	**(1)**	(674)
Finance expenses	**194,553**	124,519
Finance income	**(2,726)**	(6,003)
Changes in:		
Accounts receivable	**104,751**	(315,963)
Inventories	**(14,169)**	211,207
Prepaid expenses and other assets	**77,001**	(20,499)
Accounts payable	**(46,219)**	358,755
Accrued expenses and other liabilities	**(153,225)**	112,968
Due from a related party	**(17,667)**	(22,762)
Due to related parties	**24,377**	15,018
Cash generated from operating activities	**1,001,147**	1,551,390
End of service benefits paid	**(3,904)**	(6,127)
Finance expenses paid	**(120,636)**	(114,642)
Zakat paid	**–**	(10)
Net cash generated from operating activities	**876,607**	1,430,611
INVESTING ACTIVITIES		
Held to maturity investment	**(200,000)**	50,000
Finance income received	**5,794**	6,005
Purchase of property and equipment	**(594,120)**	(1,230,484)
Proceeds from sales of property and equipment	**2**	789
Acquisition of intangible assets	**(6,194)**	(11,948)
Government grants received	**–**	57,308
Net cash used in investing activities	**(794,518)**	(1,128,330)
FINANCING ACTIVITIES		
Proceeds from loans and notes payable	**8,143,222**	1,246,408
Payment of loans and notes payable	**(8,135,155)**	(1,090,006)
Net cash generated from financing activities	**8,067**	156,402
Net changes in cash and cash equivalents	**90,156**	458,683
Cash and cash equivalents at 1 January	**866,109**	497,570
Cash and cash equivalents at 31 March	**956,265**	956,253
Supplementary non-cash information		
Property and equipment purchased credited to capital expenditure payable	**(619,628)**	(30,017)

The attached notes from 1 to 17 are an integral part of these condensed interim consolidated financial statements.

Chief Financial Officer | Chief Executive Officer | Authorized Board Member

(All amounts in Saudi Riyals thousands unless otherwise stated)

1 CORPORATE INFORMATION

1.1 Etihad Etisalat Company

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

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

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

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

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

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

Mobily clarified in its announcement on 13 May 2015 (corresponding to 24 Rajab 1436H) that it is currently in the phase of studying the possibility of selling its telecommunications towers. On 31 July 2016, Mobily signed a Memorandum of Understanding (MoU) with Saudi Telecom Company (STC) to jointly explore the possibility of extracting value from the towers assets owned by both parties. The Company has neither entered into any other agreement in this regard nor determined the financial impact thereof.

1.2 Subsidiary companies

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

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

1 CORPORATE INFORMATION (CONTINUED)

1.2 Subsidiary companies (continued)

The main activities of the subsidiaries are as follows:

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

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

1.2.1 Mobily Ventures Holding SPC

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

1.2.2 Mobily InfoTech India Private Limited

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

1.2.3 Bayanat Al-Oula for Network Services Company

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

1 CORPORATE INFORMATION (CONTINUED)

1.2 Subsidiary companies (continued)

1.2.4 Zajil International Network for Telecommunication Company

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

1.2.5 National Company for Business Solutions

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

1.2.6 Sehati for Information Service Company

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

1.2.7 Mobily Plug & Play LLC (Under liquidation)

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

1.2.8 National Company for Business Solutions FZE

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

2 BASIS OF ACCOUNTING

2.1 Statement of Compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA. These are the Group's first IFRS condensed interim consolidated financial statements for part of the period covered by the first IFRS annual financial statements. Therefore, IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied by the Group to prepare the current condensed interim consolidated financial statements. The condensed interim consolidated financial statements do not include all of the information required for full annual financial statements. The reader must also take into account the explanations of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Group as provided in Note 7.

Previously, the Group prepared its annual and interim consolidated financial statements in accordance with Generally Accepted Accounting Standards as issued by Saudi Organization for Certified Public Accountants (SOCPA). As these are the Group's first set of condensed interim consolidated financial statements in accordance with IAS 34 that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the Group's disclosures exceed the minimum requirements under IAS 34.

The principal accounting policies applied in the preparation of these condensed interim consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.2 Basis of measurement

These condensed interim consolidated financial statements have been prepared on historical cost basis unless stated otherwise.

2 BASIS OF ACCOUNTING (CONTINUED)

2.3 Functional and presentation currency

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

The unaudited condensed interim consolidated financial statements were authorized for issuance by the Board of Directors on 23 April 2017 (corresponding to 26 Rajab 1438H).

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 condensed interim 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, unrealised income and expenses and cash flows relating to transactions are eliminated in full on consolidation.

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

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

3 BASIS OF CONSOLIDATION (CONTINUED)

If the Group loses control over a subsidiary, it:

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

4 NEW STANDARDS AND AMENDMENTS ISSUED BUT NOT YET EFFECTIVE

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

Disclosure Initiative (Amendments to IAS 7)
The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

To satisfy the new disclosure requirements, the Group intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

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

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

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Group has started assessment of the potential impact of the adoption of IFRS 15 on its consolidated financial statements.

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

IFRS 16 Leases

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

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

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

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.2 Business combination and Goodwill

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

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

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

Any contingent consideration to be transferred is recognised 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 condensed interim 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 recognised 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 recognised in condensed interim consolidated statement of profit or loss.

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

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

5.3 Investment in an associate and a joint venture

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

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

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

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.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

5.4 Fair value measurement

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

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

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

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.4 Fair value measurement (continued)

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

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

5.5 Cash and cash equivalents

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

5.6 Financial instruments – initial recognition and subsequent measurement derecognition

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

5.6.1 *Financial assets*

(a) Initial recognition and measurement

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

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

5.6.1 *Financial assets* (continued)

(b) Subsequent measurement

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

(i) Loans and receivables

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

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

(ii) Available for sale investments

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

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

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

(iii) Held to maturity financial assets

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

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

5.6.1 *Financial assets* (continued)

(c) Derecognition

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

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

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

(d) Impairment of financial assets

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

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

(i) Financial assets carried at amortized cost

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

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

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

5.6.1 *Financial assets* (continued)

(d) Impairment of financial assets (continued)

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

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

(ii) Financial assets classified as available for sale

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

5.6.2 *Financial liabilities*

Recognition and measurement

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

5.7 Property and equipment

Property and equipment are only measured at cost, less accumulated depreciation and any impairment. Cost comprises the cost of equipment and materials, including freight and insurance, charges from contractors for installation and building works, direct labour costs, capitalised 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 Rate
Buildings	5%
Leasehold improvements	10 %
Telecommunication network equipment	4% - 20%
Computer equipment and software	16% - 33%
Office equipment and furniture	14% - 33%
Vehicles	20% - 25%

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.7 Property and equipment (continued)

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 condensed interim consolidated statement of profit or loss.

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

5.8 Intangible Assets

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

5.8.1 Licenses

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

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

5.8.2 Goodwill

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

5.8.3 Indefeasible rights of use "IRU"

IRUs correspond to the right to use a portion of the capacity of a terrestrial or submarine transmission cable granted for a fixed period. IRUs are recognised 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 fibres or dedicated wavelength bandwidth, and the duration of the right is for the major part of the underlying asset's economic life. They are amortised on a straight line basis over the shorter of the expected period of use and the life of the contract.

5.8.4 Computer Software

Computer software licences 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 recognised as intangible assets.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.9 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset. Where funds are borrowed specifically to finance a project, the amount capitalised 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 capitalised borrowing cost. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a applicable weighted average rates.

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

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

5.10 Impairment of non-financial assets

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

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

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

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

Impairment losses of continuing operations are recognised in the condensed interim 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 recognised 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 recognised for the asset in prior years. Such reversal is recognized in the condensed interim consolidated statement of profit or loss.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.11 Zakat and income tax

The Group is subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax (the "GAZT"). Provision for zakat for the Group and zakat related to the Group's ownership in the Saudi Arabian subsidiaries is charged to the condensed interim 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 condensed interim consolidated statement of profit or loss.

5.12 Employee termination benefits

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

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

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

Past service cost are recognised in condensed interim consolidated statement of profit or loss on the earlier of:

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

5.13 Revenues

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

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

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

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.13 Revenues (Continued)

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

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

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

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

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

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

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

5.14 Loyalty program

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.15 Costs and expenses

(a) Cost of services and sales

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

i. Governmental charges

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

(b) Selling and marketing expenses

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

(c) General and administrative expenses

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

5.16 Dividends

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

5.17 Foreign currency transactions

(a) Reporting currency and functional currency

The Group's condensed interim 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 condensed interim consolidated statement of profit or loss reflects the amount that arises from using this method.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.17 Foreign currency transactions (continued)

(b) Transactions and balances

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

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

Differences arising on settlement or translation of monetary items are recognised in condensed interim 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 recognised in Condensed interim consolidated statement of other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is classified to condensed interim consolidated statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in Condensed interim consolidated statement of other comprehensive income.

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

(c) Group companies

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

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

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

5.18 Leases

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.18 Leases (continued)

(a) Group as a lessee

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

(b) Group as a lessor

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

5.19 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed by the Group's Chief Operating Decision Maker "CODM" to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available (see note 17).

5.20 Provisions

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.21 Contingent liabilities

A contingent liability is a possible obligation which may arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group, or a present obligation that is not recognized because it is not probable that an outflow of resources will be required to settle the obligation. If the amount of the obligation cannot be measured with sufficient reliability, then the Group does not recognize the contingent liability but discloses it in the condensed interim consolidated financial statements.

5.22 Inventories

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

5.23 Government grants

Government grants are recognised 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 recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, it is recognised 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 condensed interim 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 instalments. 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 favourable interest is regarded as a government grants.

6 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

The preparation of the Group's condensed interim 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 condensed interim consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

6 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

6.1 Provisions

(a) Provision for impairment of accounts receivable

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

(b) Asset retirement obligation

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

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

6.2 Financial risk management and financial instruments

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

6.3 Defined benefit obligations

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

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

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

6.4 Impairment of goodwill

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

6 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

6.5 Property and equipment

(a) Useful lives of property and equipment

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

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

(b) Allocation of costs

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

6.6 Zakat assessments

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

6.7 Contingencies

The Group is currently involved in various legal proceedings. Estimates of the probable costs for the resolution of these claims, if any, have been developed in consultation with internal and external counsels handling the Group's defence 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 condensed interim consolidated financial statements. It is possible, however, that future results of operations could be materially affected depending on the final outcome of the proceedings.

6.8 Revenue

(a) Gross versus net presentation

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

6 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

6.8 Revenue (Continued)

(a) Gross versus net presentation (continued)

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

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

(b) Multiple element arrangements

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

(c) Customer Loyalty Programmes:

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

7 FIRST TIME ADOPTION OF IFRS

For all periods up to and including the year ended 31 December 2016, Etihad Etisalat Company prepared its consolidated financial statements based on the accounting standards promulgated by the local generally accepted accounting principles in Saudi Arabia "SOCPA". These are the Group's first interim consolidated financial statements prepared in accordance with IAS 34 'Interim Financial Reporting that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA.

The Group has prepared condensed interim consolidated financial statements in accordance with IAS 34 'Interim Financial Reporting that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA applicable as at 31 March 2017, together with the comparative period data for the year ended 31 December 2016, as described in the summary of significant accounting policies. In preparing condensed interim consolidated financial statements, the Group's opening condensed interim consolidated statement of financial position was prepared as at 1 January 2016, the Group's date of transition to IFRS. This note explains the principal adjustments made by Etihad Etisalat Company in restating its SOCPA consolidated financial statements, including the condensed interim consolidated statement of financial position as at 1 January 2016 and the condensed interim consolidated financial statements for the year ended 31 December 2016.

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

- IFRS 3 Business Combinations has not been applied to either acquisitions of subsidiaries that are considered businesses under IFRS, or acquisitions of interests in associates and joint ventures that occurred before 1 January 2016. Use of this exemption means that the SOCPA's carrying amounts of assets and liabilities, that are required to be recognised under IFRS, is their deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening condensed interim consolidated statement of financial position based on IFRS. The Group did not recognise or exclude any previously recognised amounts as a result of IFRS recognition requirements. IFRS 1 also requires that the SOCPA carrying amount of goodwill must be used in the opening condensed interim consolidated statement of financial position based on IFRS (apart from adjustments for goodwill impairment and recognition or derecognition of intangible assets). In accordance with IFRS 1, the Group has tested goodwill for impairment at the date of transition to IFRS. No goodwill impairment was deemed necessary at 1 January 2016.
- The Group has applied the transitional provisions in IAS 23 Borrowing Costs and capitalises borrowing costs relating to all qualifying assets after the date of transition. Similarly, the Group has not restated for borrowing costs capitalised under SOCPA on qualifying assets prior to the date of transition to IFRS.

Estimates

The estimates at 1 January 2016 and at 31 December 2016 are consistent with those made for the same dates in accordance with SOCPA (after adjustments to reflect any differences in accounting policies) apart from the following items where application of SOCPA did not require estimation:

- End of service benefits
- Provision for decommissioning liability

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 1 January 2016, the date of transition to IFRS and as at 31 December 2016.

(All amounts in Saudi Riyals thousands unless otherwise stated)

7 FIRST TIME ADOPTION OF IFRS (CONTINUED)

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

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

7 FIRST TIME ADOPTION OF IFRS (CONTINUED)

7.2 Group reconciliation of the condensed interim consolidated statement of financial position and equity as at 31 March 2016

	Notes	*SOCPA*	*Effect of transition*	*Reclassification*	*IFRS*
Assets					
Non-current assets					
Property and equipment	7(b)	25,005,707	94,577	(457)	25,099,827
Intangible assets		7,887,893	--	1,467,322	9,355,215
Goodwill		1,466,865	--	(1,466,865)	--
Capital advances		885,440	--	--	885,440
Available for sale investments		19,003	(11,732)	--	7,271
Total non-current assets		35,264,908	82,845	--	35,347,753
Current assets					
Cash and cash equivalents		956,253	--	--	956,253
Inventories		278,694	--	--	278,694
Accounts receivable		3,679,329	--	--	3,679,329
Prepaid expenses and other assets		1,556,945	--	(95)	1,556,850
Due from related party		59,270	--	--	59,270
Held to maturity investments		1,200,000	--	--	1,200,000
Total current assets		7,730,491	--	(95)	7,730,396
Total assets		42,995,399	82,845	(95)	43,078,149
Equity and liabilities					
Equity					
Share capital		7,700,000	--	--	7,700,000
Statutory reserve		2,648,971	--	--	2,648,971
Retained earnings		5,226,900	(373,846)	--	4,853,054
Foreign currency translation reserve		--	--	(8,209)	(8,209)
Total shareholders' equity		15,575,871	(373,846)	(8,209)	15,193,816
Non-controlling interest		1,500	--	--	1,500
Total Equity		15,577,371	(373,846)	(8,209)	15,195,316
Non-current liabilities					
Loans and notes payable		5,043,344	--	--	5,043,344
Provision for employees' end of service benefits	7(a)	249,312	61,333	--	310,645
Deferred government grants income	7(d)	--	174,487	--	174,487
Provision for decommissioning liability	7(b)	--	201,896	--	201,896
Total non-current liabilities		5,292,656	437,716	--	5,730,372
Current liabilities					
Accounts payable		6,864,604	--	--	6,864,604
Loans and notes payable		9,335,123	--	--	9,335,123
Accrued expenses and other liabilities		5,608,271	--	(1,132,936)	4,475,335
Due to related party		225,988	--	--	225,988
Provisions		--	--	1,141,050	1,141,050
Zakat provision		91,386	--	--	91,386
Deferred government grants income	7(d)	--	18,975	--	18,975
Total current liabilities		22,125,372	18,975	8,114	22,152,461
Total liabilities		27,418,028	456,691	8,114	27,882,833
Total equity and liabilities		42,995,399	82,845	(95)	43,078,149

(All amounts in Saudi Riyals thousands unless otherwise stated)

7 FIRST TIME ADOPTION OF IFRS (CONTINUED)

7.3 Group reconciliation of the condensed interim consolidated statement of financial position and equity as at 31 December 2016

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

7 FIRST TIME ADOPTION OF IFRS (CONTINUED)

7.4 Group reconciliation of the condensed interim consolidated statement of profit or loss for the three-months period ended 31 March 2016

	Notes	*SOCPA*	*Effect of transition*	*Reclassification*	*IFRS*
Revenue		3,440,275	--	--	3,440,275
Cost of sales		(1,515,052)	--	(250)	(1,515,302)
Gross profit		1,925,223	--	(250)	1,924,973
Selling and marketing expenses	7(a)	(321,806)	933	--	(320,873)
General and administrative expenses	7(a)	(487,648)	2,059	250	(485,339)
Depreciation and amortization	7(b)	(976,680)	(1,789)	--	(978,469)
Other income	7(d)	--	4,422	7,225	11,647
Operating profit		139,089	5,625	7,225	151,939
Finance expenses	7(b)	(122,027)	(2,492)	--	(124,519)
Finance income		--	--	6,003	6,003
Other income		13,228	--	(13,228)	--
Profit before Zakat		30,290	3,133	--	33,423
Zakat expense		(13,685)	--	--	(13,685)
Profit for the period		16,605	3,133	--	19,738
Profit attributable to:					
Owners of the Company		16,605	3,133	--	19,738
Non-controlling interest		--	--	--	--
Profit for the period		16,605	3,133	--	19,738
Earnings per share:					
Basic and diluted earnings per share (in SR)		0.02	--	--	0.02

(All amounts in Saudi Riyals thousands unless otherwise stated)

7. FIRST TIME ADOPTION OF IFRS (CONTINUED)

7.5 Group reconciliation of the condensed interim consolidated statement of comprehensive income for the three-months period ended 31March 2016

	SOCPA	*Effect of transition*	*IFRS*
Profit for the period	16,605	3,133	19,738
Items that will be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	--	(41)	(41)
Net total items that will be reclassified subsequently to profit or loss	--	(41)	(41)
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains on re-measurement of employees' end of service benefits	--	1,869	1,869
Net total items that will not be reclassified subsequently to profit or loss	--	1,869	1,869
Total other comprehensive income for the period	--	1,828	1,828
Total comprehensive income for the period	16,605	4,961	21,566
Total comprehensive income for the period attributable to:			
Owners of the Company	16,605	4,961	21,566
Non-controlling interest	--	--	--
Total comprehensive income for the period	16,605	4,961	21,566

(All amounts in Saudi Riyals thousands unless otherwise stated)

7 FIRST TIME ADOPTION OF IFRS (CONTINUED)

7.6 Group reconciliation of the condensed interim consolidated statement of profit or loss for the year ended 31 December 2016

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

7 FIRST TIME ADOPTION OF IFRS (CONTINUED)

7.7 Group reconciliation of the condensed interim consolidated statement of comprehensive income for the year ended 31 December 2016

	SOCPA	*Effect of transition*	*IFRS*
Loss for the period	(202,980)	(10,656)	(213,636)
Items that will be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	--	(944)	(944)
Net total items that will be reclassified subsequently to profit or loss	--	(944)	(944)
Items that will not be reclassified subsequently to profit or loss:			
Actuarial loss on re-measurement employees' end of service benefits	--	(2,690)	(2,690)
Net total items that will not be reclassified subsequently to profit or loss	--	(2,690)	(2,690)
Total other comprehensive loss for the period	--	(3,634)	(3,634)
Total comprehensive loss for the period	(202,980)	(14,290)	(217,270)
Total comprehensive loss for the period attributable to:			
Owners of the Company	(202,980)	(14,290)	(217,270)
Non-controlling interest	--	--	--
Total comprehensive income for the period	(202,980)	(14,290)	(217,270)

7 FIRST TIME ADOPTION OF IFRS (CONTINUED)

a) Provision for employees' end of service benefits

Under SOCPA, the Group recognized costs relating to its employees' end of service benefits on an accrual basis. Under IFRS, costs relating to the employees' end of service benefits are recognized based on an actuarial valuation. The difference in employees' end of service benefits based on SOCPA and IFRS at the date of transition has been recognized against retained earnings.

b) Provision for decommissioning liability

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

c) Intangible assets

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

d) Government grants

Under SOCPA, grant income was recognized if the conditions attached to the said grant is fulfilled. However, under IFRS, government grants income shall be recognized in condensed interim consolidated statement of profit or loss on a systematic basis, to match them with the related costs for which they are intended to compensate.

(All amounts in Saudi Riyals thousands unless otherwise stated)

8 PROPERTY AND EQUIPMENT

	Land	*Buildings*	*Leasehold improvements*	*Telecommunication network equipment*	*Computer equipment and software*	*Office equipment and furniture*	*Vehicles*	*Capital work in progress*	*Total*
Cost:									
At 1 January 2016	274,710	1,221,544	833,648	33,078,502	4,261,581	499,024	3,046	811,810	40,983,865
Additions	–	9,014	12,815	2,143,098	528,463	1,699	–	486,492	3,181,581
Reclassification	–	(103,666)	(7,545)	111,211	–	–	–	–	–
Transfers	–	39,560	–	408,848	12,103	–	–	(460,511)	–
Disposals	–	–	–	–	(153)	–	–	–	(153)
At 31 December 2016	274,710	1,166,452	838,918	35,741,659	4,801,994	500,723	3,046	837,791	44,165,293
Additions	–	2,021	1,220	217,400	77,954			49,293	347,888
Disposals	–	–	–	–	(48)	–	–	–	(48)
Transfers	–	–	–	32,030	–	–	–	(32,030)	–
At 31 March 2017	274,710	1,168,473	840,138	35,991,089	4,879,900	500,723	3,046	855,054	44,513,133
Depreciation:									
At 1 January 2016	–	143,334	542,517	12,761,854	2,537,782	437,682	1,621	–	16,424,790
Charge for the year	–	53,035	69,516	2,552,577	549,531	20,171	430	–	3,245,260
Reclassifications	–	(3,980)	(949)	4,929	–	–	–	–	–
Disposals	–	–	–	–	(131)	–	–	–	(131)
At 31 December 2016	–	192,389	611,084	15,319,360	3,087,182	457,853	2,051	–	19,669,919
Charge for the period	–	14,332	16,485	645,675	133,722	4,321	108	–	814,643
Disposals	–	–	–	–	(47)	–	–	–	(47)
At 31 March 2017	–	206,721	627,569	15,965,035	3,220,857	462,174	2,159	–	20,484,515
Net book value:									
At 31 March 2017	**274,710**	**961,752**	**212,569**	**20,026,054**	**1,659,043**	**38,549**	**887**	**855,054**	**24,028,618**
At 31 December 2016	274,710	974,063	227,834	20,422,299	1,714,812	42,870	995	837,791	24,495,374
At 1 January 2016	274,710	1,078,210	291,131	20,316,648	1,723,799	61,342	1,425	811,810	24,559,075

The Group has capitalized borrowing costs during 31 March 2017 amounting to SR 29 million (31 December 2016: SR 95 million and 1 January 2016: SR 50 million) and internal technical salaries amounting to SR 41 million (31 December 2016: SR 162 million and 1 January 2016: SR 140 million).

(All amounts in Saudi Riyals thousands unless otherwise stated)

9 INTANGIBLE ASSETS

	Telecommunication services licenses	*Goodwill*	*Indefeasible Right of Use (IRU)*	*Others*	*Total*
Cost:					
1 January 2016	13,083,795	1,466,865	1,060,030	97,689	15,708,379
Additions	--	--	30,651	--	30,651
31 December 2016	13,083,795	1,466,865	1,090,681	97,689	15,739,030
Additions	--	--	6,194	--	6,194
31 March 2017	13,083,795	1,466,865	1,096,875	97,689	15,745,224
Amortization					
1 January 2016	5,842,131	–	275,481	97,156	6,214,768
Amortization for the year	454,721	–	81,545	303	536,569
31 December 2016	6,296,852	–	357,026	97,459	6,751,337
Amortization for the period	61,286	–	20,597	75	81,958
31 March 2017	6,358,138	–	377,623	97,534	6,833,295
Net book value:					
At 31 March 2017	**6,725,657**	**1,466,865**	**719,252**	**155**	**8,911,929**
At 31 December 2016	6,786,943	1,466,865	733,655	230	8,987,693
At 1 January 2016	7,241,664	1,466,865	784,549	533	9,493,611

(All amounts in Saudi Riyals thousands unless otherwise stated)

9 INTANGIBLE ASSETS (CONTINUED)

9.1 GOODWILL

Goodwill acquired through business combinations is allocated to one Cash Generating Unit (CGU) as follows:

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

The Group has tested separately recognized goodwill for impairment. The cash flow projections are based on 2016 approved budget. The discount rate used is 10% and terminal value growth rate of 1.5%.

The recoverable amount of the CGU, SR 16.7 billion as at 31 March 2017, has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a four year period. The projected cash flows have been updated to reflect the decreased demand for products and services. The pre-tax discount rate applied to cash flow projections is 10% (2016: 10%) and cash flows beyond the 4-year period are extrapolated using a 1.5% growth rate (2016: 1.5 %) that is the same as the long-term average growth rate for the telecom industry. 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 charge.

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:

- EBIT margin
- Discount rates
- Growth rate estimates

EBIT margin
EBIT margins are based on average values achieved in the two years preceding the start of the budget period. The business plans take into account local market considerations such as the revenues and costs associated with future customer growth, the impact of local market competition and consideration of the local macroeconomic and political trading environment.

Discount rates
Discount rates represent the current market assessment of the risks specific to each cash generating unit, regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly-available marked data. The pre-tax discount rate used was 10% (2016: 10%).

Growth rate estimates
The growth rates used does not exceed the long term average growth rates of the entity. This rate ranges between 1.5% to 3.5% (2016: 1.5% to 3.5 %).

(All amounts in Saudi Riyals thousands unless otherwise stated)

9 INTANGIBLE ASSETS (CONTINUED)

9.1 GOODWILL (continued)

Capital expenditures:

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

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

- Growth rate assumptions - Management recognizes that the speed of technological change and the possibility of new entrants can have a significant impact on 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 0.66% in the long-term growth rate would result in impairment.
- EBIT margins - Decreased demand can lead to a decline in EBIT margin. A decrease in the EBIT margin to negative 13% would result in impairment.
- Discount rates - A rise in the pre-tax discount rate to 30% (i.e., +20 %) in the CGU would result in impairment.

10 INVENTORIES

During the three-months ended 31 March 2017, the Group has written down SR 3.3 million (three months ended 31 March 2016: reversal of SR 4 million) of inventories. This expense is included in cost of sales in the condensed interim consolidated statement of profit or loss.

11 ACCOUNTS RECEIVABLE

	31 March 2017	*31 December 2016*	*1 January 2016*
Accounts receivable	**5,018,185**	6,431,214	5,809,870
Less: provisions for doubtful debts	**(1,489,389)**	(2,729,874)	(2,385,780)
	3,528,796	3,701,340	3,424,090

The movement of the provision for doubtful debts during the year/ period is as follows:

At 1 January 2016	(2,385,780)
Charge for the year	(551,692)
Written off during the year	207,598
At 31 December 2016	(2,729,874)
Charge for the period	**(67,793)**
Written off during the period	1,308,278
At 31 March 2017	**(1,489,389)**

(All amounts in Saudi Riyals thousands unless otherwise stated)

12 RELATED PARTIES TRANSACTIONS AND BALANCES

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

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

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

	Transactions during 31 March		**Balances at**		
	2017	**2016**	**31 March 2017**	**31 December 2016**	**1 January 2016**
Interconnection services and roaming services rendered	**22,544**	27,162	--	--	--
Interconnection services and roaming services received	**17,315**	26,720	--	--	--
Management fees	**5,631**	9,388	--	--	--
Other management expenses	**17,210**	15,821	--	--	--
Telecommunication services	**1,657**	1,059	--	--	--
Other services	**20**	48	--	--	--
Balance due from	--	--	**87,235**	69,568	36,508
Balance due to	--	--	**162,797**	138,420	210,970

Compensation to key management personnel

	31 March 2017	**31 March 2016**
Short term employee benefits	13,748	14,799
Post-employment benefits	1,940	1,076
Total compensation paid to key management personnel	15,688	15,875

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.

(All amounts in Saudi Riyals thousands unless otherwise stated)

13 PROVISION FOR DECOMISSIONING LIABILITY

At 1 January 2016	196,448
Provision made during the year	2,956
Unwind of discount	9,970
At 31 December 2016	209,374
Provision made during the period	439
Unwind of discount	2,499
At 31 March 2017	212,312

14 FINANCIAL ASSETS AND LIABILITIES

14.1 FINANCIAL ASSETS

	31 March 2017	*31 December 2016*	*1 January 2016*
Available for sale investments:			
Unquoted equity shares	7,271	7,271	7,271
Total financial assets classified as available for sale	7,271	7,271	7,271
Financial assets at amortized cost:			
Accounts receivables	3,528,796	3,701,340	3,424,090
Due from related party	87,235	69,568	36,508
Held to maturity investments	550,000	350,000	1,250,000
Total financial assets at amortized cost	4,166,031	4,120,908	4,710,598
Total financial assets	4,173,302	4,128,179	4,717,869
Total current	4,166,031	4,120,908	4,710,598
Total non-current	7,271	7,271	7,271

AFS financial assets - unquoted equity shares

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

14 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

14.2 FINANCIAL LIABILTIES

	31 March 2017	*31 December 2016*	*1 January 2016*
Financial liabilities at amortized cost:			
Accounts payable	**3,855,585**	4,521,432	6,535,866
Due to related party	**162,797**	138,420	210,970
Loans and notes payable	**15,162,689**	15,208,753	14,274,815
Total financial liabilities at amortized cost	**19,181,071**	19,868,605	21,021,651
Total current	**5,962,673**	12,267,754	12,513,098
Total non-current	**13,218,398**	7,600,851	8,508,553

14.2.1 LOANS AND NOTES PAYABLE

	31 March 2017	*31 December 2016*	*1 January 2016*
Long-term loans	**15,162,689**	15,208,753	14,274,815
Less: current portion	**(1,944,291)**	(7,607,902)	(5,766,262)
Non-current	**13,218,398**	7,600,851	8,508,553

a) Maturity profile of loans and notes payable:

	31 March 2017	*31 December 2016*	*1 January 2016*
Less than one year	**1,944,291**	7,607,902	5,766,262
Between one to five years	**7,294,398**	6,488,851	8,508,553
Over five years	**5,924,000**	1,112,000	--

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

14.2.1 LOANS AND NOTES PAYABLE (CONTINUED)

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

Lender	Borrowing Company	Loan mature	Borrowing Purpose	Date issue	Currency	Principal amount	Utilized amount	Profit rate	Payment terms	Period	Current portion	Long-term portion	Total	Other terms
Local banks Syndicated	Mobily	Long-term refinancing facility agreement Sharia' compliant	Refinancing the maturing obligations under Airtime and Bayanat Facilities.	Q1, 2017	Saudi Riyals	Saudi Riyals 7,889 million	Saudi Riyals 7,889 million	Murabaha rate based on SIBOR plus a fixed profit margin	Scheduled installments as per loan agreement,	7 years	Saudi Riyals -17 million	Saudi Riyals 7,790 million	Saudi Riyals 7,773 million	--
Export Credit Agency of Finland (Finnvera) & Swedish Export Credit Corporation (EKN)	Mobily	Long-term financing agreement Sharia' compliant	Acquiring network equipment from Nokia Siemens Networks (NSN) and Ericsson to upgrade and enhance the infrastructure capabilities, introduce new technologies, and strengthen the Company's competitiveness in the business segment	Q3, 2013	US Dollars	USD 644 million (Saudi Riyals 2.4 billion)	USD 512 million (Saudi Riyals 1,920 million)	Fixed rate per annum	Scheduled installments	10 years	Saudi Riyals 271 million	Saudi Riyals 1,413 million	Saudi Riyals 1,684 million	Utilization period of 1.5 years, repayment period of 8.5 years
Export Credit Agency of Finland (Finnvera) & Swedish Export Credit Corporation (EKN))	Mobily	Long-term financing agreement Sharia' compliant	Acquiring network equipment from Nokia Siemens Networks (NSN) and Ericsson to upgrade and enhance the infrastructure capabilities, introduce new technologies, and strengthen the Company's competitiveness in the business segment	Q1, 2014	USD Dollars	USD 451 million (Saudi Riyals 1,691 million)	USD 174 million (Saudi Riyals 652 million)	Fixed rate per annum	Scheduled installments	10 years	Saudi Riyals 97 million	Saudi Riyals 416 million	Saudi Riyals 513 million	Utilization period of 1.5 years, repayment period of 8.5 years

(All amounts in Saudi Riyals thousands unless otherwise stated)

14.2.1 LOANS AND NOTES PAYABLE (CONTINUED)

Lender	Borrowing Company	Loan mature	Borrowing Purpose	Date issue	Currency	Principal amount	Utilized amount	Profit rate	Payment terms	Period	Current portion	Long-term portion	Total	Other terms
Saudi Investment Bank	Mobily	Long-term financing agreement Sharia' compliant	Financing the Company's working capital requirements	Q1, 2014	Saudi Riyals	Saudi Riyals 1.5 billion	Saudi Riyals 1.5 billion	Murabaha rate is based on SIBOR plus a fixed profit margin.	Scheduled installments	7.5 years	Saudi Riyals 137 million	Saudi Riyals 1,208 million	Saudi Riyals 1,345 million	--
CISCO Systems International	Mobily	Vendor financing agreement	Acquiring CISCO network equipment and software solutions	Q1, 2014	US Dollars	USD 135 Million (Saudi Riyals 506.8 million)	USD 93.69 million (Saudi Riyals 351.34 million)	Fixed rate	Semi-annual repayments	3 years	Saudi Riyals 100 million	Saudi Riyals 53 million	Saudi Riyals 153 million	--
Export Development of Canada (EDC)	Mobily	Long-term financing agreement Sharia' compliant	Acquiring a telecommunication devices and equipment from Alcatel-Lucent	Q2, 2014	US Dollars	USD 122 million (Saudi Riyals 458 million)	USD 101 million (Saudi Riyals 377 million)	Fixed rate per annum	Semi-annual repayments	10.5 years	Saudi Riyals 41 million	Saudi Riyals 289 million	Saudi Riyals 330 million	Utilization period of 2 years, and repayment period of 8.5 years
Societe Generale Banque	Mobily	Bilateral long-term financing agreement Sharia' compliant	Financing the uncovered portion of the agreements with the Export Credit Agency of Finland (Finnvera) and the Swedish Export Credit Corporation (EKN) and Export Development of Canada (EDC)	Q2, 2014	US Dollars	USD 116 million (Saudi Riyals 436 million)	USD 116 million (Saudi Riyals 436 million)	Murabaha rate is based on LIBOR plus a fixed profit margin	One bulk payment due on 26 June 2017	3 years	Saudi Riyals 436 million	--	Saudi Riyals 436 million	--
Samba	Mobily	Long-term financing agreement Sharia' compliant	Financing its working capital requirements	Q3, 2014	Saudi Riyals	Saudi Riyals 600 million	Saudi Riyals 600 million	Murabaha rate is based on SIBOR plus a fixed profit margin	Semi-annual scheduled installments	7 years	Saudi Riyals 78 million	Saudi Riyals 405 million	Saudi Riyals 483 million	--

(All amounts in Saudi Riyals thousands unless otherwise stated)

14.2.1 LOANS AND NOTES PAYABLE (CONTINUED)

Lender	Borrowing Company	Loan mature	Borrowing Purpose	Date issue	Currency	Principal amount	Utilized amount	Profit rate	Payment terms	Period	Current portion	Long-term portion	Total	Other terms
Banque Saudi Fransi	Mobily	Long-term financing agreement Sharia' compliant	Financing its capital expenditures and working capital requirements	Q3, 2014	Saudi Riyals	Saudi Riyals 500 million	Saudi Riyals 500 million	Murabaha rate is based on SIBOR plus a fixed profit margin	Semi-annual scheduled installments	7 years	Saudi Riyals 50 million	Saudi Riyals 388 million	Saudi Riyals 438 million	--
Other debts (promissory notes and discounted invoices)	Mobily	Vendor Financing	Vendor financing Ericson, Huawei, Thales, CCS	--	Saudi Riyals	Saudi Riyals 1,090 million	Saudi Riyals 1,090 million	--	Sporadic payments	3 years	Saudi Riyals 654 million	Saudi Riyals 174 million	Saudi Riyals 828 million	--
Al-Rajhi Bank	Mobily	Mid-term financing agreement Sharia' compliant	Financing its capital expenditures and working capital requirements	Q1, 2016	Saudi Riyals	Saudi Riyals 400 million	Saudi Riyals 400 million	Murabaha rate is based on SIBOR plus a fixed profit margin	Scheduled payments	3.5 years	Saudi Riyals 99 million	Saudi Riyals 300 million	Saudi Riyals 399 million	--
Alinma Bank	Mobily	Long-term financing agreement Sharia' compliant	Financing its capital expenditures and working capital requirements	Q4, 2016	Saudi Riyals	Saudi Riyals 2,000 million	Saudi Riyals 800 million	Murabaha rate is based on SIBOR plus a fixed profit margin	Scheduled installments	10 years	Saudi Riyals -2 million	Saudi Riyals 783 million	Saudi Riyals 781 million	--
Total											Saudi Riyals 1,944 million	Saudi Riyals 13,219 million	Saudi Riyals 15,163 million	

(All amounts in Saudi Riyals thousands unless otherwise stated)

15 BASIC AND DILUTED EARNINGS PER SHARE

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

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

	31 March 2017	31 March 2016
(Loss) / Profit for the period	**(163,103)**	19,738
Weighted average number of shares	**770,000**	770,000
Basic and diluted (losses) / earnings per share in SR	**(0.21)**	0.02

16 COMMITMENTS AND CONTINGENCIES

16.1 Capital commitments

The Group has capital commitments resulting from contracts for supply of property and equipment, which were entered into and not yet executed at the condensed interim consolidated statement of financial position date in the amount of SR 1.8 billion as at 31 March 2017 (31 December 2016: SR 2.4 billion and 1 January 2016: SR 4.5 billion).

16.2 Contingent liabilities

The Group had contingent liabilities in the form of letters of guarantee and letters of credit amounting to SR 652 million as at 31 March 2017 (31 December 2016: SR 658 million and 1 January 2016: SR 427 million).

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

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

- There are (361) lawsuits filed by the Group against CITC amounting to SR 653 million as of 31 March 2017.
- The Board of Grievance has issued (165) preliminary verdicts in favour of the Group voiding (165) resolutions of the CITC's violation committee with a total penalties amounting to SR 437 million as of 31 March 2017.
- Some of these preliminary verdicts have become conclusive (after they were affirmed by the appeal court) cancelling penalties with a total amounting to SR 411 million as of 31 March 2017.

In addition, 20 legal cases were filed by the Group against CITC in relation to the mechanism of calculating the governmental fees and other subjects in which (13) of them are specifically related to the governmental fees as of 31 March 2017, out of which the Group received three preliminary judgements and five final judgments in its favour. The remaining cases are still being adjudicated before the Board of Grievance. It is difficult to determine the amount of claims due to the difference in the calculation method. Although the Company believes that these claims have no legal basis, they may have a material impact on the Company's business in case of retroactive change in the regulatory framework which is difficult to assess.

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

16 COMMITMENTS AND CONTINGENCIES (CONTINUED)

16.2 Contingent liabilities (continued)

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

Furthermore, there are 167 lawsuits filed by some of the shareholders against the Group before the Committee for the Resolutions of Security Disputes and still being adjudicated by such committee. The Company has received (37) preliminary verdicts and (107) final verdicts in its favour in these lawsuits and (12) cases have been either dismissed or abandoned and (11) cases are on-going as of 31 March 2017.

The Group has filed its zakat returns with GAZT for the years through 2015 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 financial statements for the said years.

The Group has finalized its zakat status and obtained the final zakat assessments for the years until 2006. The Group has received zakat assessments for the years 2007 through 2011 that showed additional zakat and withholding tax assessments of SR 317 million and SR 237 million respectively, which have been appealed by the Group at the Preliminary and Higher Appeal Committees. During the year ended 31 December 2016, The Appeal Committee issued its ruling on certain zakat and withholding tax matters and those rulings issued against the Group have been appealed at the Higher Appeal Committee. Management believes that it has sufficient grounds to contest the matters included in the assessments and the eventual outcome of the appeal process will not result in any significant liability.

17 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.

	31 March 2017	31 March 2016
Consumer revenues	**2,393,891**	2,905,060
Business revenues	**305,262**	326,391
Wholesale revenues	**147,213**	193,992
Outsourcing revenues	**18,698**	14,832
Total revenue	**2,865,064**	3,440,275
Total cost of sales	**(1,200,236)**	(1,515,302)
Total operating expense	**(732,963)**	(794,565)
Depreciation and amortization	**(896,601)**	(978,469)
Total non-operating expense	**(191,827)**	(118,516)
Capital expenditures	353,643	1,380,941