



**ETIHAD ETISALAT COMPANY**  
(A Saudi Joint Stock Company)  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 31 December 2022**  
Together with  
**Independent Auditor's Report**

Etihad Etisalat Company (A Saudi Joint Stock Company)  
Consolidated financial statements  
For the year ended 31 December 2022

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<b>Contents</b>	<b>Page</b>
Independent auditor's report.....	2
Consolidated statement of financial position.....	7
Consolidated statement of profit or loss .....	8
Consolidated statement of comprehensive income.....	9
Consolidated statement of cash flows.....	10
Consolidated statement of changes in shareholders' equity .....	11
Notes to the consolidated financial statements .....	12-52



## KPMG Professional Services

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Headquarters in Riyadh

## كي بي إم جي للاستشارات المهنية

واجهة الرياض، طريق المطار  
صندوق بريد ٩٢٨٧٦  
الرياض ١١٦٦٣  
المملكة العربية السعودية  
سجل تجاري رقم ١٠١٠٤٢٥٤٩٤

المركز الرئيسي في الرياض

# Independent auditor's report

To the Shareholders of Etihad Etisalat Company (Saudi Joint Stock Company)

## Opinion

We have audited the consolidated financial statements of Etihad Etisalat Company ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants (SOCPA).

## Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code), that is endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with the Code's requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

# Independent auditor's report

To the Shareholders of Etihad Etisalat Company (Saudi Joint Stock Company) (Continued)

Key Audit Matters (continued)	
Revenue recognition	
See Note 5.12 and 31 to the consolidated financial statements.	
The key audit matter	How the matter was addressed in our audit
<p>There is an inherent risk relating to the completeness, existence and accuracy of recorded revenue given the complexity of the systems, the high volumes of data and the combination of different services into different products which are sold at varying prices.</p> <p>Significant management judgment is required in determining the appropriate measurement and timing of recognition of different elements of revenue within bundled products.</p> <p>Due to the estimates and judgment involved in the application of the revenue recognition standard and the complexity of the related IT systems and processes, we have identified this matter as a key audit matter.</p>	<p>In responding to this area, our audit procedures included testing of relevant controls and substantive procedures. In particular:</p> <ul style="list-style-type: none"> <li>• Assessing the appropriateness of the revenue recognition policy that is applied to different products and combination of products to assess whether it is in accordance with the applicable accounting framework;</li> <li>• Assessing, with the assistance of our specific team members from IT, the design, implementation and operating effectiveness of management's key internal controls over the IT environment in which the business systems operate, including access controls, program change controls, program development controls and IT operation controls;</li> <li>• Assessing with the assistance of our specific team members from IT, the design, implementation and operating effectiveness of management's key internal IT controls over the completeness and accuracy of rating and bill generation and the end to end reconciliation controls from the rating and billing systems to the accounting system;</li> <li>• Performing tests on the accuracy of customer invoice generation on a sample basis and testing the credits and discounts applied;</li> <li>• Performing analytical reviews of significant revenue streams;</li> <li>• Performing specific procedures to test the completeness and accuracy of adjustments relating to contracts containing multiple performance obligations.</li> </ul>



# Independent auditor's report

To the Shareholders of Etihad Etisalat Company (Saudi Joint Stock Company) (Continued)

<b>Key Audit Matters (continued)</b>	
<b>Capitalisation of assets and the assessment of useful lives and residual values for Property and equipment</b>	
See Note 5.6 and 7 to the consolidated financial statements.	
<b>The key audit matter</b>	<b>How the matter was addressed in our audit</b>
<p>Property and equipment represent a significant proportion of the Group's asset base. The estimates and assumptions made to determine the carrying amounts, including whether and when to capitalise or expense certain costs, and the determination of depreciation charges are material to the Group's financial position and performance. The charges in respect of periodic depreciation are derived after estimating an asset's expected useful life and the expected residual value. Changes to assets' carrying amounts, expected useful lives or residual values could result in a material impact on the consolidated financial statements and is a matter of significance to our audit.</p> <p>The details of critical accounting judgments and carrying values of Property and equipment are given in Notes 6.6 and 7.</p> <p>We considered the valuation of Property and equipment to be a key audit matter due to the extent of judgment and assumptions involved in the assessment of useful lives and residual values.</p>	<p>We obtained an understanding of and tested the relevant management controls relating to the capitalisation of Property and equipment.</p> <p>We evaluated the capitalisation policies and assessed the timeliness of the transfer of assets under construction by agreeing the date that depreciation commenced to the date that the asset is ready for use.</p> <p>Our substantive testing of the determination of estimated useful lives and residual values included the following:</p> <ul style="list-style-type: none"><li>• Considering management's judgments, including the appropriateness of the useful life assumptions and residual values applied in the calculation of depreciation and amortization.</li><li>• Testing on a sample basis the accuracy of the cost capitalization and capex accrual.</li></ul>



# Independent auditor's report

To the Shareholders of Etihad Etisalat Company (Saudi Joint Stock Company) (Continued)

## Other Information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the applicable requirements of the Regulations for Companies and Company's By-laws and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, the Group's Board of Directors is responsible for overseeing the Group's financial reporting process.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

# Independent auditor's report

To the Shareholders of Etihad Etisalat Company (Saudi Joint Stock Company) (Continued)

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, actions taken to eliminate threats or safeguards applied.

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

### KPMG Professional Services



**Dr. Abdullah Hamad Al Fozan**  
License No. 348

Riyadh on: 3 Sha'ban 1444H  
Corresponding to: 23 February 2023

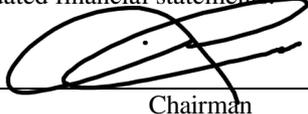


EtiHAD Etisalat Company (A Saudi Joint Stock Company)  
Consolidated statement of financial position as at 31 December 2022  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	31 December 2022	31 December 2021
<b>Assets</b>			
<b>Non-current assets</b>			
Property and equipment	7	19,507,574	20,380,112
Intangible assets	8	7,607,659	7,910,524
Right of use assets	9	2,703,004	2,730,091
Investment in joint venture	10	9,474	-
Contract costs	11	29,155	116,926
Contract assets	12.1	80,132	71,007
Financial and other assets	13	115,812	70,742
<b>Total non-current assets</b>		<b>30,052,810</b>	<b>31,279,402</b>
<b>Current assets</b>			
Inventories	14	109,047	107,728
Contract costs	11	378,728	380,919
Contract assets	12.1	830,400	495,130
Accounts receivable	15	4,928,663	4,593,349
Due from related parties	16.2	169,660	143,329
Financial and other assets	13	458,622	313,388
Short term Murabaha	17	2,013,500	1,000,000
Cash and cash equivalents	18	827,725	1,050,663
<b>Total current assets</b>		<b>9,716,345</b>	<b>8,084,506</b>
<b>Total assets</b>		<b>39,769,155</b>	<b>39,363,908</b>
<b>Shareholders' equity and liabilities</b>			
<b>Shareholders' equity</b>			
Share capital	1	7,700,000	7,700,000
Statutory reserve	19	2,648,971	2,648,971
Other reserves	20	90,075	(36,988)
Retained earnings		5,919,489	4,884,263
<b>Total shareholders' equity</b>		<b>16,358,535</b>	<b>15,196,246</b>
<b>Non-current liabilities</b>			
Borrowings	21	8,310,441	9,623,840
Lease liabilities		2,211,375	2,192,886
Provision for end of service benefits	22	501,802	513,053
Provision for decommissioning	23	190,543	181,119
Contract liabilities	12.2	280,515	216,561
Financial and other liabilities	24	260,425	357,564
<b>Total non-current liabilities</b>		<b>11,755,101</b>	<b>13,085,023</b>
<b>Current liabilities</b>			
Borrowings	21	1,313,399	1,210,518
Lease liabilities		1,009,659	927,505
Accounts payable	25	4,531,738	4,606,445
Contract liabilities	12.2	694,956	737,613
Due to related parties	16.2	161,127	281,563
Accrued expenses	26	2,873,311	2,561,464
Provisions	27	827,067	466,883
Zakat and income tax	28	152,562	127,205
Financial and other liabilities	24	91,700	163,443
<b>Total current liabilities</b>		<b>11,655,519</b>	<b>11,082,639</b>
<b>Total liabilities</b>		<b>23,410,620</b>	<b>24,167,662</b>
<b>Total shareholders' equity and liabilities</b>		<b>39,769,155</b>	<b>39,363,908</b>

The attached notes from 1 to 42 are an integral part of these consolidated financial statements.



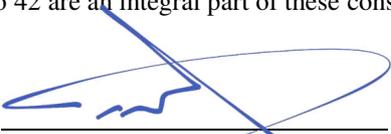
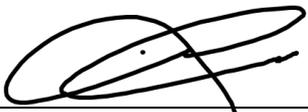


Chief Financial Officer                      Chief Executive Officer                      Chairman

Etihad Etisalat Company (A Saudi Joint Stock Company)  
Consolidated statement of profit or loss for the year ended 31 December 2022  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	31 December 2022	31 December 2021
Revenue	31	15,668,915	14,834,056
Cost of revenue	32	(6,305,559)	(6,162,541)
<b>Gross profit</b>		<b>9,363,356</b>	<b>8,671,515</b>
<b>Operating expenses</b>			
Selling and marketing expenses	33	(1,462,886)	(1,389,991)
General and administrative expenses	34	(1,628,231)	(1,558,438)
Impairment on accounts receivable and contract assets	12.1,15	(111,654)	(142,565)
Depreciation and amortization	7,8,9	(3,850,550)	(3,926,520)
<b>Total operating expenses</b>		<b>(7,053,321)</b>	<b>(7,017,514)</b>
<b>Operating profit</b>		<b>2,310,035</b>	<b>1,654,001</b>
<b>Other income and expenses</b>			
Share in profit / (losses) of joint venture	10	28,226	(18,848)
Finance income		45,990	5,196
Finance costs	35	(606,977)	(504,807)
Other income, net		1,496	15,383
<b>Total other expenses</b>		<b>(531,265)</b>	<b>(503,076)</b>
<b>Net profit before zakat and income tax</b>		<b>1,778,770</b>	<b>1,150,925</b>
Zakat and income tax	28	(121,830)	(79,384)
<b>Net profit</b>		<b>1,656,940</b>	<b>1,071,541</b>
<b>Earnings per share:</b>			
Basic and diluted earnings per share (in SR)	36	<u>2.15</u>	<u>1.39</u>

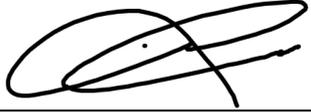
The attached notes from 1 to 42 are an integral part of these consolidated financial statements.

		
Chief Financial Officer	Chief Executive Officer	Chairman

Etihad Etisalat Company (A Saudi Joint Stock Company)  
 Consolidated statement of comprehensive income for the year ended 31 December 2022  
 (All amounts in Saudi Riyals thousands unless otherwise stated)

	<b>31 December 2022</b>	31 December 2021
<b>Net profit</b>	<b><u>1,656,940</u></b>	<u>1,071,541</u>
<b><i>Items that will not be reclassified subsequently to profit or loss:</i></b>		
Actuarial remeasurement of end of service benefits	<b>32,690</b>	(7,992)
Change in fair value of equity investments	<b>(28,789)</b>	31,116
Share in other comprehensive income of joint venture	<b>96</b>	-
<b>Total items that will not be reclassified subsequently to profit or loss</b>	<b><u>3,997</u></b>	<u>23,124</u>
<b><i>Items that will be reclassified subsequently to profit or loss:</i></b>		
Exchange differences on translation of foreign operations	<b>(5,354)</b>	(589)
Cash flow hedge - change in fair value	<b>153,462</b>	7,122
Cash flow hedge - reclassified to profit or loss	<b>7,744</b>	34,821
<b>Total items that will be reclassified subsequently to profit or loss</b>	<b><u>155,852</u></b>	<u>41,354</u>
<b>Other comprehensive income</b>	<b><u>159,849</u></b>	<u>64,478</u>
<b>Total comprehensive income</b>	<b><u>1,816,789</u></b>	<u>1,136,019</u>

The attached notes from 1 to 42 are an integral part of these consolidated financial statements.

 <hr style="width: 100%;"/> Chief Financial Officer	 <hr style="width: 100%;"/> Chief Executive Officer	 <hr style="width: 100%;"/> Chairman
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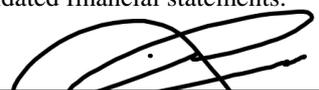
Etiihad Etisalat Company (A Saudi Joint Stock Company)  
Consolidated statement of cash flows for the year ended 31 December 2022  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	31 December 2022	31 December 2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit for the year		1,656,940	1,071,541
<b>Adjustments:</b>			
Depreciation and amortization	7,8,9	3,850,550	3,926,520
Impairment loss on accounts receivable and contract assets	12.1,15	111,654	142,565
Inventory obsolescence	14	11,175	(77,859)
Provision for end of service benefits	22	71,533	62,200
Provisions		449,586	216,665
Loss on sale of property and equipment		17,550	17,783
Share in (profit) / losses of joint venture	10	(28,226)	18,848
Finance income		(45,990)	(5,196)
Finance costs	35	606,977	504,807
Zakat and income tax	28	121,830	79,384
Others		(19,183)	(13,704)
<b>Changes in:</b>			
Inventories		(12,494)	43,464
Contract costs		89,962	(59,375)
Contract assets		(316,343)	(86,463)
Accounts receivable		(566,394)	(849,327)
Due from related parties		(26,331)	(31,130)
Financial assets and others		(38,470)	(73,743)
Accounts payable		220,916	51,080
Contract liabilities		21,297	(112,815)
Due to related parties		(120,436)	128,727
Accrued expenses		213,157	327,297
Provisions		(68,957)	(170,609)
Financial liabilities and others		(25,841)	6,860
Provision for decommissioning		(2,308)	(2,558)
<b>Cash generated from operating activities</b>		<b>6,172,154</b>	<b>5,114,962</b>
End of service benefits paid	22	(50,094)	(41,899)
Finance costs paid		(358,439)	(299,514)
Zakat and income tax paid	28	(79,728)	(44,171)
<b>Net cash generated from operating activities</b>		<b>5,683,893</b>	<b>4,729,378</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payment of property and equipment		(2,329,482)	(2,132,089)
Payment of intangible assets		(101,500)	(87,236)
Proceeds from sale of property and equipment		681	334
Short term Murabaha		(1,013,500)	(700,000)
Finance income received		37,846	2,899
<b>Net cash used in investing activities</b>		<b>(3,405,955)</b>	<b>(2,916,092)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings		-	700,000
Payment of borrowings		(1,259,886)	(1,403,750)
Payment of lease liabilities		(600,756)	(610,864)
Dividends paid		(640,234)	(377,507)
<b>Net cash used in financing activities</b>		<b>(2,500,876)</b>	<b>(1,692,121)</b>
Net changes in cash and cash equivalents		(222,938)	121,165
Cash and cash equivalents at beginning of the year		1,050,663	929,498
<b>Cash and cash equivalents at end of the year</b>	18	<b>827,725</b>	<b>1,050,663</b>

The attached notes from 1 to 42 are an integral part of these consolidated financial statements.

  
Chief Financial Officer

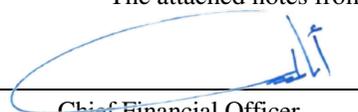
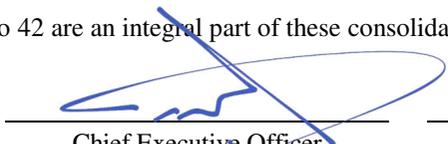
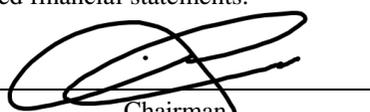
  
Chief Executive Officer

  
Chairman

Etihad Etisalat Company (A Saudi Joint Stock Company)  
 Consolidated statement of changes in shareholders' equity for the year ended 31 December 2022  
 (All amounts in Saudi Riyals thousands unless otherwise stated)

	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Total shareholders' equity</u>
Balance as at 1 January 2022	7,700,000	2,648,971	(36,988)	4,884,263	15,196,246
Net profit	-	-	-	1,656,940	1,656,940
Other comprehensive income	-	-	127,063	32,786	159,849
Total comprehensive income	-	-	127,063	1,689,726	1,816,789
Dividends	-	-	-	(654,500)	(654,500)
<b>Balance as at 31 December 2022</b>	<b>7,700,000</b>	<b>2,648,971</b>	<b>90,075</b>	<b>5,919,489</b>	<b>16,358,535</b>
Balance as at 1 January 2021	7,700,000	2,648,971	(109,458)	4,205,714	14,445,227
Net profit	-	-	-	1,071,541	1,071,541
Other comprehensive income / (loss)	-	-	72,470	(7,992)	64,478
Total comprehensive income	-	-	72,470	1,063,549	1,136,019
Dividends	-	-	-	(385,000)	(385,000)
Balance as at 31 December 2021	7,700,000	2,648,971	(36,988)	4,884,263	15,196,246

The attached notes from 1 to 42 are an integral part of these consolidated financial statements.

Chief Financial Officer                      Chief Executive Officer                      Chairman

## 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 address of the Company’s head office is P.O. Box 23088, Riyadh 11321, Kingdom of Saudi Arabia.

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

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

Pursuant to the Communications, Space & Technology Commission (CST) 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 and fixed internet services.

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

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

### 1.2 Subsidiary Companies

Below is the summary of Company’s subsidiaries and ownership percentage as follows:

<u>Name</u>	<u>Country of incorporation</u>	<u>Ownership percentage</u>			
		<u>31 December 2022</u>		<u>31 December 2021</u>	
		<u>Direct</u>	<u>Indirect</u>	<u>Direct</u>	<u>Indirect</u>
Mobily Infotech India Private Limited	India	99.99%	0.01%	99.99%	0.01%
Zajil International Network for Telecommunication Company*	Saudi Arabia	96.00%	4.00%	96.00%	4.00%
National Company for Business Solutions	Saudi Arabia	100.00%	-	100.00%	-
National Company for Business Solutions FZE	United Arab of Emirates	-	100.00%	-	100.00%
Mobily Ventures Holding W.L.L	Bahrain	100.00%	-	100.00%	-
Etihad Fintech Company	Saudi Arabia	100.00%	-	100.00%	-

\* On 15 March 2021, the Board of Directors of Etihad Etisalat Company approved to liquidate Zajil International Network for Telecommunication Company, which is still in the process of completing the procedures and legal requirements for its liquidation.

## 1 CORPORATE INFORMATION (CONTINUED)

### 1.2 Subsidiary companies (continued)

The main activities of the subsidiaries are as follows:

- IT services, applications, billing and testing support, product marketing, process management, support services and call center services.
- Wholesale and retail trade of computers and electronic equipment, maintenance and operation of such equipment, and provision of related services.
- Providing consulting and office administrative service activities.
- 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.
- Technology in financial services.

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

#### 1.2.1 Mobily Infotech India Private Limited

During the year 2007, the Company invested in 99.99% of the share capital of Mobily Infotech India Private Limited incorporated in Bangalore, India which commenced its commercial activities during the year 2008, the main activity is in the business of providing IT services, applications, billing and testing support, product marketing, process management, support services and call center services primarily to its group companies. Early 2009, the remaining 0.01% of the Mobily Infotech India Private Limited share capital was acquired by National Company for Business Solutions which is subsidiary. The financial year end of Mobily Infotech India Private Limited is March 31 however, the Company uses the financial statements of Mobily Infotech India Private Limited for the same reporting period in preparing the Group's consolidated financial statements.

#### 1.2.2 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 which main activity comprises the wholesale and retail trade of computers and electronic equipment, maintenance and operation of such equipment, and the provision of related services. The acquisition included Zajil's rights, assets, liabilities, 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% of Zajil International Network for Telecommunication Company is owned by National Company for Business Solutions which is a subsidiary. The goodwill has been fully impaired during the year ended 31 December 2014.

On 15 March 2021, the Board of Directors of EtiHAD Etisalat Company approved to liquidate Zajil International Network for Telecommunication Company, which is still in the process of completing the procedures and legal requirements for its liquidation.

#### 1.2.3 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 which main activity is providing consulting and office administrative service activities.

During the year 2021, the Company acquired the remaining 5% which was owned by Bayanat Al-Oula for Network Services.

National Company for Business Solution owns the following investments:

<u>Name</u>	<u>Country of incorporation</u>	<u>Ownership percentage</u>		<u>Carrying amount</u>	
		<u>31 December 2022</u>	<u>31 December 2021</u>	<u>31 December 2022</u>	<u>31 December 2021</u>
Ecommerce Taxi Middle East	Luxembourg	9.5%	10%	1,702	1,702

## 1 CORPORATE INFORMATION (CONTINUED)

### 1.2 Subsidiary companies (continued)

#### 1.2.4 National Company for Business Solutions FZE

During 2014, National Company for Business Solutions (KSA) completed the legal procedures related to the investing in National Company for Business Solutions FZE, with 100% ownership of its capital, based in the United Arab of Emirates which main activity is the trading, import and export of computer systems.

#### 1.2.5 Mobily Ventures Holding W.L.L

During 2014, the Company completed the legal procedures related to the investing in Mobily Ventures Holding Company with 100% ownership of its capital, which is a Bahraini limited liability company which main activity is to act as holding company for commercial or industrial or services companies.

Mobily Ventures Holding W.L.L owns the following investments;

<u>Name</u>	<u>Country of incorporation</u>	<u>Ownership percentage</u>		<u>Carrving amount</u>	
		<u>31 December 2022</u>	<u>31 December 2021</u>	<u>31 December 2022</u>	<u>31 December 2021</u>
Anghami LLC	Cayman Islands	5.07%	7.66%	7,873	36,711
Dokkan Afkar	British Virgin Islands	3.28%	3.28%	-	-

On 3 February 2022 Anghami Inc. announced that it had completed its business combination with Vistas Media Acquisition Company (“VMAC”). On 4 February 2022 the shares of Anghami Inc. commenced trading on the Nasdaq stock exchange in the USA under the ticker ANGH.

#### 1.2.6 EtiHAD Fintech Company

During 2019, the Company completed the legal procedures related to the establishment of EtiHAD Fintech Company with 100% ownership of its capital, which is a Saudi closed joint stock company which main activity is technology in financial services.

EtiHAD Fintech Company obtained its license on 17 March 2022, from Saudi Central Bank (SAMA) and commercially launched on 2 October 2022.

## 2 BASIS OF PREPARATION

### 2.1 Statement of Compliance

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

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Chartered and Professional Accountants (SOCPA).

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

### 2.2 Basis of measurement

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

### 2.3 Functional and presentation currency

These consolidated financial statements are presented in Saudi Riyal (“SR”) which is the Group’s functional currency. All amounts have been rounded off to the nearest thousand Saudi Riyal unless otherwise stated.

### 3 BASIS OF CONSOLIDATION

Control is achieved when the Group has:

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

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

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

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

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

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

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

If the Group loses control over a subsidiary, it:

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

### 4 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS

The standards and amendments that are issued, but not yet effective, as of 31 December 2022 are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective. These standards are not expected to have a material impact on the Group at their effective dates.

Amendments and interpretations
Amendments to IAS 1 Presentation of Financial Statements – Classification of liabilities as current or non-current
Amendments to IAS 1 Presentation of Financial Statements and IFRS practice statement 2 – Disclosure of accounting policies
Amendments to IAS 8 Accounting Policies, Changes in accounting estimates and errors – Definition of accounting estimate
Amendments to IAS 12 Income Taxes – Deferred Tax related to Assets and Liabilities arising from a single transaction

## **5 SIGNIFICANT ACCOUNTING POLICIES**

### **5.1 Current versus non-current classification**

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

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

All other assets are classified as non-current.

A liability is current when:

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

All other liabilities are classified as non-current.

### **5.2 Business combinations**

Business combinations are accounted for using the acquisition method upon transfer of control to the Group. The consideration transferred is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognized in the consolidated statement of profit or loss as incurred.

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

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

Goodwill is initially measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value at the acquisition-date of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date fair values of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), 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 recognized at the acquisition date.

If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then a gain on bargain purchase at a differential price is recognized in the consolidated statement of profit or loss.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing for goodwill acquired from the business combination and from the date of acquisition, it will be allocated to cash-generating units ("CGU") that are expected to benefit from the consolidation regardless of whether the other assets or liabilities acquired have been allocated to those units.

If goodwill is not allocated to designated cash-generating units because of an incomplete initial calculation, the initial impairment loss will not be tested unless impairment indicators are available to enable the Group to distribute the carrying amount of the goodwill to the cash generating units or the group of cash generating units expected to benefit from business combination. Where goodwill is allocated to the cash generating unit and part of the operations of that unit are disposed of, goodwill associated with the discontinued operation will be included in the carrying amount when determining the gain or loss on disposal of the operation. The goodwill in such circumstances is measured on the basis of the value of a similar disposed operation and the remaining portion of the cash-generating unit.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

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

### **5.2 Business combinations (continued)**

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another relevant IFRS approved in Kingdom.

Any contingent consideration to be paid (if any) will be recognized at fair value at the acquisition date and classified as equity or a financial liability. Contingent consideration classified as a financial liability is subsequently remeasured at fair value with the changes in fair value recognized in the consolidated statement of profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in the consolidated statement of profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to the consolidated statement of profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for the business combination is not completed by the end of the reporting period which constitutes the period in which the combination occurred, the Group presents the items whose value calculation has not been completed in a temporary manner in the consolidated financial statements. During the measurement period, which is not more than one year from the acquisition date, the temporary value recognized on the acquisition date is retroactively adjusted to reflect the information obtained about the facts and circumstances that existed at the date of acquisition and if it is determined that this will affect the measurement of amounts recognized as of that date.

The Group recognizes additional assets or liabilities during the measurement period if new information becomes available about facts or circumstances that existed at the date of the acquisition and if it will result in recognition of assets or liabilities from that date. The measurement period ends once the group obtains all information that existed at the acquisition date or as soon as it becomes sure of the absence of more information.

### **5.3 Investment in an associate and a joint venture**

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

A joint venture is joint arrangement whereby the Group has joint control of the arrangement and has rights to the net assets of the joint arrangement. 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 governing body of the investee.

Factors to determine significant influence include holding directly or indirectly voting power of the investee, representation on the board of directors or equivalent governing body of the investee, participation in policymaking processes including participation in decisions about dividends or other distributions, material transactions between the entity and the investee, interchange of managerial personnel or provision of essential technical information.

The investment in associates or joint ventures are accounted for in the consolidated financial statements of the Group using the equity method of accounting. The investment in associates or joint ventures in the consolidated statement of financial position are initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit and loss and other comprehensive income of the associate or joint venture adjusted for any impairment in the value of the net investment. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses.

Additional losses are recognized and recorded as liabilities only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Unrealized gain or losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture.

On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment.

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

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

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in the consolidated statement of profit or loss in the acquisition year.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to the consolidated statement of profit or loss the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss includes the disposal of the related assets or liabilities.

When any entity within the Group transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

### **5.4 Cash and cash equivalents**

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and short term murabahas with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

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

#### **5.5.1 Financial assets**

##### **5.5.1.1 Recognition and initial measurement**

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value – for items that are not recognized at fair value through profit and loss – plus the transaction costs that contributed directly to its acquisition.

##### **5.5.1.2 Classification and subsequent measurement**

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

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

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

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

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

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

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

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

## 5 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

#### 5.5.1 Financial assets (continued)

##### 5.5.1.2 Classification and subsequent measurement (continued)

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

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

##### 5.5.1.3 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.

##### 5.5.1.4 Impairment of financial assets

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

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

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

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

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

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

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

#### **5.5.1 Financial assets (continued)**

##### **5.5.1.4 Impairment of financial assets (continued)**

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

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

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

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

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

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

#### **5.5.2 Financial liabilities**

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

Financial liabilities are classified, at initial recognition, as measured at amortized cost or financial liabilities at fair value through profit or loss. All financial liabilities other than financial liabilities at fair value through profit or loss are recognized initially at fair value net of directly attributable transaction costs. Financial liabilities at fair value through profit or loss are measured initially and subsequently at fair value, and any related transaction costs are recognized in consolidated statement of profit or loss as incurred.

#### **5.5.3 Derivatives**

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

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

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

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

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in consolidated statement of comprehensive income and accumulated in the hedging reserve shown in shareholders' equity. The effective portion of changes in the fair value of the derivative that is recognized in consolidated statement of comprehensive income is limited to the cumulative change in fair value of the hedged item,

determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in consolidated statement of profit or loss. The amount accumulated in shareholders' equity is reclassified to consolidated statement of profit or loss in the same period or periods during which the hedged expected future cash flows affect profit or loss.

## 5 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

#### 5.5.3 Derivatives (continued)

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

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

### 5.6 Property and equipment

Property and equipment are stated in the consolidated statement of financial position at their cost, less any accumulated depreciation and accumulated impairment losses.

The cost of telecommunication network and equipment comprises all expenditures incurred up to the customer connection point, including contractors' charges, direct materials and labour costs to the date the relevant assets are placed into service.

Assets under construction are carried at cost, less any recognized impairment loss. Depreciation of these assets commences when the assets are ready for their intended use.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items.

When significant parts of a property and equipment are to be replaced (except land), the Group recognizes such parts as individual assets with a specific useful life. All other repairs and maintenance costs are charged to the consolidated statement of profit or loss during the reporting period in which they are incurred, except to the extent that they increase productivity or extend the useful life of an asset, in which case they are capitalized.

Depreciation is charged and reduces the cost of assets, other than land, using mainly the straight-line method, over the below estimated useful lives.

	<u>Depreciation rate</u>
Buildings	5%
Leasehold improvements	10 %
Telecommunication network equipment	3% - 20%
Computer equipment and software	10% - 33%
Office equipment and furniture	14% - 33%
Vehicles	20% - 25%

Major renovations and improvements are capitalized if they increase the productivity or the operating useful life of the assets as well as direct labour and other direct costs. Repairs and maintenance are expensed when incurred.

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.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the consolidated statement of profit or loss within other operating income or expenses.

The residual values, useful lives and depreciation method of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate. The effect of such changes is recognized in the consolidated statements of profit or loss prospectively.

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

### **5.7 Intangible Assets**

Intangible assets are presented in the consolidated statement of financial position at cost less accumulated amortization and accumulated impairment losses. The cost of intangible assets acquired in a business combination represents their fair value as at the date of acquisition. The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite live are amortized over the useful economic life and the estimated useful life and amortization method are reviewed at the end of each financial year, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets with indefinite live are not amortized, but are tested for impairment annually. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is recognized in the consolidated statement of profit or loss in the period in which the expenditure is incurred.

#### **5.7.1 License and frequency spectrum fees**

Acquired telecommunication licenses are initially recorded at cost or, if part of a business combination, at fair value. Amortization periods for license and frequency spectrum fees are determined primarily by reference to the unexpired license period, the conditions for license renewal and whether licenses are dependent on specific technologies. Amortization is charged to the consolidated statement of profit or loss on a straight-line basis over the estimated useful lives when the related network services are available for use.

#### **5.7.2 Goodwill**

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

#### **5.7.3 Indefeasible rights of use "IRU"**

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

#### **5.7.4 Computer Software**

Computer software licenses are capitalized based on the cost incurred to acquire the specific software and bring it into use. Amortization is charged to the consolidated statement of profit or loss on a straight line basis over the estimated useful life from the date the software is available for use.

#### **5.7.5 Derecognition of intangible assets**

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from its use or on disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in the consolidated statement of profit or loss.

### **5.8 Borrowing Costs**

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

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

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

### **5.9 Impairment of non-financial assets**

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. 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.

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

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

### **5.10 Zakat and tax**

The Group calculates zakat in accordance with the regulations of the Zakat, Tax and Customs Authority (ZATCA). Provision for zakat for the Group is charged to the consolidated statement of profit or loss. Foreign subsidiaries are subject to income taxes in their respective countries of domicile. Such income taxes are charged to the consolidated statement of profit or loss.

The Company 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.

The Group is subject to VAT as per the regulations of ZATCA. The net VAT amount recoverable from and/ due to the ZATCA is included in the consolidated statement of financial position.

Adjustments resulting from final assessments, if any, are recorded during the period in which these assessments are approved.

### **5.11 Employee termination benefits**

#### **5.11.1 Retirement benefit costs and end of service benefits**

Payments to defined contribution schemes are charged as an expense as they fall due. Payments made to state-managed pension schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution scheme.

Employee's end of service benefits provision is calculated annually by actuaries in accordance with the projected unit credit method as per (IAS 19) Employee Benefits, taking into consideration the labour law of the respective country in which the subsidiary operates. The provision is recognized based on the present value of the defined benefit obligations. The present value of the defined benefit obligations is calculated using assumptions on the average salary incremental rate, average employees' years of service and an appropriate discount rate. The assumptions used are calculated on a consistent basis for each period and reflect management's best estimate.

Remeasurement of net liabilities that includes actuarial gains and losses arising from the changes in assumptions used in the calculation, is recognized directly in other comprehensive income. Remeasurements are not reclassified to the consolidated statement of profit and loss in subsequent periods.

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

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

Net interest cost is calculated using the discount rate to net defined benefit assets or liabilities. The Group recognizes the following changes in the net benefit obligation identified in the consolidated statement of profit or loss:

- Service costs that include the current service costs, past service costs, profits and losses resulting from labour downsizing and non-routine payments.
- Net finance cost.

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

### **5.11 Employee termination benefits (continued)**

#### **5.11.2 Other short and long-term employee benefits**

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period in which the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service. Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

### **5.12 Revenue**

The Group recognizes revenue from contracts with customers when it transfers control over a product or services to a customer and based on the consideration specified in the contract with the customer and excludes amounts collected on behalf of other parties.

When there is a high degree of uncertainty about the possibility of collection from certain customers, the Group recognizes revenue only upon collection.

The timing of revenue recognition is either at a point in time or over time depending upon the satisfaction of the performance obligation by transferring control of goods or services to the customer.

The Group mainly earns revenue from providing mobile telecommunication services and devices sale. Products and services may be sold separately or in bundled packages.

#### **5.12.1 Service**

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

#### **5.12.2 Devices Sale**

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

#### **5.12.3 Installation and activation services**

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

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

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

#### **5.12.4 Loyalty points program**

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

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

### **5.12 Revenue (continued)**

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

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

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

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

#### **5.12.6 Determination of Transaction Price**

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

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

##### **5.12.6.1 Variable consideration**

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

##### **5.12.6.2 Significant financing component**

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

##### **5.12.6.3 Non-cash consideration**

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

##### **5.12.6.4 Consideration payable to the customer**

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

### **5.13 Contract balances**

#### **5.13.1 Contract assets**

Contract assets are the rights to consideration in exchange for products or services transferred by the Group to the customer. If the Group performs by transferring products or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

#### **5.13.2 Contract costs**

Contract costs relate to incremental costs of obtaining a contract and certain costs to fulfil a contract to be recognized as an asset when:

- The costs relate directly to the contract (or to a specified anticipated contract)
- The costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.
- The costs are expected to be recovered

Contract costs recognized by the Group are amortized on a systematic basis that is consistent with the Group's transfer of related goods or services to the customer.

#### **5.13.3 Contract liabilities**

Contract liabilities are recognized if a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related products or services. Contract liabilities are recognized as revenue when the Group performs under the contract (i.e. transfers control of the related products or services to the customer).

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

### **5.14 Costs and expenses**

#### **5.14.1 Cost of revenue**

Represent the cost of revenue incurred during the period which include the costs of products sold, inventory obsolescence, governmental charges, interconnection costs and other direct and indirect costs related to the revenues recognized.

##### **5.14.1.1 Governmental charges**

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

##### **5.14.1.2 Interconnection costs**

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

#### **5.14.2 Selling and marketing expenses**

Expenses related to the selling, distribution and marketing functions represents direct and indirect costs that are not specifically part of cost of revenue and are directly related to sales, distribution and marketing activities.

#### **5.14.3 General and administrative expenses**

Represent expenses related to the administration and not to the revenue earning or the selling, distribution and marketing functions. General and administrative expenses include direct and indirect costs that are not specifically part of cost of revenue or sales and marketing expenses.

### **5.15 Dividends**

The Company's dividends policy is approved by the General Assembly and the Company recognizes a liability to pay a dividend when the distribution is authorized. A corresponding amount is recognized directly in equity.

### **5.16 Foreign currencies**

The financial statements and disclosures are presented in Saudi Riyals (the functional currency of Etihad Etisalat Company – the Parent Company). For each subsidiary, the Group determines the functional currency, which is defined as the currency of the primary economic environment in which the entity operates, and items included in the financial statements of each subsidiary are measured using that functional currency.

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item to which it relates. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Saudi Riyals using exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the reporting period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint venture or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the Company's shareholders are reclassified to the consolidated statement of profit or loss. For all partial disposals of associates or joint ventures that do not result in the Group losing significant influence or joint control, the proportionate share of the accumulated exchange differences is reclassified to the consolidated statement of profit or loss.

## 5 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 5.17 Leases

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

#### 5.17.1 *The Group as a lessee*

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

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

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

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

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

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

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

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

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

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

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

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

#### 5.17.2 *The Group as a lessor*

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

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

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

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

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

### **5.18 Segment reporting**

Operating segments of the Group are identified based on internal reports, which are regularly reviewed by the Group's main decision makers (Chief Operating Decision Maker "CODM") for the purpose of resource allocation among segments and performance assessment.

### **5.19 Provisions**

#### **5.19.1 General**

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and the obligation can be measured reliably.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the financial year, after taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material). When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost in the consolidated statement of profit or loss.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

#### **5.19.2 Asset decommissioning liabilities**

The Group recognizes obligations on decommissioning of assets when there is a legal or constructive obligation arising from past events and it is likely to result in an outflow of resources to settle the obligation and if the obligation can be reliably measured.

The Group calculates a provision with the value of future costs related to the decommissioning of the assets. Upon initial recognition of the obligation, the present value of the expected costs (using a discount rate for future cash flows) is added to the value of the right of use assets. The unwinding of the discount is expensed as incurred and recognized in the consolidated statement of profit or loss as a finance costs.

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 right of use assets.

### **5.20 Contingent liabilities**

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

### **5.21 Inventories**

Inventories are stated at the lower of cost or net realizable value. Costs of inventories are determined using the weighted average method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

The Group provides for slow-moving and obsolete inventories in the cost of revenue in the consolidated statement of profit or loss.

### **5.22 Government grants**

Government grants are not recognized until there is reasonable assurance that the Group will comply with the attached conditions and that the grants will be received.

Government grants are recognized in the consolidated statement of profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue in the consolidated statement of financial position and transferred to the consolidated statement of profit or loss on a systematic and rational basis over the useful lives of the related assets.

When the Group receives government grants as compensation for expenses or losses already incurred or immediate financial support with no future related costs, these are recognized in the profit or loss in the period in which they become receivable.

## **6 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS**

The preparation of the Group's consolidated financial statements in "prepared in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA" requires the use of estimates, assumptions and judgments that affect the amounts recorded as revenue, expenses, assets, liabilities and the accompanying disclosures, as well as the disclosure of contingent liabilities. The estimates, assumptions and judgments are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates due to market changes or circumstances arising beyond the control of the Group, such changes are reflected in the assumptions when they occur. Uncertainty about these estimates, assumptions and judgments could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods.

### **6.1 Provisions**

In respect of provisions including decommissioning provision, the Group provides for anticipated outflows of resources considered probable. Estimates are used in assessing the likely amount of the settlement. The ultimate liability may vary from the amounts provided and would be dependent on the eventual outcome. Provisions are recorded by discounting the future cash flows at a current pre-tax rate that reflects the risks specific to the liability. The unwinding of the discount is recognized in the consolidated statement of profit or loss as a finance cost.

### **6.2 Impairment losses on trade receivables and contract assets**

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

The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the Group updates its historical default rates and reflects that in future estimates.

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

### **6.3 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.

### **6.4 Defined benefit obligations**

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

### **6.5 Impairment of non-financial assets**

An impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow (DCF) model. The cash flows are derived usually from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

## **6 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)**

### **6.6 Property and equipment**

#### **6.6.1 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.

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

#### **6.6.2 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.

### **6.7 Zakat and taxation**

The Group calculates zakat, withholding tax and VAT in accordance with the requirements of the Zakat, Tax and Customs Authority (ZATCA) which are subject to change based on final assessments received. The final outcome of any additional amounts assessed by the ZATCA depends on the eventual outcome of the appeal process which the Group is entitled to submit. When the final tax outcome differs from the amounts initially recorded, such differences could impact the consolidated statement of profit or loss in the period in which the final judgment is made.

### **6.8 Contingencies**

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

### **6.9 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.

## **6 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)**

### **6.9 Fair value measurement (continued)**

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy. This is described as follows based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

### **6.10 Revenue**

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

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

#### ***6.10.2 Gross versus net presentation***

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

Whether the Group is principal or agent, depends on whether the control of products or services is transferred to customers, and it has the ability to direct the use of the devices or obtain benefits from the devices or service. Below are the key criteria to determine whether the Group is acting as a principal:

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

#### ***6.10.3 Consideration of significant financing component in a contract***

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

#### ***6.10.4 Determining whether the loyalty points provide material rights to customers***

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

## **6 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)**

### **6.11 Leases**

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

The Group cannot readily determine the interest rate implicit in a lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

The Group estimates the IBR using observable inputs (such as market interest rates) when available in addition to make certain entity-specific estimates.

Etiihad Etisalat Company (A Saudi Joint Stock Company)  
Notes to the consolidated financial statements  
For the year ended 31 December 2022  
(All amounts in Saudi Riyals thousands unless otherwise stated)

**7 PROPERTY AND EQUIPMENT**

	<b>Land and buildings</b>	<b>Telecom network equipment</b>	<b>Computer equipment and software</b>	<b>Other assets</b>	<b>Capital work in progress</b>	<b>Total</b>
<b>Cost</b>						
As at 1 January 2022	1,453,250	47,068,971	5,317,539	1,215,307	59,554	55,114,621
Additions	32,631	1,485,765	359,290	44,205	108,618	2,030,509
Reclassification / Transfers	-	-	-	65	(65)	-
Disposals	(4,622)	(129,255)	(630)	(7,798)	-	(142,305)
As at 31 December 2022	<u>1,481,259</u>	<u>48,425,481</u>	<u>5,676,199</u>	<u>1,251,779</u>	<u>168,107</u>	<u>57,002,825</u>
<b>Accumulated depreciation and impairment</b>						
As at 1 January 2022	462,022	29,043,551	4,203,341	1,025,595	-	34,734,509
Charge for the year	56,532	2,474,658	309,929	43,697	-	2,884,816
Disposals	(2,053)	(114,010)	(523)	(7,488)	-	(124,074)
As at 31 December 2022	<u>516,501</u>	<u>31,404,199</u>	<u>4,512,747</u>	<u>1,061,804</u>	<u>-</u>	<u>37,495,251</u>
<b>Net book value as at 31 December 2022</b>	<b><u>964,758</u></b>	<b><u>17,021,282</u></b>	<b><u>1,163,452</u></b>	<b><u>189,975</u></b>	<b><u>168,107</u></b>	<b><u>19,507,574</u></b>
<b>Net book value as at 31 December 2021</b>	<u>991,228</u>	<u>18,025,420</u>	<u>1,114,198</u>	<u>189,712</u>	<u>59,554</u>	<u>20,380,112</u>

- During the year ended 31 December 2022, the Group has capitalized internal technical staff costs amounting to SR 178 million (31 December 2021: SR 164 million).
- Other assets include Leasehold improvements, Office furniture and equipment and Vehicles.
- The Group has reviewed the estimated useful lives and residual value of property and equipment during the year ended 31 December 2022, which resulted in change in the estimate of certain items, noting that the effect of these changes on actual and expected depreciation expense, was not significant.

## 8 INTANGIBLE ASSETS

	<b>Telecommunication services licenses</b>	<b>Goodwill</b>	<b>Indefeasible Right of Use (IRU)</b>	<b>Others</b>	<b>Total</b>
<b>Cost:</b>					
1 January 2022	13,586,350	1,466,865	1,282,199	97,689	16,433,103
Additions	-	-	53,178	9,483	62,661
31 December 2022	<u>13,586,350</u>	<u>1,466,865</u>	<u>1,335,377</u>	<u>107,172</u>	<u>16,495,764</u>
<b>Accumulated Amortization</b>					
1 January 2022	7,650,939	-	773,951	97,689	8,522,579
Charge for the year	289,059	-	76,295	172	365,526
31 December 2022	<u>7,939,998</u>	<u>-</u>	<u>850,246</u>	<u>97,861</u>	<u>8,888,105</u>
<b>Net book value at 31 December 2022</b>	<u><b>5,646,352</b></u>	<u><b>1,466,865</b></u>	<u><b>485,131</b></u>	<u><b>9,311</b></u>	<u><b>7,607,659</b></u>
<b>Net book value at 31 December 2021</b>	<u><b>5,935,411</b></u>	<u><b>1,466,865</b></u>	<u><b>508,248</b></u>	<u><b>-</b></u>	<u><b>7,910,524</b></u>

### 8.1 Goodwill

- The Group has tested separately recognized goodwill for impairment. The recoverable amount has been determined based on value-in-use, using discounted cash flow analysis. The cash flow projections are based on approved budget.
- The recoverable amount of the CGU as at 31 December 2022 amounted to SR 26,083 million (31 December 2021: SR 25,512 million) has been determined based on a value-in-use calculation using cash flow projections from financial budgets covering a five years period. The pre-tax discount rate applied to cash flow projections is 10% (31 December 2021: 10%) and cash flows beyond the five years period are extrapolated using a 1.5% growth rate (31 December 2021: 1.5%). It was concluded that the carrying value of the goodwill has not exceeded the value-in-use. As a result of this analysis, no goodwill impairment was recognized.
- The calculation of value-in-use for the goodwill is most sensitive to the following assumptions:

#### 1. Discount rate

- Discount rate represents the current market assessment of the risks specific to each cash generating unit and calculation is based on the specific circumstances of the Group and its operating segments and derived from its weighted average cost of capital (WACC) which considers into account both debt and shareholders' equity. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service and segment-specific risk is incorporated. The cost of shareholders' equity is driven by the expected return on investment by the Group's investors. The pre-tax discount rate used is 10% (31 December 2021: 10%).
- A rise in the pre-tax discount rate beyond 12% (i.e., +2 %) (31 December 2021: 12.1% (i.e., +2.1 %)) in the CGU would result in an impairment loss.

#### 2. Terminal growth rate

- The growth rate used does not exceed the long-term average growth rates of the entity. This rate assumed 1.5% (31 December 2021: 1.5%).
- Management believes that the speed of technological changes and the possibility of new entrants can have a significant impact on terminal growth rate assumptions. The effect of new entrants is not expected to have an adverse impact on the forecasts, but could yield a reasonably possible alternative to the estimated long-term growth rate of 1.5%. A reduction to 0% (31 December 2021: 0%) in the long-term growth rate would not result in an impairment loss.

## 9 RIGHT OF USE ASSETS

	<u>Telecommunication network equipment</u>	<u>Land and buildings</u>	<u>Total</u>
<b>Cost</b>			
As at 1 January 2022	5,018,486	920,137	5,938,623
Additions	558,667	14,454	573,121
As at 31 December 2022	<u>5,577,153</u>	<u>934,591</u>	<u>6,511,744</u>
<b>Accumulated Depreciation</b>			
As at 1 January 2022	2,681,943	526,589	3,208,532
Charge for the year	488,707	111,501	600,208
As at 31 December 2022	<u>3,170,650</u>	<u>638,090</u>	<u>3,808,740</u>
<b>Net book value as at 31 December 2022</b>	<u><b>2,406,503</b></u>	<u><b>296,501</b></u>	<u><b>2,703,004</b></u>
<b>Net book value as at 31 December 2021</b>	<u><b>2,336,543</b></u>	<u><b>393,548</b></u>	<u><b>2,730,091</b></u>

- The Group's main leases are in respect of land and buildings which is used for base stations, sales outlets, offices, warehouses and technical facilities. The lease period ranges between 2 years to 25 years and usually is for 10 years and often includes an option to renew the lease at the end of the initial lease term. The Group is required to restore the premises to the condition they were at time of entering into lease. The average weighted discount rate used is 5.37% (31 December 2021: 5.42%).

## 10 INVESTMENT IN JOINT VENTURE

The Group holds a 25% equity interest in Sehati for Information Technology Service Company ("the Joint Venture"), a limited liability Company incorporated in Kingdom of the Saudi Arabia. The principal activities of the Joint Venture are construction, maintenance and operation of networks and computers' software and related works, import, export and sale of telecommunications systems and equipment and computer systems. The investment in the joint venture is accounted for using the equity method in these consolidated financial statements. The Group has a constructive obligation to record additional losses in proportion of its ownership percentage in accordance with the letter of support issued to the Joint Venture as one of the shareholders during the year 2021. During the year 2022, Sehati for Information Technology Service Company re-issued the financial statements for the year 2020, which resulted in the reversal of the previously recognized additional losses.

The following is the information of joint venture that is not material:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Group's share of net profit	28,226	(18,848)
Group's share of other comprehensive income	96	-
Group's share of total comprehensive income	<u>28,322</u>	<u>(18,848)</u>
Group's share carrying amount	<u>9,474</u>	-

## 11 CONTRACT COSTS

Contract costs consist of the followings:

	<b>31 December 2022</b>	31 December 2021
Costs to obtain the contracts	<b>201,593</b>	278,629
Costs to fulfil the contracts	<b>206,290</b>	219,216
	<b>407,883</b>	497,845
Current	<b>378,728</b>	380,919
Non-current	<b>29,155</b>	116,926
	<b>407,883</b>	497,845

- Costs to obtain contracts relate to incremental commission fees and additional incentives paid to distributors, dealers and employees as a result of obtaining contracts with customers. These costs are amortized on a straight-line basis over term each of specific contract relates to.
- Costs to fulfil contracts are costs that incurred in fulfilling a contract with a customer, which will generate recourses that will be used in satisfying these contracts and expected to be recovered. They were therefore recognized as an asset from cost fulfil contracts. The asset is amortized using the same pattern of performance obligation transfer to the customer as per the underlying contract.

## 12 CONTRACT BALANCES

### 12.1 Contract assets

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

	<b>31 December 2022</b>	31 December 2021
Contract Assets	<b>937,244</b>	620,901
Less: allowance for impairment loss on contract assets	<b>(26,712)</b>	(54,764)
	<b>910,532</b>	566,137
Current	<b>830,400</b>	495,130
Non-current	<b>80,132</b>	71,007
	<b>910,532</b>	566,137

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

	<b>31 December 2022</b>	31 December 2021
Transfer from contact assets recognized at the beginning of the year	<b>(566,436)</b>	(470,045)
Increase as a result of change in the measure of the progress	<b>882,779</b>	556,508
	<b>316,343</b>	86,463

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

	<b>31 December 2022</b>	31 December 2021
Balance at the beginning of the year	<b>(54,764)</b>	(49,258)
Reversal / (Charge) for the year	<b>28,052</b>	(5,506)
Balance at the end of the year	<b>(26,712)</b>	(54,764)

## 12 CONTRACT BALANCES (CONTINUED)

### 12.2 Contract liabilities

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

	<b>31 December 2022</b>	31 December 2021
Current	<b>694,956</b>	737,613
Non-current	<b>280,515</b>	216,561
	<b>975,471</b>	954,174

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

	<b>31 December 2022</b>	31 December 2021
Revenue recognized that was included in the contract liability balance at the beginning of the year	<b>(741,840)</b>	(870,229)
Increase due to cash received, excluding amounts recognized as revenue during the year	<b>763,137</b>	757,414
	<b>21,297</b>	(112,815)

## 13 FINANCIAL AND OTHER ASSETS

### 13.1 Financial assets

	<b>31 December 2022</b>	31 December 2021
Equity investments at fair value through other comprehensive income	<b>9,575</b>	38,413
Derivatives financial instruments	<b>136,654</b>	17,845
Restricted cash	<b>40,588</b>	-
Others	<b>84,860</b>	-
	<b>271,677</b>	56,258
Current	<b>177,242</b>	17,845
Non-current	<b>94,435</b>	38,413
	<b>271,677</b>	56,258

### 13.1 Other assets

	<b>31 December 2022</b>	31 December 2021
Prepaid expenses	<b>46,055</b>	39,994
Advance payments to trade suppliers	<b>13,280</b>	55,348
Capital advances	<b>21,377</b>	32,329
Others	<b>222,045</b>	200,201
	<b>302,757</b>	327,872
Current	<b>281,380</b>	295,543
Non-current	<b>21,377</b>	32,329
	<b>302,757</b>	327,872

#### 14 INVENTORIES

	<b>31 December 2022</b>	31 December 2021
Handsets and equipment	<b>167,092</b>	168,027
SIM cards	<b>13,919</b>	8,952
Prepaid vouchers and scratch cards	<b>844</b>	557
	<b>181,855</b>	177,536
Less: provision for inventory obsolescence	<b>(72,808)</b>	(69,808)
	<b>109,047</b>	107,728

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

	<b>31 December 2022</b>	31 December 2021
Balance at the beginning of the year	<b>(69,808)</b>	(150,413)
(Charge) / Reversal during the year	<b>(11,175)</b>	77,859
Written off during the year	<b>8,175</b>	2,746
Balance at the end of the year	<b>(72,808)</b>	(69,808)

#### 15 ACCOUNTS RECEIVABLE

	<b>31 December 2022</b>	31 December 2021
Accounts receivable	<b>6,785,886</b>	6,310,866
Less: allowance for impairment loss on accounts receivable	<b>(1,857,223)</b>	(1,717,517)
	<b>4,928,663</b>	4,593,349

Ageing analysis of trade receivables as follows:

	<b>31 December 2022</b>			31 December 2021		
	<b>Gross Amounts</b>	<b>Allowance for impairment loss</b>	<b>ECL rate</b>	Gross Amounts	Allowance For impairment Loss	ECL rate
Not past due	<b>905,686</b>	<b>(58,413)</b>	<b>6.4%</b>	717,249	(27,964)	3.9%
Past due:						
1-30 days	<b>466,454</b>	<b>(16,848)</b>	<b>3.6%</b>	429,722	(25,782)	6.0%
31-90 days	<b>631,398</b>	<b>(32,255)</b>	<b>5.1%</b>	581,485	(68,960)	11.9%
91-180 days	<b>557,504</b>	<b>(129,856)</b>	<b>23.3%</b>	507,570	(113,096)	22.3%
181-360 days	<b>984,596</b>	<b>(223,583)</b>	<b>22.7%</b>	1,051,446	(244,914)	23.3%
> 360 days	<b>3,240,248</b>	<b>(1,396,268)</b>	<b>43.1%</b>	3,023,394	(1,236,801)	40.9%
	<b>6,785,886</b>	<b>(1,857,223)</b>	<b>27.4%</b>	6,310,866	(1,717,517)	27.2%

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

	<b>31 December 2022</b>	31 December 2021
Balance at the beginning of the year	<b>(1,717,517)</b>	(1,580,458)
Charge for the year	<b>(139,706)</b>	(137,059)
Balance at the end of the year	<b>(1,857,223)</b>	(1,717,517)

## 16 RELATED PARTIES' TRANSACTIONS AND BALANCES

### 16.1 Related parties' transactions

The Group has the following related parties:

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

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

	<b>31 December 2022</b>	31 December 2021
<b>Interconnection services and roaming services rendered</b>		
Founding shareholder	<b>82,319</b>	41,542
Associate	<b>4,601</b>	2,271
<b>Interconnection services and roaming services received</b>		
Founding shareholder	<b>228,354</b>	228,372
Associate	<b>120,374</b>	119,263
<b>Management fees</b>		
Founding shareholder	<b>(92,713)</b>	120,838
<b>Other telecommunication services</b>		
Associate	<b>10,142</b>	4,294

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 is calculated based on the relevant agreement with Emirates Telecommunication Group Company PJSC which was ended on 31 December 2021 and the Company reached an agreement with the with Emirates Telecommunication Group Company PJSC not to conclude a new agreement for services and technical support.

### *Compensation and benefits to key management personnel*

	<b>31 December 2022</b>	31 December 2021
Compensation and benefits - short term	<b>105,967</b>	90,049
Compensation and benefits - post-employment	<b>3,964</b>	3,901
<b>Total compensation and benefits to key management personnel</b>	<b>109,931</b>	93,950

### 16.2 Related party balances

	<b>31 December 2022</b>	31 December 2021
<b>Due from related parties</b>		
Founding shareholder	<b>135,440</b>	108,895
Associate	<b>3,554</b>	3,768
Joint venture	<b>30,666</b>	30,666
	<b>169,660</b>	143,329
<b>Due to related parties</b>		
Founding shareholder	<b>129,454</b>	243,675
Associate	<b>31,673</b>	37,888
	<b>161,127</b>	281,563

## 17 SHORT TERM MURABAHA

The Group invests part of its excess cash in murabaha that have a maturity of more than three months but less than a year with several banks, with an annual average profit rate of 1.95% (2021: 0.46%). Income arising from these murabaha is reported under finance income in the consolidated statement of profit or loss.

## 18 CASH AND CASH EQUIVALENTS

	<b>31 December 2022</b>	31 December 2021
Cash on hand	714	416
Cash at banks	396,761	470,247
Short-term murabaha *	430,250	580,000
	<b>827,725</b>	<b>1,050,663</b>

\*The Group invests a part of its surplus cash in murabaha that have a maturity of three months or less with several banks with an annual average profit rate of 0.22% (2021: 0.03%). Income arising from these murabaha is reported under finance income in the consolidated statement of profit or loss.

## 19 STATUTORY RESERVE

In accordance with the Company's By-Laws, the Company establishes at every financial year end a statutory reserve by the appropriation of 10% of the annual net income until the reserve equals 30% of the share capital. This reserve is not available for dividend distribution.

## 20 OTHER RESERVES

	<b>Foreign currency translation reserve</b>	<b>Hedging reserve</b>	<b>Fair value reserve</b>	<b>Total</b>
As at 1 January 2022	(12,577)	(55,892)	31,481	(36,988)
Exchange differences on translation of foreign operations	(5,354)	-	-	(5,354)
Cash flow hedges - change in fair value	-	153,462	-	153,462
Cash flow hedges - reclassified to profit or loss	-	7,744	-	7,744
Equity investments	-	-	(28,789)	(28,789)
<b>As at 31 December 2022</b>	<b>(17,931)</b>	<b>105,314</b>	<b>2,692</b>	<b>90,075</b>
As at 1 January 2021	(11,988)	(97,835)	365	(109,458)
Exchange differences on translation of foreign operations	(589)	-	-	(589)
Cash flow hedges - change in fair value	-	7,122	-	7,122
Cash flow hedges - reclassified to profit or loss	-	34,821	-	34,821
Equity investments	-	-	31,116	31,116
<b>As at 31 December 2021</b>	<b>(12,577)</b>	<b>(55,892)</b>	<b>31,481</b>	<b>(36,988)</b>

Etihad Etisalat Company (A Saudi Joint Stock Company)  
Notes to the consolidated financial statements  
For the year ended 31 December 2022  
(All amounts in Saudi Riyals thousands unless otherwise stated)

## 21 BORROWINGS

A list of the borrowings acquired by the Company are as follows:

Lender	Borrowings nature	Borrowings Purpose	Date	Currency	Principal amount	Utilized amount	Profit rate	Period	Other information	31 December 2022 ( million Saudi Riyals)		31 December 2021 ( million Saudi Riyals)	
										Current	Non-Current	Current	Non-Current
Syndicated Financing - Local Banks	Long-term refinancing facility agreement Sharia' compliant	Syndicated Murabaha Facility for general corporate purpose	Q4, 2019	Saudi Riyals	7,619 million Saudi Riyals	7,619 million Saudi Riyals	SIBOR plus profit margin	7 years	Repayment period of 7 years with Semi-annual repayments	752	5,688	562	6,441
Export Credit Agency of Finland (Finnvera)	Long-term financing agreement Sharia' compliant	Acquiring network equipment	Q3, 2013, Q1, 2014 & Q4, 2018	US Dollars	USD 720 million (Saudi Riyals 2,700 million)	USD 720 million (Saudi Riyals 2,700 million)	Fixed rate per annum	10 years	Utilization period of 1.5 years, repayment period of 8.5 years with Semi-annual repayments	265	314	326	579
Export Credit Agency of Sweden (EKN)	Long-term financing agreement Sharia' compliant	Acquiring network equipment	Q3, 2013, Q1, 2014 & Q4, 2018	USD Dollars	USD 652 million (Saudi Riyals 2,444 million)	USD 629 million (Saudi Riyals 2,358 million)	Fixed rate per annum	10 years	Utilization period of 1.5 years, repayment period of 8.5 years with Semi-annual repayments	190	334	281	524
Export Development of Canada (EDC)	Long-term financing agreement Sharia' compliant	Acquiring telecommunication devices and equipment	Q2, 2014	US Dollars	USD 122 million (Saudi Riyals 458 million)	USD 101 million (Saudi Riyals 377 million)	Fixed rate per annum	10.5 years	Utilization period of 2 years, repayment period of 8.5 years with Semi-annual repayments	41	41	41	82
Alinma Bank	Long-term financing agreement Sharia' compliant	Finance capital expenditure including capital expenditure	Q4, 2019	Saudi Riyals	3,000 million Saudi Riyals	2,000 million Saudi Riyals	SIBOR plus profit margin	10 years	Payable over a period of 10 years with Semi-annual repayments and with 3 years grace period	65	1,933	-	1,998
<b>Total</b>										<b>1,313</b>	<b>8,310</b>	1,210	9,624

## 21 BORROWINGS (CONTINUED)

- Maturity profile of borrowings:

	<b>31 December 2022</b>	31 December 2021
Less than one year	<b>1,313,399</b>	1,210,518
Between one to five years	<b>7,305,510</b>	8,180,357
Over five years	<b>1,004,931</b>	1,443,483

- Following is the reconciliation of movement of liabilities to cash flows arising from financing activities:

	<b>31 December 2022</b>		
	<b>Borrowings</b>	<b>Lease liabilities</b>	<b>Total</b>
As at 1 January 2022	<b>10,834,358</b>	<b>3,120,391</b>	<b>13,954,749</b>
<b><u>Changes from financing activities</u></b>			
Payment of borrowings	(1,259,886)	-	(1,259,886)
Payment of lease liabilities	-	(600,756)	(600,756)
<b>Total changes from financing activities</b>	<b>(1,259,886)</b>	<b>(600,756)</b>	<b>(1,860,642)</b>
<b><u>Other changes</u></b>			
Finance costs	451,192	131,665	582,857
Finance costs paid	(358,439)	-	(358,439)
Accrued interest payable movement	(43,385)	-	(43,385)
Lease additions, net	-	569,734	569,734
<b>Total liability related to other changes</b>	<b>49,368</b>	<b>701,399</b>	<b>750,767</b>
<b>Balance as 31 December 2022</b>	<b>9,623,840</b>	<b>3,221,034</b>	<b>12,844,874</b>
	31 December 2021		
	Borrowings	Lease liabilities	Total
As at 1 January 2021	11,483,815	2,604,766	14,088,581
<b><u>Changes from financing activities</u></b>			
Proceeds from Borrowings	700,000	-	700,000
Payment of Borrowings	(1,403,750)	-	(1,403,750)
Payment of lease liabilities	-	(610,864)	(610,864)
<b>Total changes from financing activities</b>	<b>(703,750)</b>	<b>(610,864)</b>	<b>(1,314,614)</b>
<b><u>Other changes</u></b>			
Finance costs	350,084	133,493	483,577
Cash flow hedges - reclassified to profit or loss	(3,444)	-	(3,444)
Finance costs paid	(299,514)	-	(299,514)
Accrued interest payable movement	7,167	-	7,167
Lease additions, net	-	992,996	992,996
<b>Total liability related to other changes</b>	<b>54,293</b>	<b>1,126,489</b>	<b>1,180,782</b>
<b>Balance as 31 December 2021</b>	<b>10,834,358</b>	<b>3,120,391</b>	<b>13,954,749</b>

## 22 PROVISION FOR END OF SERVICE BENEFITS

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

Net expense recognized in consolidated statement of profit or loss is as follows:

	<b>31 December 2022</b>	31 December 2021
Service cost	<b>57,890</b>	49,834
Interest cost	<b>13,643</b>	12,366
	<b><u>71,533</u></b>	<u>62,200</u>

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

	<b>31 December 2022</b>	31 December 2021
Balance at the beginning of the year	<b>513,053</b>	484,760
Charge recognized in consolidated statement of profit or loss	<b>71,533</b>	62,200
(Gains) / Losses recognized in the consolidated statement of comprehensive income	<b>(32,690)</b>	7,992
Benefits paid / adjustment	<b>(50,094)</b>	(41,899)
Balance at the end of the year	<b><u>501,802</u></b>	<u>513,053</u>

Significant assumptions (weighted average) used in determining the provision for end of service benefits are as follows:

	<b>31 December 2022</b>	31 December 2021
Discount rate	<b>4.61%</b>	2.03%
Salary increase rate	<b>2.59%</b>	0.86%
Mortality Rate	<b>0%</b>	0%
Withdrawal rate	<b>10.90%</b>	12.73%

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

<b>Sensitivity Level</b>	<b>31 December 2022</b>		31 December 2021	
	<b>Increase of 1%</b>	<b>Decrease of 1%</b>	Increase of 1%	Decrease of 1%
Discount rate	<b>(47,057)</b>	<b>65,618</b>	(46,878)	55,846
Future salary increase rate	<b>68,644</b>	<b>(50,403)</b>	58,010	(50,553)

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

At 31 December 2022, the weighted-average duration of the defined benefit plan was 11.23 years (2021: 12.31 years).

## 23 PROVISION FOR DECOMMISSIONING

	<b>31 December 2022</b>	31 December 2021
Balance at the beginning of the year	<b>181,119</b>	170,116
Additions during the year	<b>3,434</b>	4,594
Unwind of discount	<b>8,298</b>	8,967
Utilization during the year	<b>(2,308)</b>	(2,558)
Balance at the end of the year	<b><u>190,543</u></b>	<u>181,119</u>

## 24 FINANCIAL AND OTHER LIABILITIES

### 24.1 Financial liabilities

	<b>31 December 2022</b>	31 December 2021
Frequency spectrum licenses	<b>195,746</b>	223,653
Derivatives financial instruments	-	45,841
Others	<b>63,739</b>	-
	<b>259,485</b>	269,494
Current	<b>63,739</b>	45,841
Non-current	<b>195,746</b>	223,653
	<b>259,485</b>	269,494

### 24.2 Other liabilities

	<b>31 December 2022</b>	31 December 2021
Government grants *	<b>83,910</b>	103,142
Employees' long-term incentives program	-	50,000
Others	<b>8,730</b>	98,371
	<b>92,640</b>	251,513
Current	<b>27,961</b>	117,602
Non-current	<b>64,679</b>	133,911
	<b>92,640</b>	251,513

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

## 25 ACCOUNTS PAYABLE

	<b>31 December 2022</b>	31 December 2021
Trade accounts payable	<b>2,993,904</b>	2,748,424
Capital expenditure payable	<b>1,537,834</b>	1,858,021
	<b>4,531,738</b>	4,606,445

## 26 ACCRUED EXPENSES

	<b>31 December 2022</b>	31 December 2021
Accrued telecommunication expenses	<b>1,261,252</b>	1,239,970
Accrued services and maintenance expenses	<b>519,226</b>	493,339
Accrued selling and marketing expenses	<b>328,486</b>	235,108
Others	<b>764,347</b>	593,047
	<b>2,873,311</b>	2,561,464

## 27 PROVISIONS

The Group, in its ordinary course of business establishes legal, regulatory and other provisions considering legal assessment of each individual case as much as possible. The movement of these provisions is as follows:

	<b>31 December 2022</b>	31 December 2021
Balance at the beginning of the year	<b>466,883</b>	401,457
Charge during the year	<b>430,927</b>	235,510
Payment / settlements during the year	<b>(70,743)</b>	(170,084)
Balance at the end of the year	<b>827,067</b>	466,883

## 28 ZAKAT AND INCOME TAX

	<b>31 December 2022</b>	31 December 2021
Zakat	<b>150,443</b>	108,839
Income tax	<b>2,119</b>	18,366
	<b>152,562</b>	127,205

### 28.1 Zakat

The Group calculates and records the zakat due according to the zakat base and in accordance with the zakat rules and principles in the Kingdom of Saudi Arabia.

#### 28.1.1 Zakat base calculation

	<b>31 December 2022</b>	31 December 2021
Adjusted net profit for the year	<b>2,251,781</b>	1,317,606
Shareholder's equity at beginning of the year	<b>14,578,734</b>	14,169,685
Provisions at beginning of the year	<b>3,034,304</b>	2,875,356
Borrowings	<b>9,623,840</b>	10,834,358
Other additions	<b>5,046,363</b>	4,914,907
Property and equipment and intangible assets	<b>(27,115,233)</b>	(28,290,636)
Other deductions	<b>(2,724,381)</b>	(2,762,420)
<b>Total zakat base</b>	<b>4,695,408</b>	3,058,856

#### 28.1.2 Provision for zakat

	<b>31 December 2022</b>	31 December 2021
Balance at the beginning of the year	<b>108,839</b>	73,618
Charge during the year	<b>119,283</b>	77,784
Payments during the year	<b>(77,679)</b>	(42,563)
Balance at the end of the year	<b>150,443</b>	108,839

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

The Group has filed its zakat returns with ZATCA for the years through 2021 and settled its zakat thereon. The Group has finalized its zakat status for the years up to 2009 as well as 2012 and 2013.

During the year ended 31 December 2016, the Group submitted adjusted zakat returns for the years 2013 and 2014, as a result of restatement of the consolidated financial statements for the said years.

The Group has received zakat assessments that showed additional zakat liabilities for the years 2010, 2011 and 2014 to 2018 of SR 157 million, which have been appealed against by the Group at the Preliminary and Higher Appeal Committees. During the fourth quarter of 2022, the Group received preliminary favorable ruling regarding zakat assessments for the years 2010 and 2011. Also received ruling accepting some of the objectionable regarding zakat assessments for the years from 2014 to 2018 by the Committee for the Resolution of Tax Violations and Disputes and the Group has appealed the items that were not accepted before the Appeal Committee for Tax Violations and Disputes, and the appeal is still under study. The Group believes that this ruling will not result into any additional provisions.

### 28.2 Income tax

Income tax expense payable by subsidiaries, in accordance with the prevailing tax regulations in their countries, for the year ended 31 December 2022 amounted to SR 2.5 million (2021: SR 1.6 million). Income tax paid during the year ended 31 December 2022 amounted to SR 2 million (2021: SR 1.6 million).

## 29 FINANCIAL ASSETS AND LIABILITIES

### 29.1 Financial assets

	<b>31 December 2022</b>	31 December 2021
<b>Financial assets at fair value:</b>		
Financial assets - fair value through other comprehensive income *	9,575	38,413
Derivatives financial instruments**	<u>136,654</u>	<u>17,845</u>
<b>Total financial assets at fair value</b>	<u>146,229</u>	<u>56,258</u>
<b>Financial assets at amortized cost:</b>		
Accounts receivable	4,928,663	4,593,349
Due from related parties	169,660	143,329
Short term Murabaha	2,013,500	1,000,000
Cash and cash equivalents	827,725	1,050,663
Restricted cash	40,588	-
Other financial assets	<u>93,729</u>	<u>-</u>
<b>Total financial assets at amortized cost</b>	<u>8,073,865</u>	<u>6,787,341</u>
<b>Total financial assets</b>	<u>8,220,094</u>	<u>6,843,599</u>
Current	8,125,659	6,805,186
Non-current	94,435	38,413
<b>Total financial assets</b>	<u>8,220,094</u>	<u>6,843,599</u>

### 29.2 Financial liabilities

	<b>31 December 2022</b>	31 December 2021
<b>Financial liabilities at fair value:</b>		
Derivatives financial instruments**	-	45,841
<b>Total financial liabilities at fair value</b>	<u>-</u>	<u>45,841</u>
<b>Financial liabilities at amortized cost:</b>		
Borrowings	9,623,840	10,834,358
Lease liabilities	3,221,034	3,120,391
Accounts payable	4,531,738	4,606,445
Due to related parties	161,127	281,563
other financial liabilities	<u>259,485</u>	<u>223,653</u>
<b>Total financial liabilities at amortized cost</b>	<u>17,797,224</u>	<u>19,066,410</u>
<b>Total financial liabilities</b>	<u>17,797,224</u>	<u>19,112,251</u>
Current	7,079,662	7,071,872
Non-current	<u>10,717,562</u>	<u>12,040,379</u>
<b>Total financial liabilities</b>	<u>17,797,224</u>	<u>19,112,251</u>

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

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

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

At 31 December 2022, the Group had financial derivatives agreements in place with a total notional amount of SAR 2,948 million designated as cash flow hedge instruments to cover cash flow fluctuations arising from profit rates that are subject to prevailing market price fluctuations and categorized as level 2.

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

## **29 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)**

### **29.3 Risk management**

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

- Credit risk
- Liquidity risk
- Market risk

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

#### **29.3.1 Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations. The Group is exposed to credit risk principally from Cash and cash equivalents, accounts receivable, due from related parties, Short term Murabaha and derivative financial instruments.

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

#### **Cash and cash equivalents and Short term Murabahas**

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

#### **Accounts receivable**

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

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

The Group has two major customers representing 34% of total accounts receivable as at 31 December 2022 (31 December 2021: 25%), noting that at the same time, these customers have payable balances from the Group covering approximately 83% of their accounts receivable balances (31 December 2021: 90%). The rest of the balances do not have significant concentration of credit risk, with exposure spread over large number of customers.

## 29 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

### 29.3.2 LIQUIDITY RISK

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

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

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

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

	Less than one year	1 to 5 years	More than 5 years	Total contractual cash flows	Carrying amount
<i>At 31 December 2022</i>					
Borrowings	1,937,177	8,410,079	1,110,105	11,457,361	9,623,840
Lease liabilities	1,124,980	1,558,163	896,222	3,579,365	3,221,034
Accounts payable	4,531,738	-	-	4,531,738	4,531,738
Due to related parties	161,127	-	-	161,127	161,127
Financial liabilities	63,739	155,354	75,983	295,076	259,485
	<u>7,818,761</u>	<u>10,123,596</u>	<u>2,082,310</u>	<u>20,024,667</u>	<u>17,797,224</u>
<i>At 31 December 2021</i>					
Borrowings	1,553,664	9,289,846	1,592,480	12,435,990	10,834,358
Lease liabilities	1,044,352	1,620,227	814,402	3,478,981	3,120,391
Accounts payable	4,606,445	-	-	4,606,445	4,606,445
Due to related parties	281,563	-	-	281,563	281,563
Financial liabilities	-	155,354	114,822	270,176	223,653
Derivatives financial instruments	45,841	-	-	45,841	45,841
	<u>7,531,865</u>	<u>11,065,427</u>	<u>2,521,704</u>	<u>21,118,996</u>	<u>19,112,251</u>

### 29.3.3 Market risk

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

#### 29.3.3.1 Currency risk

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

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

#### 29.3.3.2 Profit rates risk

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

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

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

### 30 CAPITAL MANAGEMENT

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group monitors its capital base using a ratio of Net debt to shareholders' equity. Net debt is calculated as borrowings and other financial liabilities less cash and cash equivalents and short term Murabaha.

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

	<b>31 December 2022</b>	31 December 2021
Borrowings and other financial liabilities	<b>13,040,620</b>	14,178,402
Less: Cash and cash equivalents and short term Murabaha	<b>(2,841,225)</b>	(2,050,663)
<b>Net debt</b>	<b>10,199,395</b>	12,127,739
Total shareholders' equity	<b>16,358,535</b>	15,196,246
<b>Net debt to shareholders' equity</b>	<b>0.62</b>	0.80

### 31 REVENUE

#### 1) Disaggregation of the Group's revenue:

	<b>Consumer</b>	<b>Business</b>	<b>Wholesale</b>	<b>Outsourcing and others</b>	<b>Total</b>
<b><u>31 December 2022</u></b>					
Usage	<b>7,650,696</b>	<b>1,638,966</b>	<b>1,304,428</b>	-	<b>10,594,090</b>
Activation and subscription fees	<b>2,405,476</b>	<b>624,725</b>	<b>21,677</b>	-	<b>3,051,878</b>
Others	<b>821,422</b>	<b>691,080</b>	<b>167,559</b>	<b>342,886</b>	<b>2,022,947</b>
	<b>10,877,594</b>	<b>2,954,771</b>	<b>1,493,664</b>	<b>342,886</b>	<b>15,668,915</b>
<b><u>31 December 2021</u></b>					
Usage	7,671,258	1,295,713	1,070,201	-	10,037,172
Activation and subscription fees	2,220,718	534,886	10,330	-	2,765,934
Others	884,309	750,019	162,206	234,416	2,030,950
	10,776,285	2,580,618	1,242,737	234,416	14,834,056

#### 2) Revenue expected to be recognized in the future related to performance obligations that are unsatisfied or partially unsatisfied:

	<b>Within one year</b>	<b>More than one year</b>	<b>Total</b>
<b><u>31 December 2022</u></b>			
Expected revenue for remaining performance obligations that will be satisfied in subsequent	<b>1,409,920</b>	<b>458,638</b>	<b>1,868,558</b>
	<b>Within one year</b>	<b>More than one year</b>	<b>Total</b>
<b><u>31 December 2021</u></b>			
Expected revenue for remaining performance obligations that will be satisfied in subsequent	1,365,865	322,375	1,688,240

### 32 COST OF REVENUE

	<b>31 December 2022</b>	31 December 2021
Network access charges	<b>1,952,472</b>	1,814,697
Rental and maintenance of network equipment expenses	<b>780,168</b>	802,790
Cost of inventories	<b>1,021,402</b>	1,129,710
Government contribution fees in trade earnings	<b>1,295,935</b>	1,241,775
Frequency wave fees	<b>260,054</b>	270,508
National transmission and interconnection costs	<b>108,048</b>	101,415
License fees	<b>129,593</b>	124,178
Others	<b>757,887</b>	677,468
	<b><u>6,305,559</u></b>	<u>6,162,541</u>

### 33 SELLING AND MARKETING EXPENSES

	<b>31 December 2022</b>	31 December 2021
Advertisement, promotion and sales commissions	<b>714,288</b>	683,385
Salaries, wages and employees' benefits	<b>714,282</b>	687,575
Others	<b>34,316</b>	19,031
	<b><u>1,462,886</u></b>	<u>1,389,991</u>

### 34 GENERAL AND ADMINISTRATIVE EXPENSES

	<b>31 December 2022</b>	31 December 2021
Salaries, wages and employees' benefits	<b>664,866</b>	632,701
Maintenance	<b>234,285</b>	251,230
Consulting and professional services	<b>100,422</b>	73,802
Others	<b>628,658</b>	600,705
	<b><u>1,628,231</u></b>	<u>1,558,438</u>

### 35 FINANCE COSTS

	<b>31 December 2022</b>	31 December 2021
Finance costs related to borrowings	<b>451,192</b>	350,084
Finance costs related to lease liability	<b>131,665</b>	133,493
Other finance costs	<b>24,120</b>	21,230
	<b><u>606,977</u></b>	<u>504,807</u>

### 36 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net profit by the weighted average number of common shares outstanding during the year. The diluted earnings per share is same as the basic earnings per share as the Group does not have any dilutive instruments.

	<b>31 December 2022</b>	31 December 2021
Profit for the year	<b>1,656,940</b>	1,071,541
Weighted average number of shares	<b>770,000</b>	770,000
Basic and diluted earnings per share (in SR)	<b><u>2.15</u></b>	<u>1.39</u>

### 37 COMMITMENTS AND CONTINGENCIES

#### 37.1 Capital commitments

The Group has capital commitments resulting from contracts for supply of property and equipment with an amount of SR 536 million as at 31 December 2022 (31 December 2021: SR 850 million).

#### 37.2 Contingent liabilities

- The Group had contingent liabilities in the form of letters of guarantee and letters of credit amounting to SR 602 million as at 31 December 2022 (31 December 2021: SR 863 million).
- The CST violation committee has issued several penalty resolutions against the Group amounting to SR 76 million as of 31 December 2022. The Group filed multiple lawsuits against CST at the Board of Grievances in order to oppose such resolutions of the CST violation committee which remains outstanding and based on the status of these lawsuits as of 31 December 2022, the Group's management believes that sufficient provisions have been recorded.
- The Group received withholding tax assessments for the years 2010 and 2011, the principal of the additional tax according to these assessments amounted to SR 142 million which have been objected to by the Group at the Preliminary and Appeal Committees. During April 2021, the Group received an unfavorable ruling from General Secretariat of Zakat, Tax and Customs Committees (GSTC) with respect to withholding tax assessments for the years 2010 and 2011 which is not consistent with the previous favorable ruling for the years 2008 and 2009. Based on that, the Group has submitted a reconsideration request to GSTC. On 23 January 2022 GSTC upheld the ruling against the Group with respect to withholding tax for the years 2010 and 2011. On 19 February 2022, the Group received notification from GSTC that ZATCA has filed appeals with the Higher Appeal Committee (HAC) against the withholding tax rulings issued for the years 2008 and 2009 in favor of the Group amounting to SR 72 million, The Group has responded to GSTC and the appeals is still under review. The Group's management believes that this ruling will not result in any additional provisions.
- The Group, in its ordinary course of business, is subject to proceedings, lawsuits and other claims. However, based on the status of these lawsuits as of 31 December 2022, the Group's management believes that sufficient provisions have been recorded.

### 38 SEGMENT INFORMATION

Information regarding the Group's operating segments is set out below in accordance with IFRS 8 "Operating Segments" which requires the identification of operating segments based on 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 evaluate their performance.

The Group is primarily engaged in providing of telecommunications services and related products. The majority of the Group's revenues, profits and assets relate to its operations in the Kingdom of 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 information in aggregate form which is the same information that is provided to the Group's Board of Directors for the purposes of resource allocation and evaluation of the segment performance.

	<b>31 December</b>	31 December
	<b>2022</b>	2021
Consumer revenue	<b>10,877,594</b>	10,776,285
Business revenue	<b>2,954,771</b>	2,580,618
Wholesale revenue	<b>1,493,664</b>	1,242,737
Outsourcing and others revenue	<b>342,886</b>	234,416
<b>Total revenue</b>	<b>15,668,915</b>	14,834,056
Total cost of revenue	<b>(6,305,559)</b>	(6,162,541)
Depreciation and amortization	<b>(3,850,550)</b>	(3,926,520)
Total other operating expense	<b>(3,202,771)</b>	(3,090,994)
Total non-operating expense	<b>(531,265)</b>	(503,076)
Zakat and income tax	<b>(121,830)</b>	(79,384)
<b>Net profit</b>	<b>1,656,940</b>	1,071,541
Capital expenditures	<b>2,093,170</b>	2,091,868

### **39 SUBSEQUENT EVENTS**

No material events occurred subsequent to the reporting date, which could materially affect the consolidated financial statements and the related disclosures for the year ended 31 December 2022.

### **40 DIVIDENDS**

On 9 June 2022, a dividend of SR 654.5 million (SR 0.85 per share) that was approved by the Annual General Assembly on 23 May 2022 (corresponding to 22 Dhul Qa'adah 1443H) was paid by the Company.

On 19 February 2023, the Board of Directors of the Company decided to recommend to the General Assembly of the Company a dividend for the fiscal year 2022 amounting to SR 885.5 million (SR 1.15 per share, for 770 million shares). The date of payment of dividends will be determined after the approval of the company's General Assembly. There is no liability recognized in these consolidated financial statements in respect of these dividend.

### **41 COMPARATIVE FIGURES**

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

### **42 APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS**

The Company's Board of Directors approved the consolidated financial statements for the year ended 31 December 2022 on 19 February 2023 (corresponding to 28 Rajab 1444H).