Emirates Integrated Telecommunications Company PJSC and its subsidiaries

Consolidated financial statements for the year ended 31 December 2019

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF EMIRATES INTEGRATED TELECOMMUNICATIONS COMPANY PJSC

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Emirates Integrated Telecommunications Company PJSC ("EITC" or "the Company") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the other ethical requirements that are relevant to our audit of the Group's consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities. 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 judgement, were of most significance in our audit of the consolidated financial statements of the current year. We have communicated the key audit matters to the Audit Committee but they are not a comprehensive reflection of all matters that were identified by our audit and that were discussed with the Audit Committee. On the following pages, we have described the key audit matters we identified and have included a summary of the audit procedures we performed to address those matters.

The key audit 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 EMIRATES INTEGRATED TELECOMMUNICATIONS COMPANY PJSC (continued)

Key audit matter	How our audit addressed the Key audit matter
Accuracy and completeness of revenue recognised and related IT systems The Group reported revenue of AED 12.6 billion from telecommunication and related activities. We focused on this area of the audit as there is an inherent risk related to the accuracy and completeness of revenue recognized given the complexity of the systems and changing mix of business products and services, including a variety of plans available for consumer and enterprise customers, tariff structures, roaming and international hubbing ('wholesale') agreements, site sharing agreements, incentive programmes and discounts. Due to the estimates made, complexities involved and judgements applied in the revenue process and the degree of complexity of IT systems and processes used, we have considered this matter as a key audit matter. The Group's accounting policies relating to revenue recognition are presented in note 2 and details about the Group's revenue are disclosed in note 34 to the consolidated financial statements.	Our audit procedures included a combination of controls testing, data analysis and other substantive procedures included, but were not limited to, the following: • obtaining an understanding of the significant revenue processes including performance of an end to end walkthrough of the revenue process and identifying the relevant controls (including Information Technology ("IT") systems, interfaces, revenue assurance and reports); • testing the design and implementation as well as the operating effectiveness of the relevant controls; • involving our internal IT specialists to test IT general controls, system interfaces, data/information reporting and application specific controls surrounding relevant revenue systems; • reviewing significant new contracts on sample basis and the regulatory pronouncements, the accounting treatments adopted and testing the related revenues recognised during the year; • performing data analysis and substantive analytical reviews of significant revenue streams; • reviewing key reconciliations performed by the Revenue Assurance team; • performing specific procedures to test the accuracy and completeness of adjustments relating to grossing up certain revenue and costs; • performing procedures to determine if the revenue recognition criteria adopted for all major revenue streams is appropriate and in accordance with IFRSs; and • assessing the disclosures in the consolidated financial statements relating to revenue against the requirements of IFRSs.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF EMIRATES INTEGRATED TELECOMMUNICATIONS COMPANY PJSC (continued)

Key audit matter

Federal royalty computation

The federal royalty is a significant charge levied against regulated revenues of the Group and against operating profits, based on fixed percentages, as disclosed in Note 2.3 to the consolidated financial statements.

The federal royalty charge for the year is AED 2 billion for the year with an accrual of AED 2.1 billion as at 31 December 2019.

We focused on this area of the audit as the royalty calculations are subject to significant judgements, interpretations and assumptions in respect of the definition of regulated items, the determination of certain allowable deductions and allocated costs and the treatment of royalties on site sharing transactions.

These are also subject to change from time to time as per the guidelines provided by the United Arab Emirates Ministry of Finance ("the MoF") are amended or as clarifications are received from the MoF.

Accordingly, the computation of the federal royalty for the year ended 31 December 2019 is considered to be a key audit matter.

The critical accounting estimates made and judgements applied by management are disclosed in note 2.3 and further details about the federal royalty are disclosed in note 26 to the consolidated financial statements

How our audit addressed the Key audit matter

In responding to this risk, our audit procedures included, but were not limited to, the following:

- obtaining an understanding of the process used by management to determine the federal royalty charge and related accrual.
- testing the design and implementation of the relevant controls over the calculation of the federal royalty charge;
- holding meetings with management to discuss the federal royalty calculation and inspecting correspondence from the MOF relating to this matter;
- assessing the judgements applied in the calculation of the federal royalty for the current year against the guidelines provided by the MOF and the abovementioned correspondence;
- evaluating the classification of regulated and non-regulated revenues in the calculation of the federal royalty on the telecommunication operations;
- testing the allocation of indirect costs on nonregulated activities based on clarifications received from the MOF;
- evaluating the exclusion of items which were not included in the calculation of the federal royalty against the guidelines and the clarifications received from the MOF;
- reperforming the arithmetical accuracy of the calculation of the federal royalty for the year; and
- assessing the disclosures in the consolidated financial statements relating to revenue against the requirements of IFRSs.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF EMIRATES INTEGRATED TELECOMMUNICATIONS COMPANY PJSC (continued)

Key audit matter	How our audit addressed the Key audit matter
Carrying value of goodwill As at 31 December 2019, the carrying value of goodwill amounted to AED 549 million, or 3.26% of total assets as disclosed in Note 8 the consolidated financial statements. In accordance with IAS 36 Impairment of Assets, an entity is required to test goodwill acquired in a business combination for impairment at least annually irrespective of whether there is any indication of impairment. An impairment is recognised on the consolidated statement of financial position when the recoverable amount is less than the net carrying amount in accordance with IAS 36, as described in Note 3 to the consolidated financial statements. The determination of the recoverable amount is mainly based on discounted future cash flows. We considered the impairment of goodwill to be a key audit matter, given the method for determining the recoverable amount and the significance of the amount in the Group's consolidated financial statements. In addition, the recoverable amounts are based on the use of important assumptions, estimates or assessments made by management, in particular future cash flow projections, the estimate of the discount rates and long-term growth rates.	We tested the goodwill impairment models and the key assumptions used by management with the involvement of our valuation specialists. Our audit procedures included, but were not limited to, the following: • understanding the business process for the impairment assessment, identifying the relevant internal controls and testing their design, implementation and operating effectiveness of controls over the impairment assessment process, including indicators of impairment; • evaluating whether the cash flows in the models used by management to calculate the recoverable value are in accordance with IAS 36 Impairment of Assets; • obtaining and analysing the approved business plans for each such asset (or CGU, as applicable) to assess accuracy of the computations and the overall reasonableness of key assumptions; • comparing actual historical cash flow results with previous forecasts to assess forecasting accuracy; • assessing the methodology used by the Group to estimate the Weighted Average Cost of Capital (WACC) and benchmarking that with discount rates used by other similar businesses external sector related guidelines; • benchmarking assumptions on long term growth rates of local GDP and long term inflation expectations with external sources of data published by global monetary agencies; • benchmarking the values with market multiples where applicable; • performing sensitivity analysis on the key assumptions used by management to understand the extent to which these assumptions need to be adjusted before resulting in additional impairment loss; and • assessing the disclosure in the consolidated financial statements relating to goodwill against the requirements of IFRSs.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF EMIRATES INTEGRATED TELECOMMUNICATIONS COMPANY PJSC (continued)

Key audit matter	How our audit addressed the Key audit matter
Adoption of IFRS 16 Leases The Group adopted IFRS 16 Leases with effect from 1 January 2019, which resulted in changes to the accounting policies. The Group elected to apply the modified retrospective approach as a transition approach, by not restating comparatives but adjusting equity. This change in accounting policy results in right-of-use assets and lease liabilities being recognised in the statement of financial position. The incremental borrowing rate ("IBR") method has been applied where the implicit rate in a lease is not readily determinable. The adoption of IFRS 16 has resulted in changes to processes, systems and controls. Because of the number of judgements which have been applied and the estimates made in determining the impact of IFSR 16, this is considered a key audit matter. The transitional impact of IFRS 16 has been disclosed in Note 2 to the consolidated financial statements.	In responding to this risk, our audit procedures included, but were not limited to, the following: • obtaining an understanding of the Group's adoption of IFRS 16 and identifying the internal controls including entity level controls adopted by the Group for the accounting, processes and systems under the new accounting standard; • assessing the design and implementation of key controls pertaining to the application of IFRS 16; • assessing the appropriateness of the discount rates applied in determining lease liabilities; • verifying the accuracy of the underlying lease data by agreeing a representative sample of leases to original contracts or other supporting information and checking the integrity and mechanical accuracy of the IFRS 16 calculations for each lease sampled through recalculation of the expected IFRS 16 adjustment; • we considered the completeness of the lease data by testing the reconciliation of the Group's lease liability to operating lease commitments disclosed in the 2018 consolidated financial statements and by considering if we had knowledge of any other contracts which may contain a lease; and • assessing the disclosures in the consolidated financial statements pertaining to leases, including disclosures relating to the transition to IFRS 16, were in compliance with IFRSs.

Other Matter

The consolidated financial statements of the Group for the year ended 31 December 2018 were audited by another auditor, who expressed an unmodified opinion on those statements on 20 February 2019.

Other Information

Management is responsible for the other information. The other information comprises the Chairman's message which we obtained prior to the date of this auditor's report, and the Group's Annual Report, which is expected to be made available to us after that date. The other information does not include the consolidated financial statements and our auditor's report thereon.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF EMIRATES INTEGRATED TELECOMMUNICATIONS COMPANY PJSC (continued)

Other Information (continued)

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we will read the Group's Annual Report, if we conclude that there is a material misstatement therein, we will be required to communicate the matter to those charged with governance and consider whether a reportable irregularity exists in terms of the auditing standards, which must be reported.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and the requirements of the UAE Federal Law No. (2) of 2015 and the applicable provisions of the articles of association of the Company, and for such internal control as the 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 are 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF EMIRATES INTEGRATED TELECOMMUNICATIONS COMPANY PJSC (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

As part of an audit in accordance with ISA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF EMIRATES INTEGRATED TELECOMMUNICATIONS COMPANY PJSC (continued)

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Further, as required by the UAE Federal Law No. (2) of 2015, we report that:

- We have obtained all the information we considered necessary for the purposes of our audit;
- The consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- The Group has maintained proper books of account;
- The financial information included in the Chairman's message is consistent with the books of account of the Group;
- As disclosed in note 9 to the consolidated financial statements, the Group has made additional investments amounting to AED 70,256 thousand in the associate during the financial year ended 31 December 2019;
- Note 14 to the consolidated financial statements discloses material related party transactions and balances, and the terms under which they were conducted;
- Based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Company has contravened during the financial year ended 31 December 2019 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2019; and
- As disclosed in note 25 to the consolidated financial statements, the Group made social contributions amounting to AED 1,555 thousand during the year ended 31 December 2019.

Deloitte & Touche (M.E.)

Rama Padmanabha Acharya
Registration Number 701
11 February 2020
Dubai
United Arab Emirates

Emirates Integrated Telecommunications Company PJSC and its subsidiaries

Consolidated statement of financial position

	Notes	As at 31 December 2019 AED 000	2018 AED 000
ASSETS			
Non-current assets			
Property, plant and equipment	6	7,741,119	7,811,506
Right-of-use assets	7	1,699,651	-
Intangible assets and goodwill	8	1,051,446	1,102,875
Investments accounted for using the equity method	9	268,948	188,179
Financial asset at fair value through other comprehensive income	10	18,368	18,368
Derivative financial instruments	11	-	10,968
Contract assets	12	208,994	196,687
Total non-current assets		10,988,526	9,328,583
Current assets			
Inventories		111,795	129,311
Derivative financial instruments	11	520	-
Contract assets	12	473,195	508,257
Trade and other receivables	13	1,870,556	1,907,738
Due from related parties	14	164,995	129,078
Term deposits	15	2,948,701	4,000,000
Cash and bank balances	16	268,695	502,091
Total current assets		5,838,457	7,176,475
Total assets		16,826,983	16,505,058
EQUITY AND LIABILITIES			
Equity			
Share capital	22	4,532,906	4,532,906
Share premium	23	232,332	232,332
Other reserves	24	1,764,640	1,601,993
Retained earnings		2,118,877	2,144,507
Total equity		8,648,755	8,511,738
Non-current liabilities			
Lease liabilities	17	1,396,800	-
Borrowings	18	-	716,332
Contract liabilities	12	193,095	190,631
Provision for employees' end of service benefits	19	258,740	252,564
Other provisions	20	169,832	115,764
Total non-current liabilities		2,018,467	1,275,291
Current liabilities			
Trade and other payables	21	4,600,332	4,802,736
Lease liabilities	17	460,005	-
Contract liabilities	12	377,019	444,141
Due to related parties	14	6,073	9,834
Borrowings	18	716,332	1,461,318
Total current liabilities		6,159,761	6,718,029
Total liabilities		8,178,228	7,993,320
Total equity and liabilities		16,826,983	16,505,058

The consolidated financial statements were approved by the Board of Directors on 11 February 2020 and signed on its behalf by:

....
Ziad Galadari
Board Member

....
Kais Ben Hamida
Chief Financial Officer

The notes on pages 13 to 73 form an integral part of these consolidated financial statements.

Emirates Integrated Telecommunications Company PJSC and its subsidiaries

Consolidated statement of comprehensive income

	Notes	For the year ended 31 December **2019** **AED 000**	2018 AED 000
Revenue	34	12,587,958	13,414,057
Operating expenses	25	(8,629,821)	(9,406,225)
Provision for impairment of trade receivables and contract assets (net of recoveries)		(210,610)	(244,524)
Other income		2,860	6,409
Operating profit before federal royalty		3,750,387	3,769,717
Federal royalty	26	(2,029,008)	(2,078,812)
Operating profit		1,721,379	1,690,905
Finance income	27	124,052	145,456
Finance costs	27	(124,990)	(93,583)
Share of profit of investments accounted for using equity method	9	10,513	10,214
Profit for the year		1,730,954	1,752,992
Other comprehensive (loss)/income			
Items that may be re-classified subsequently to profit or loss			
Fair value changes on cash flow hedge	24	(10,448)	(2,626)
Items that will not be re-classified to profit or loss			
Actuarial gain on defined benefit obligations	19	3,028	5,313
Other comprehensive (loss)/income for the year		(7,420)	2,687
Total comprehensive income for the year attributable entirely to shareholders of the Company		1,723,534	1,755,679
Basic and diluted earnings per share (AED)	28	0.38	0.39

Emirates Integrated Telecommunications Company PJSC and its subsidiaries

Consolidated statement of changes in equity

	Share capital AED 000	Share premium AED 000	Other reserves, (Note 24) AED 000	Retained earnings AED 000	Total AED 000
Adjusted balance at 1 January 2018 (Post impact of adoption of IFRS 15)	4,532,906	232,332	2,426,559	1,150,779	8,342,576
Profit for the year	-	-	-	1,752,992	1,752,992
Other comprehensive (loss)/income	-	-	(2,626)	5,313	2,687
Total comprehensive income	-	-	(2,626)	1,758,305	1,755,679
Transfer to statutory reserve	-	-	175,299	(175,299)	-
Interim cash dividend**	-	-	589,278	(589,278)	-
Cash dividends paid	-	-	(1,586,517)	-	(1,586,517)
At 31 December 2018	4,532,906	232,332	1,601,993	2,144,507	8,511,738
At 1 January 2019	4,532,906	232,332	1,601,993	2,144,507	8,511,738
Profit for the year	-	-	-	1,730,954	1,730,954
Other comprehensive (loss)/income	-	-	(10,448)	3,028	(7,420)
Total comprehensive income	-	-	(10,448)	1,733,982	1,723,534
Transfer to statutory reserve	-	-	173,095	(173,095)	-
Final cash dividend*	-	-	997,239	(997,239)	-
Interim cash dividend**	-	-	589,278	(589,278)	-
Cash dividends paid	-	-	(1,586,517)	-	(1,586,517)
At 31 December 2019	4,532,906	232,332	1,764,640	2,118,877	8,648,755

*For the year 2018, a final cash dividend of AED 0.22 per share amounting to AED 997,239 thousand was proposed and paid.

**An interim cash dividend of AED 0.13 per share (2018: AED 0.13 per share) amounting to AED 589,278 thousand (2018: AED 589,278 thousand) was proposed and paid.

For the year 2019, a final cash dividend of AED 0.21 per share amounting to AED 951,910 thousand is proposed.

Emirates Integrated Telecommunications Company PJSC and its subsidiaries

Consolidated statement of cash flows

	Notes	For the year ended 31 December 2019 AED 000	2018 AED 000
Cash flows from operating activities			
Profit for the year		1,730,954	1,752,992
Adjustments for:			
Depreciation and impairment of property, plant and equipment	6	1,387,189	1,472,046
Depreciation of right-of-use assets	7	319,818	-
Amortisation and impairment of intangible assets	8	226,129	249,370
Provision for employees' end of service benefits	19	35,283	35,309
Provision for impairment of contract assets	12	2,440	13,560
Provision for impairment of trade receivables	13	215,414	232,237
Finance income	27	(124,052)	(145,456)
Finance costs	27	124,990	93,583
Adjustment for change in discount/inflation rates	20	259	(1,795)
Unwinding of discount on asset retirement obligations	20	4,806	3,260
Share of profit of investments accounted for using equity method	9	(10,513)	(10,214)
Changes in working capital	29	1,463,163	1,413,238
Cash generated from operations		5,375,880	5,108,130
Royalty paid	26	(2,069,210)	(2,027,785)
Payment of employees' end of service benefits	19	(34,647)	(21,835)
Net cash generated from operating activities		3,272,023	3,058,510
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,186,639)	(817,963)
Purchase of intangible assets		(164,640)	(242,316)
Payment for additional investments accounted for using equity method	9	(70,256)	(35,879)
Interest received		157,522	165,839
Margin on guarantees released		1,355	57,653
Term deposits released (net)		1,051,299	1,025,000
Net cash (used in)/from investing activities		(211,359)	152,334
Cash flows from financing activities			
Proceeds from borrowings		-	21,306
Repayment of lease liabilities	17	(128,448)	-
Repayment of borrowings	18	(1,461,318)	(1,461,318)
Dividend paid	24	(1,586,517)	(1,586,517)
Interest paid on borrowings and lease liabilities		(116,422)	(85,696)
Net cash used in financing activities		(3,292,705)	(3,112,225)
Net (decrease)/increase in cash and cash equivalents		(232,041)	98,619
Cash and cash equivalents at 1 January		496,698	398,079
Cash and cash equivalents at 31 December	16	264,657	496,698

1 General information

Emirates Integrated Telecommunications Company PJSC the ("Company") is a public joint stock company with limited liability. The Company was incorporated according to Ministerial Resolution No. 479 of 2005 issued on 28 December 2005. The Company is registered in the commercial register under No. 77967. The principal address of the Company is P.O Box 502666 Dubai, United Arab Emirates (UAE). These consolidated financial statements for the year ended 31 December 2019 include the financial statements of the Company and its subsidiaries (together "the Group").

The Company's principal objective is to provide fixed, mobile, wholesale, broadcasting and associated telecommunication services in the UAE.

The Company has either directly or indirectly the following subsidiaries:

Subsidiaries	Principal activities	Shareholding		Country of incorporation
		2019	2018	
EITC Investment Holdings Limited	Holding investments in new business i.e content, media, data and value added services for telecommunications	**100%**	100%	UAE
Telco Operations FZ-LLC	Outsourcing services	**100%**	100%	UAE
Smart Dubai Platform Project Company LLC	Software development, IT infrastructure, public networking and computer systems housing services	**100%**	100%	UAE
EITC Singapore PTE. LTD.	Telecommunications resellers/third party telecommunications providers (including value added network services)	**100%**	100%	Singapore

During the year, the Group signed a Shareholder Agreement ("SHA") with Bahrain Telecommunications Company (B.S.C.) to form a limited liability private company ("investee company") with an estimated capital commitment of AED 31 million, which will be paid in three tranches over a period of 24 months. The investee company has been incorporated with the name of Advanced Regional Communication Solutions Holding Limited in UAE. The principal activity of the investee company will be provision of connectivity and data centre services.

2 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The consolidated financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB). These consolidated financial statements have been prepared under the historical cost convention except for a financial asset at fair value through other comprehensive income (FVOCI) and derivative financial instruments that have been measured at fair value. The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

2 Basis of preparation (continued)

(i) Functional and presentation currency

The individual financial statements of each of the Group's subsidiaries and associates are presented in the currency of the primary economic environment in which they operate (its functional currency). For the purpose of these consolidated financial statements, the results, financial position and cash flows of each company are expressed in UAE Dirhams, which is the functional currency of the Company, and the presentation currency of these consolidated financial statements.

(ii) Basis of consolidation

A subsidiary is an entity controlled by the Company. The financial statements of a subsidiary are included in the consolidated financial information from the date that control commences until the date that control ceases.

2.1 New standards, amendments and interpretations

(a) Amendment to standards and interpretations issued and effective during the financial year beginning 1 January 2019

- IFRS 16, 'Leases' (effective from 1 January 2019).

IFRS 16 - Leases was issued in January 2016 and it replaces IAS 17 'Leases', IFRIC 4 'Determining whether an arrangement contains a lease', SIC-15 'Operating leases-incentives' and SIC-27 'Evaluating the substance of transactions involving the legal form of a Lease'.

IFRS 16 is effective for annual periods commencing on or after 1 January 2019. It stipulates that all leases and the associated contractual rights and obligations should generally be recognize in the Group's financial position, unless the term is 12 months or less or the lease for low value asset. Thus, the classification required under IAS 17 "Leases" into operating or finance leases is eliminated for Lessees. For each lease, the lessee recognizes a liability for future lease obligations. Correspondingly, a right to use the leased asset is capitalized, which is generally equivalent to the present value of the future lease payments plus directly attributable costs and which is amortized over the right-of-use asset's useful life.

The Group has adopted IFRS 16 using the modified retrospective transition approach as of 1 January 2019 and therefore the comparatives have not been restated and continues to be reported under IAS 17 and IFRIC 4. All right-of-use assets were measured at the amount of the lease liability on adoption (adjusted for prepaid or accrued lease expenses). Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. IFRS 16 transition disclosures also requires the Group to present the reconciliation of the off-balance sheet operating lease commitments as of 31 December 2018 with lease liabilities as of 1 January 2019, which is given below:

2 Basis of preparation (continued)

2.1 New standards, amendments and interpretations (continued)

	AED 000
Operating lease commitments disclosed as of 31 December 2018	**1,571,439**
Less: contract assessed as service agreements	(343,028)
Add: Adjustments as a result of changes in contracts, lease terms and payments (net)	908,663
Lease liability recognised as at 1 January 2019	**2,137,074**
Of which are:	
Current lease liabilities	287,475
Non-current lease liabilities	1,849,599
	2,137,074

Right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The change in accounting policy affected the following items in the statement of financial position on 1 January 2019:

- Right-of-use assets – increase by AED 2,109 million
- Lease liabilities – increase by AED 2,137 million

Based on the approach adopted by the Group on adoption of IFRS 16 Leases, it did not result in any impact on retained earnings on 1 January 2019.

The detailed accounting policy, the key estimates and judgements adopted for IFRS 16 by the Group are disclosed in Notes 3.1 and Notes 2.3 respectively.

2 Basis of preparation (continued)

2.1 New standards, amendments and interpretations (continued)

The following tables summarise the impacts of adopting IFRS 16 on the Group's consolidated statement of financial position and consolidated statement of comprehensive income for the year ended 31 December 2019:

(i) Impact on consolidated statement of financial position

	As reported 31 December 2019 AED 000	Adjustments AED 000	Amounts without adoption of IFRS 16 AED 000
Non-current assets			
Right-of-use assets	1,699,651	(1,699,651)	-
Other non-current assets	9,288,875	-	9,288,875
Total non-current assets	10,988,526	(1,699,651)	9,288,875
Current assets			
Trade and other receivables	1,870,556	-	1,870,556
Other current assets	3,967,901	-	3,967,901
Total current assets	5,838,457	-	5,838,457
Total assets	16,826,983	(1,699,651)	15,127,332
Equity			
Share capital and share premium	4,765,238	-	4,765,238
Other reserves, net of treasury shares	1,764,640	-	1,764,640
Retained earnings	2,118,877	48,016	2,166,893
Total equity	8,648,755	48,016	8,696,771
Non-current liabilities			
Lease liabilities	1,396,800	(1,396,800)	-
Other non-current liabilities	621,667	-	621,667
Total non-current liabilities	2,018,467	(1,396,800)	621,667
Current liabilities			
Lease liabilities	460,005	(460,005)	-
Trade and other payables	4,600,332	109,138	4,709,470
Other current liabilities	1,099,424	-	1,099,424
Current liabilities	6,159,761	(350,867)	5,808,894
	8,178,228	(1,747,667)	6,430,561
Total equity and liabilities	16,826,983	(1,699,651)	15,127,332

Emirates Integrated Telecommunications Company PJSC and its subsidiaries

Notes to the consolidated financial statements
for the year ended 31 December 2019 (continued)

2 Basis of preparation (continued)

2.1 New standards, amendments and interpretations (continued)

(ii) Impact on consolidated statement of comprehensive income for the year ended 31 December 2019

	As reported 31 December 2019 AED 000	**Adjustments AED 000**	**Amounts without adoption of IFRS 16 AED 000**
Revenue	12,587,958	-	12,587,958
Operating expenses	(8,629,821)	(9,947)	(8,639,768)
Provision for impairment of trade receivables and contract assets (net of recoveries)	(210,610)	-	(210,610)
Other income	2,860	-	2,860
Operating profit before federal royalty	3,750,387	(9,947)	3,740,440
Royalty	(2,029,008)	(20,578)	(2,049,586)
Operating profit	1,721,379	(30,525)	1,690,854
Finance income	124,052	-	124,052
Finance costs	(124,990)	78,541	(46,449)
Share of profit of investments accounted for using equity method	10,513	-	10,513
Profit for the year	1,730,954	48,016	1,778,970
Other comprehensive loss	(7,420)	-	(7,420)
Total comprehensive income for the year attributable entirely to shareholders of the Company	1,723,534	48,016	1,771,550
Basic and diluted earnings per share (AED)	0.38		0.39

2 Basis of preparation (continued)

2.1 New standards, amendments and interpretations (continued)

(b) Other new and amended IFRS applied with no material effect

The following improvements and amendments have been adopted in these consolidated financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for future transactions or arrangements.

- Annual Improvements to IFRSs 2015-2017 Cycle Amendments to IFRS 3 *Business Combinations*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs;* and
- Amendments to IAS 19 *Employee Benefits Plan* Amendment, Curtailment or Settlement

(c) New standards and amendments issued but not yet effective

Effective for annual periods beginning after 1 January 2020

- Amendments to IAS 1 and IAS 8 regarding the definition of 'material';
- Amendments to IFRS 3 to clarify the definition of a business ;
- IFRS 17: *Insurance Contracts*;
- Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture; and
- Amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the *Conceptual Framework.*

The above stated new standards and amendments are not expected to have any significant impact on consolidated financial statements of the Group.

There are no other applicable new standards and amendments to published standards or IFRIC interpretations that have been issued that would be expected to have a material impact on the consolidated financial statements of the Group.

2.2 Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by adjusting the weighted average number of equity shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group does not have any dilutive potential ordinary shares.

2 Basis of preparation (continued)

2.3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The Group performs sensitivity analysis where applicable. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

(i) Provision for expected credit losses of trade receivables and contract assets

The Group recognises a loss allowance for expected credit losses (ECL) on its trade receivables and contract assets. The amount of expected credit losses is updated at the end of each reporting period to reflect changes in credit risk since initial recognition of the respective financial asset.

The Group recognises lifetime ECL for trade receivables and contract assets, using the simplified approach. The expected credit losses on these financial assets are estimated using a provision matrix 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.

For financial assets other than trade receivables and contract assets, the Group will calculate ECL using the general approach (Note 2.3(ii)).

(ii) Provision for impairment of other financial assets

For all other financial assets, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 months ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the end of the reporting period or an actual default occurring.

(iii) Impairment of goodwill

The Group tests goodwill for impairment on an annual basis, in accordance with the accounting policy. The recoverable amount of the cash-generating units has been determined based on value-in-use calculations. The cash flows are derived 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 base of the cash generating units being tested, but do include the Group's expectations of future capital expenditure necessary to maintain the Group's network existing operations.

2 Basis of preparation (continued)

2.3 Critical accounting estimates and judgements (continued)

(iii) Impairment of goodwill (continued)

These calculations are performed internally by the Group and require the use of estimates and assumptions. The input factors most sensitive to change are management estimates of future cash flows based on budgets, growth rates and discount rate. Further detail on these assumptions has been disclosed in Note 8.. No impairment is recognised on the goodwill in the current and the prior year.

(iv) Useful lives of property, plant and equipment

Property, plant and equipment represent a significant proportion of the Group's asset base. Therefore, the judgements made in determining their estimated useful lives and residual values are critical to the Group's financial position and performance. Useful lives and residual values are reviewed on an annual basis with the effects of any changes in estimates accounted for on a prospective basis.

In determining residual values, the Group uses historical sales and management's best estimate based on market prices of similar items. Useful lives of property, plant and equipment are based on management estimates and take into account historical experience with similar assets, the expected usage of the asset, physical wear and tear, technical or commercial obsolescence and legal restrictions on the use of the assets. The useful lives of the property, plant and equipment are provided in Note 3.3.

(v) Asset retirement obligations

The Group exercises judgement in determining the expected cash outflows related to its asset retirement obligations. Judgement is necessary in determining the timing of outflow as well as quantifying the possible range of the financial settlements that may occur.

The present value of the Group's provision is based on management's best estimate of the future cash outflows required to settle the obligations, discounted using appropriate discount rate. Additional information on this provision is disclosed in Note 20.

(vi) Federal royalty

The computation of Federal Royalty in accordance with the Cabinet of Ministers of UAE decision No. 320/15/23 of 2012 and various guidelines issued by the UAE Ministry of Finance ("the MoF") and subsequent clarification letters require use of certain judgements, interpretations and assumptions. These mainly relate to the segregation of items between regulated and other activities and items which the Group judges as not subject to Federal royalty or which may be set off against revenue which are subject to Federal royalty, and allocation of costs between regulated and non-regulated results.

2 Basis of preparation (continued)

2.3 Critical accounting estimates and judgements (continued)

(vii) Allocation of the transaction price

Products with multiple deliverables that have value to customers on a standalone basis are defined as multiple element arrangements. The transaction price for these contracts must be allocated to the performance obligations on a relative stand-alone selling price basis.

Management estimates the stand-alone selling price at contract inception based on observable prices of the type of goods to be provided and the services rendered in similar circumstances to similar customers. If a discount is granted, it is allocated to both performance obligations based on their relative stand-alone selling prices. Where the stand-alone selling price are not directly observable, they are estimated based on expected cost plus margin.

(viii) Determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

(ix) Discounting of lease payments

The lease payments are discounted using the Group's incremental borrowing rate ("IBR"). For calculation of IBR, the Group has taken the 12 months LIBOR as on the transition date and the rate is adjusted for Group's specific risk, term risk and underlying asset risk.

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

Changes in significant accounting policies

The same accounting policies and methods of computation have been followed in these consolidated financial statements as compared with the Group's consolidated financial statements for the year ended 31 December 2018, except for the adoption of new and amended standards as set out below:

New standard became applicable for the current reporting year and the Group had to change its accounting policies and make relevant adjustments as a result of adopting the following standard:

- IFRS 16 Leases

3.1 Leases

Below given policy is applied to all active contracts as of 1 January 2019, contracts entered into, or changed, after 1 January 2019.

At inception of a contract, the Group assesses whether a 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 the Group for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
  - the Group has the right to operate the asset; or
  - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, where the contract is not separable into lease and non-lease component then the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

3 Summary of significant accounting policies (continued)

3.1 Leases (continued)

Practical expedient
In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous; and
- use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group assesses whether contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee.

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 by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line item in the statement of financial position.
The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is re-measured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revise discount rate is used); and
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

3 Summary of significant accounting policies (continued)

3.1 Leases (continued)

Right-of-use assets

The right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use of asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use of assets are presented as a separate line in the statement of financial position.

Right-of-use assets are assessed for impairment annually as per non-financial assets impairment policy given in Note 3.17.2

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line 'Other operating expenses' in the statement of comprehensive income**.**

Leases (policy applicable until 31 December 2018)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the leases' commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long term payables. The interest element of the finance cost is charged to consolidated statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature.

3 Summary of significant accounting policies (continued)

3.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group.

The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in consolidated statement of comprehensive income.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IFRS 9 either in consolidated statement of comprehensive income or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

3 Summary of significant accounting policies (continued)

3.2 Consolidation (continued)

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associate includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to consolidated statement of comprehensive income where appropriate.

If the ownership in an associate is increased in a way that the Group acquires power to govern the financial and operating policies of the acquiree, the acquiree is consolidated as a subsidiary as a step acquisition as per IFRS 3. After taking into account any impairment, the investment in the associate is derecognised and any gain or loss on derecognition of the investment is taken to the consolidated income statement. However, if the ownership is increased and the Group maintains significant influence, the Group increases the investment amount at the cost of each purchase.

The Group's share of post-acquisition profit or loss is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss)' of associate in the consolidated statement of comprehensive income.

Profits and losses resulting from transactions between the Group and its associate are recognised in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of the associates are same as the Group's accounting policies.

3 Summary of significant accounting policies (continued)

3.3 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance expenses are charged to the consolidated statement of comprehensive income during the financial year in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	Years
Buildings	25
Plant and equipment:	
Network civil works/buildings	10-25
Infrastructure	3-25
IT hardware	3-10
Mobile network	8-10
Fixed network	2-10
Broadcasting	5-7
Furniture and fixtures	3-5
Motor vehicles	4

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.17.2).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other income" in the consolidated statement of comprehensive income.

Capital work in progress includes assets which are under construction or inspection pending certification for their intended use and are stated at cost net of any accumulated impairment losses. When available for use, capital work in progress is transferred to property, plant and equipment and depreciated in accordance with the Group's policies. No depreciation is charged on such assets until available for use.

3.4 Intangible assets

<u>Goodwill</u>

Goodwill arises on the acquisition of subsidiaries or businesses and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired.

3 Summary of significant accounting policies (continued)

3.4 Intangible assets (continued)

<u>Goodwill (continued)</u>

If the total of consideration transferred, non-controlling interest recognised and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquiree, in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of comprehensive income. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the Cash Generating Units (CGUs) containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

<u>Licenses and other rights of use</u>

Separately acquired licenses and rights of use are shown at historical cost. Licenses and rights of use acquired in a business combination are recognised at fair value at the acquisition date. Licenses and rights of use have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licenses and rights of use over their estimated useful lives as shown below:

	Years
Telecommunications license fee	20
Rights of use	10-15

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of five years. Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

3.5 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

3.6 Contract assets

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

3 Summary of significant accounting policies (continued)

3.6 Contract assets (continued)

Contract assets also include subscriber acquisition costs (contract costs). These are incremental contract costs incurred to obtain and fulfil a contract to provide goods or services to the customer which are opted to capitalise and these costs are expected to be recovered. These costs are being amortised and tested for impairment regularly. Contract costs is being amortised over the average customer life with the Group for each segment. Contract assets are recognised initially at fair value and subsequently measured at amortised cost using effective interest rate method, less provision for impairment.

3.7 Trade and other receivables

Trade and other receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If the contractual collection date is in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using effective interest rate method, less provision for impairment.

3.8 Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

3.9 Cash and bank balances

Cash and bank balances comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts, if any that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

3.10 Financial instruments

3.10.1 Non-derivative financial assets

<u>Classification, initial recognition and measurement</u>

The Group classifies its financial assets as financial assets measured at amortised costs and financial assets at fair value through other comprehensive income (FVOCI). The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

3 Summary of significant accounting policies (continued)

3.10 Financial instruments (continued)

3.10.1 Non-derivative financial assets (continued)

(a) Financial assets measured at amortised cost

Financial assets measured at amortised cost applies to instruments for which the Group has a business model to hold the financial asset to collect the contractual cash flows. The characteristics of the contractual cash flows are that of solely payments of the principal amount and interest (referred to as solely payments of principal and interest "SPPI").

- Principal is the fair value of the instrument at initial recognition;
- Interest is the return within a basic lending arrangement and typically consists of consideration for the time value of money, and credit risk. It may also include consideration for other basic lending risks such as liquidity risk as well as a profit margin.

Financial assets measured at amortised costs are included in current assets, except for maturities greater than 12 months after the end of the reporting period which are then classified as non-current assets. The Group's financial assets measured at amortised costs comprise trade and other receivables, contract assets, due from related parties, short term investments and cash and bank balances in the consolidated statement of financial position.

(b) Financial assets at fair value through other comprehensive income (FVOCI)

FVOCI is the classification for instruments for which Group has a dual business model, i.e. the business model is achieved by both holding the financial asset to collect the contractual cash flows and through the sale of the financial assets. The characteristics of the contractual cash flows of instruments in this category, must still be solely payments of principal and interest. They are included in non-current financial assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. The Group elected to classify irrevocably its non-listed equity investments under this category.

<u>Subsequent measurement</u>

<u>Financial assets measured at amortised cost</u>

Financial assets measured at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in consolidated statement of comprehensive income when the asset is derecognised, modified or impaired.

<u>Financial assets at fair value through other comprehensive income (FVOCI)</u>

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

3 Summary of significant accounting policies (continued)

3.10 Financial instruments (continued)

3.10.1 Non-derivative financial assets (continued)

(b) Financial assets at fair value through other comprehensive income (FVOCI) (continued)

Financial assets at fair value through other comprehensive income (FVOCI)

Gains and losses on these financial assets are not subsequently reclassified to profit or loss following its derecognition. Dividends are recognised as other income in the statement of comprehensive income when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

3.10.2 Non-derivative financial liabilities

The Group non-derivative financial liabilities include borrowings, due to related parties and trade and other payables in the consolidated statement of financial position.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest rate method. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

3.10.3 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges)
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges), or
- hedges of a net investment in a foreign operation (net investment hedges).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in cash flows of hedged items.

The fair value of the derivative financial instruments used for hedging purposes are disclosed in Note 11. Movement in the hedging reserve in shareholders' equity is shown in Note 24. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

3 Summary of significant accounting policies (continued)

3.10 Financial instruments (continued)

3.10.3 Derivative financial instruments (continued)

Cash flow hedges

The Group has entered into interest rate swap contracts which are classified as cash flow hedges. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in consolidated statement of comprehensive income, within other income.

Amounts accumulated in equity are reclassified to consolidated statement of comprehensive income in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in consolidated statement of comprehensive income within ‘finance costs’.

Hedge ineffectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments 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. The group therefore performs a qualitative assessment of effectiveness. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Group uses the hypothetical derivative method to assess effectiveness.

The Group enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. The Group does not hedge 100% of its loans, therefore the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps. As all critical terms matched during the year, the economic relationship was 100% effective.

Hedge ineffectiveness may occur due to:

- the credit value/debit value adjustment on the interest rate swaps which is not matched by the loan; and
- differences in critical terms between the interest rate swaps and loans.

3.10.4 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

3 Summary of significant accounting policies (continued)

3.11 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity.

3.12 Treasury shares

Own equity instruments of the Company which are acquired by the Company or any of its subsidiaries (treasury shares) are deducted from other reserves and accounted for at weighted average cost. Consideration paid or received on the purchase, sale, issue or cancellation of the Company's own equity instruments is recognised directly in equity. No gain or loss is recognised in the consolidated statement of comprehensive income on the purchase, sale, issue or cancellation of own equity instruments.

3.13 Dividend on ordinary shares

Dividends payable on ordinary shares are recognised as a liability in the period in which they are approved by the Group's shareholders, but are included in a separate component of reserves once proposed by the Company's Board of Directors.

3.14 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

3.15 Provisions

Provisions are recognised when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in provision due to the passage of time is recognised as finance costs in the consolidated statement of comprehensive income.

3 Summary of significant accounting policies (continued)

3.15 Provisions (continued)

Asset retirement obligations

This provision relates to the estimate of the cost of dismantling and removing an item of property, plant and equipment and restoring the site on which the item was located to its original condition. The Group provides for the anticipated costs associated with the restoration of leasehold property to its original condition at inception of the lease, including removal of items included in plant and equipment.

3.16 Employee benefits

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. Accordingly, the accrued cost of contribution is charged to the consolidated statement of comprehensive income as incurred.

Provision for employees' end of service benefits for non-UAE nationals is made in accordance with UAE Labour Law. The provision is calculated in accordance with the Projected Unit Cost method as per IAS 19 'Employee Benefits' taking into consideration the UAE Labour Laws.

The present value of the defined benefit obligations is calculated using assumptions on the average annual rate of increase in salaries, average period of employment of non-UAE nationals and an appropriate discount rate. The assumptions used are calculated on a consistent basis for each period and reflect management's best estimate.

The net interest cost is calculated by applying the discount rate to the of the defined benefit obligation. This cost is included in finance costs in the consolidated statement of comprehensive income.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in retained earnings in the consolidated statement of changes in equity and in the consolidated statement of financial position.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs.

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.

Provision is also made for the estimated liability for employees' unused entitlements to annual leave and flights as a result of services rendered by eligible employees up to the reporting date. The provision relating to annual leave and air passage is disclosed as a current liability, while that relating to end of service benefits is disclosed as a non-current liability.

The Group also provides mobile allowances and discounted mobile telephone charges to employees for official and personal purposes. This benefit is not separately accounted for as staff costs.

3 Summary of significant accounting policies (continued)

3.17 Impairment

3.17.1 Financial assets

The Group recognises a loss allowance for expected credit losses on financial assets measured at amortised cost. No impairment loss is recognised for investments in equity instruments. The amount of expected credit losses is updated at the end of each reporting period to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group recognises lifetime ECL for trade receivables and contract assets, using the simplified approach. The expected credit losses on these financial assets are estimated using a provision matrix 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.

(a) Approach selected for measurement lifetime ECL

Simplified approach - The Group is measuring the impairment at an amount equal to lifetime expected credit losses (ECL) for trade receivables, due from related parties, contract assets, term deposits, bank balances and receivables from employees.

(b) Measurement of lifetime ECL on trade receivables and contract assets

The Group evaluates the expected credit loss for its trade receivables and contract assets based on debt flow rates for various customer segments i.e. enterprise, consumer, etc. Debt flow rates are calculated based on experience and historical collections trends, adjusted with forward looking collection factors.

Periodic impairment losses based on the above debt flow and rates are adjusted against security deposit and any other legally binding offsets at customer level. Provision for impairment is also taken on unbilled receivables based on the applicable rate.

In addition, an allowance for impairment loss may be considered for a financial asset on case to case basis based on specific information, company risk profile, market conditions and any other relevant information.

(c) Measurement of lifetime expected credit losses on term deposits and bank balances

Impairment for terms deposits and bank balances is based on probability of default, calculated on the basis of ratings provided by credit rating agencies (e.g. Fitch, Moody's etc.) of each bank and Loss Given Default (LGD) driven by rating from reputable financial institutions.

For all other financial assets, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 months ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the end of the reporting period or an actual default occurring.

3 Summary of significant accounting policies (continued)

3.17 Impairment (continued)

3.17.2 Non-financial assets

Intangible assets that have an indefinite useful life or intangible assets/property, plant and equipment (including capital work in progress) not ready to use are not subject to amortisation/depreciation and are tested annually for impairment. Assets that are subject to amortisation/depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (CGUs'). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

3.18 Foreign currency translation

(a) Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the Group operates ('the functional currency'). The consolidated financial statements are presented in AED which is the Company's and its subsidiaries functional and presentation currency. The figures have been rounded to the nearest thousand except when otherwise stated.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income within finance income or costs.

3.19 Revenue recognition

IFRS 15 Revenue from Contracts with Customers, established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The standard introduces a 5-step approach to revenue recognition:
- Step 1: Identify the contract(s) with a customer;
- Step 2: Identify the performance obligations in the contract;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to the performance obligations in the contract; and
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

3 Summary of significant accounting policies (continued)

3.19 Revenue recognition (continued)

Revenue comprises the invoiced or accrued amounts from the sale of goods and services (telecommunication and others) in the ordinary course of the Group's activities. Revenue is shown net of returns, discounts and rebates allowed.

Revenue recognition policies for product and services of the Group based on IFRS 15 guidelines is given below:

Revenue from telecommunication services comprise amounts charged to customers in respect of monthly access charges, airtime usage, messaging, the provision of other mobile telecommunications services, including data services and information provision and fees for connecting fixed line and mobile users to the Group's network. The Group recognises revenue, as mobile/telecommunication services are provided.

Products with multiple deliverables that have value to a customer on standalone basis are defined as multiple element arrangements. Contracts typically include the sale of equipment, subscriber identification module (SIM) card and a service package which mainly include voice, data and SMS/MMS or other services. These arrangements are divided into separate performance obligations. Where the contracts include multiple performance obligations, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin.

Revenue from sale of standalone handsets under separate contract is recognised when the handset is delivered to the end customer and control has been transferred.

Revenue from the sale of prepaid credit is recognised on the actual utilisation of the prepaid credit. Unused prepaid credit is deferred as contract liability until such time as the customer uses the credit, expires or becomes unutilised. Unused prepaid vouchers are recognised as revenue on expiry of 24 months.

Revenue from sale of SIM cards is recognised on the date of activation of SIM.

Contract revenue, i.e. certain revenue from managed services provided by the Group, is recognised over time based on the cost-to cost method, i.e. based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. This input method is considered as an appropriate measure of the progress towards complete satisfaction of these performance obligations under IFRS 15.

Revenue from interconnection of voice and data traffic with other telecommunications operators is recognised at the time the services are performed based on the actual recorded traffic.

3 Summary of significant accounting policies (continued)

3.19 Revenue recognition (continued)

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

The Group operates loyalty programmes where customers accumulate points for purchases made, which entitle them to discounts on future purchases. The reward points are recognised as a separately identifiable component of the initial sale transaction by allocating the fair value of the consideration received between the reward points and the other components of the sale such that the reward points are initially recognised as contract liabilities at their fair value. Revenue from the reward points is recognised when the points are redeemed. Breakage (forfeiture of points) is recognised when redemption becomes remote.

<u>Significant financing component</u>

Significant financing component exists if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In such circumstances, the contract contains a significant financing component.

Currently, in the case of handsets instalment products (bundled and standalone) with periods exceeding one year, since the list price, cash selling price and the promised consideration are significantly equal, the Group has assessed that financing component does not exist. In principle, the Group considers any price difference above 5% as significant in making necessary accounting based on the practical expediency. However, if there are any changes in products structure indicating the existence of a financing component, above 5%-6% of the standalone selling price of the products will be considered significant and accounted for accordingly.

<u>Variable Consideration</u>

Certain customer contracts include variable discounts, rebates, refunds, credits, and incentives etc, which are provided to the customers during the contract period. Variability arises due to contractual terms and conditions, whereby customers are provided discounts/rebates/incentives etc upon reaching certain volume thresholds. Under IFRS 15, if consideration promised in the contract (either explicit or implicit) includes a variable amount, then the Group should estimate the amount and adjust the total transaction price at contract inception. The Group has certain interconnect and roaming contracts which contain such variable considerations, which are estimated and adjusted to the transaction price at contract inception.

3.20 Commission to intermediaries

Intermediaries are paid commissions by the Group mainly in return for selling recharge credits. Such commissions are recognised in consolidated statement of comprehensive income in the same period of services provided.

3 Summary of significant accounting policies (continued)

3.21 Recognition of finance income and costs

Finance income comprises interest income on short term investments and other bank deposits. Interest income is recognised as it accrues in consolidated statement of comprehensive income, using the effective interest rate method.

Finance costs is mainly interest payable on borrowing facilities obtained from suppliers and financial institutions at normal commercial rates and is recognised as an expense in the consolidated statement of comprehensive income in the period in which it is incurred.

3.22 Cash dividend distribution to equity holders of the parent

The Group recognises a liability to make cash distributions to equity holders when the distribution is authorised and the distribution is no longer at the discretion of the Company. As per the UAE Federal Law No. 2 of 2015 ("Companies Law"), a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

3.23 Segmental information

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

3.24 Government grants

Government grants relating to non-monetary assets are recognised at nominal value. Grants that compensate the Group for expenses are recognised in the consolidated statement of comprehensive income on a systematic basis in the same period in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in the consolidated statement of comprehensive income on a systematic basis over the expected useful life of the related asset upon capitalisation.

4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes, based on the following methods.

4.1 Contract assets

The fair value of contract assets are estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date where applicable.

4.2 Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

4 Determination of fair values (continued)

4.3 Derivative financial instruments

Derivative financial instruments are initially measured at fair value at trade date, and are subsequently remeasured at fair value. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative.

Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components from mark to market values provided by the bankers.

The method of recognising fair value gains and losses depends on whether derivatives are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. The Group purchases derivatives only for hedging purposes.

5 Financial risk management

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow and fair value interest rate risks and price risk), credit risk and liquidity risk. The Group's overall risk management process focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board is responsible for developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by Internal Control department. Internal Control department undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

5 Financial risk management (continued)

5.1 Financial risk factors (continued)

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Trade receivables and contract assets

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer and the extent to which extended credit terms are offered.

The management has established a credit policy under which each new customer is analysed for creditworthiness before the Group's terms and conditions are offered. The Group's review can include external ratings, when available, customer segmentation, and in some cases bank references. Credit limits are established for each customer in accordance with this policy, which represents the maximum open amount without requiring approval from senior management. These limits are reviewed periodically.

In monitoring customer credit risk, customers are classified according to their credit characteristics, including whether they are an individual or legal entity, projected business volumes, new or established businesses and existence of previous financial relationships with the Group.

The Group may require deposit or collateral in respect of granting credit for trade and other receivables, subject to results of risk assessment and the nature and volumes contemplated by the customer.

The Group recognises lifetime ECL for trade receivables and contract assets, using the simplified approach. The expected credit losses on these financial assets are estimated using a provision matrix 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. All individually significant assets (such as receivables from broadcast customers and distributors etc.) are assessed for specific impairment.

Information on the ageing of trade and other receivables is given in Note 32.1.

The carrying amount of financial assets recorded in the consolidated financial statements, net of any allowances for impairment losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Term deposits and cash and bank balances

Cash is placed with reputable banks and the risk of default is considered remote. The table below presents the external credit ratings as at 31 December of the Group's short term investments and bank balances based on Fitch and Moody's rating scale.

5 Financial risk management (continued)

5.1 Financial risk factors (continued)

(a) Credit risk (continued)

Term deposits and cash and bank balances (continued)

Ratings	Term deposits		Cash and bank balances	
	2019	2018	**2019**	2018
	AED 000	AED 000	**AED 000**	AED 000
Aa3	-	-	515	17,768
A1	-	-	14,784	20,660
A+	-	-	7,821	3,413
A2	225,000	-	7,493	8,917
A	-	-	-	-
A3	375,000	375,000	79,422	31,888
A-	475,000	900,000	3,641	219
AA-	-	350,000	-	-
Baa1	-	200,000	116,120	108,080
Baa2	-	-	-	251,471
BBB+	1,875,000	2,175,000	3,756	14,386
Others	-	-	35,143	45,289
	2,950,000	4,000,000	268,695	502,091
Less: loss allowance	(1,299)	-	-	-
	2,948,701	4,000,000	268,695	502,091

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's business and reputation. A major portion of the Group's funds are invested in short term investments which are readily available to meet expected operational expenses, including servicing of financial obligations. The table in Note 32.2 analyses the Group's non-derivative financial liabilities and derivative financial liabilities, if any, into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. Derivative financial liabilities, if any, are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

5 Financial risk management (continued)

5.1 Financial risk factors (continued)

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest 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 optimising the return. The Group's exposure to market risk arises from:

- Foreign exchange risk
- Cash flow and fair value interest rate risks

(i) Foreign exchange risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency, primarily the Euro, other than the functional currency of the Company and its subsidiaries. In respect of the Group's transactions denominated in US Dollars (USD), the Group is not exposed to material currency risk as the AED is currently pegged to the USD at a fixed rate of exchange.

The Group's exposure and sensitivity analysis in respect to the foreign exchange risk is detailed in Note 32.3.

(ii) Cash flow and fair value interest rate risks

The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by short term investments held at variable rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During 2019 and 2018, the Group's borrowings at variable rate were denominated in the USD.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and interest rate swaps. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. The scenarios are run only for liabilities that represent the major interest-bearing positions.

5 Financial risk management (continued)

5.1 Financial risk factors (continued)

(c) *Market risk* (continued)

(ii) *Cash flow and fair value interest rate risks* (continued)

The sensitivity analysis performed by the Group in respect to the interest rate risk is detailed in Note 32.4. The sensitivity analysis is done on a regular basis to verify that the maximum loss potential is within the limit given by the management.

Based on the various scenarios, the Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly.

5.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings as shown in the consolidated statement of financial position, less cash and bank balances and term deposits. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

	2019 **AED 000**	2018 AED 000
Total borrowings (Note 18)	716,332	2,177,650
Less: Cash and bank balances/term deposits (Notes 15 and 16)	(3,217,396)	(4,502,091)
Net debt	(2,501,064)	(2,324,441)
Total equity	8,648,755	8,511,738
Total capital	6,147,691	6,187,297
Gearing ratio	(41%)	(38%)

Under the terms of the major borrowing facility, the Group is required to comply with certain financial covenants including interest cover, total bank debt to EBITDA multiple and gearing ratio. The Group has complied with these covenants throughout the year.

5 Financial risk management (continued)

5.3 Fair value estimation

The fair values of the Group's financial assets and liabilities approximated their book amounts as reflected in these consolidated financial statements.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 – Inputs other than quoted prices included within level 1 that are observable for asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
Level 3 – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

	In AED'000			
	Level 1	**Level 2**	**Level 3**	**Total**
At 31 December 2019				
Financial asset at fair value through other comprehensive income (Note 10)	-	-	18,368	18,368
Derivative financial instruments (Note 11)	-	520	-	520
	-	520	18,368	18,888
At 31 December 2018				
Financial asset at fair value through other comprehensive income (Note 10)	-	-	18,368	18,368
Derivative financial instruments (Note 11)	-	10,968	-	10,968
	-	10,968	18,368	29,336

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. Due to the uncertain nature of cash flows arising from investment by the Group in unlisted shares, the carrying amount is considered to be the best estimate of its fair value. The fair value of interest rate swaps classified as derivative financial instruments in the table above is provided by the bank.

Financial instruments comprise financial assets and financial liabilities.

Financial assets of the Group include financial assets at FVOCI, cash and bank balances, trade and other receivables, contract assets, due from related parties and short term investments. Financial liabilities of the Group include borrowings, trade payables and accruals, due to other telecommunication operators, customer deposits, retention payable, accrued royalty, due to related parties and other payables. The fair values of these financial assets and liabilities are not materially different from their carrying values unless stated otherwise (Note 32).

6 Property, plant and equipment

	Buildings AED 000	Plant and equipment AED 000	Furniture and fixtures AED 000	Motor vehicles AED 000	Capital work in progress AED 000	Total AED 000
Cost						
At 1 January 2018	47,569	16,596,727	300,797	1,384	1,007,117	17,953,594
Reclassifications (Note 6.1)	416	(293,595)	(10,426)	2,052	(13,066)	(314,619)
Additions	132	499,044	17,381	155	367,748	884,460
Addition: asset retirement obligations	-	3,375	-	-	-	3,375
Transfers	(214)	618,031	1,648	-	(619,465)	-
Disposals/write-off	-	(372,565)	(2,895)	-	(4,562)	(380,022)
At 31 December 2018	47,903	17,051,017	306,505	3,591	737,772	18,146,788
Additions	4,614	884,085	13,683	866	355,744	1,258,992
Addition: asset retirement obligations	-	73,646	-	-	-	73,646
Transfers	-	483,550	1,068	29	(484,647)	-
Disposals/write-off	-	(38,206)	(1,445)	(48)	(2,023)	(41,722)
At 31 December 2019	**52,517**	**18,454,092**	**319,811**	**4,438**	**606,846**	**19,437,704**
Depreciation / impairment						
At 1 January 2018	26,451	9,138,328	256,854	1,372	9,723	9,432,728
Reclassifications (Note 6.1)	189	(238,065)	(9,858)	2,023	-	(245,711)
Charge for the year	2,263	1,392,331	16,429	45	-	1,411,068
Disposals/write-off	-	(320,855)	(2,874)	-	(52)	(323,781)
Impairment charge	-	-	-	-	60,978	60,978
At 31 December 2018	28,903	9,971,739	260,551	3,440	70,649	10,335,282
Reclassifications (Note 6.1)	-	-	-	-	4,723	4,723
Charge for the year	2,273	1,364,086	15,907	107	-	1,382,373
Disposals/write-off	-	(28,144)	(408)	(48)	(2,009)	(30,609)
Impairment charge	-	3,748	-	-	1,068	4,816
At 31 December 2019	**31,176**	**11,311,429**	**276,050**	**3,499**	**74,431**	**11,696,585**
Net book value						
At 31 December 2019	**21,341**	**7,142,663**	**43,761**	**939**	**532,415**	**7,741,119**
At 31 December 2018	19,000	7,079,278	45,954	151	667,123	7,811,506

The carrying amount of the Group’s buildings include a nominal amount of AED 2 (2018: AED 2) in relation to land granted to the Group by the UAE Government.

6 Property, plant and equipment (continued)

6.1 Management of the Group undertook a review of the individual asset wise categorisation of its property, plant and equipment (PPE) and intangible assets to reflect changes in technology and information technology architecture. As a result of the review, certain assets were reclassified into different PPE categories and certain PPE assets were reclassified to intangible assets and certain intangible assets were reclassified to PPE. Accordingly, the related costs and accumulated depreciation/impairment provision were also reclassified.

7 Right-of-use assets

	Land and buildings AED 000	Furniture and fixtures AED 000	Motor vehicles AED 000	Total AED 000
Cost				
At 1 January 2019 upon adoption of IFRS 16	2,105,347	825	2,805	2,108,977
Additions during the year	243,821	120	-	243,941
Re-measurement/disposals	(349,354)	-	(89)	(349,443)
At 31 December 2019	1,999,814	945	2,716	2,003,475
Depreciation				
Charge for the year	318,403	100	1,315	319,818
Disposals	(15,994)	-	-	(15,994)
At 31 December 2019	302,409	100	1,315	303,824
Net book value				
At 31 December 2019	1,697,405	845	1,401	1,699,651

The Group leases several assets including shops, technical sites, offices, warehouses, billboards and motor vehicles. The average lease term is 8.44 years.

The maturity analysis of lease liabilities is presented in Note 17.

	2019 AED 000
Amounts recognised in consolidated statement of comprehensive income	
Depreciation expense on right-of-use assets (Note 25)	319,818
Interest expense on lease liabilities (Note 27)	78,541

8 Intangible assets and goodwill

	2019	2018
	AED 000	AED 000
Goodwill	549,050	549,050
Intangible assets	502,396	553,825
	1,051,446	1,102,875

Goodwill

The Group acquired the business of three wholly owned subsidiaries/divisions of Tecom Investments FZ LLC with effect from 31 December 2005. Goodwill represents the excess of purchase consideration paid over the fair value of net assets acquired.

Carrying amount of goodwill allocated to each of Cash Generating Units ("CGU") is as follows:

	2019	2018
	AED 000	AED 000
Broadcasting operations	135,830	135,830
Fixed line business	413,220	413,220
	549,050	549,050

The Group tests goodwill for impairment annually. The recoverable amount of the Cash Generating Units ("CGU") is determined using the Discounted Cash Flow method based on the five year business outlook.

The estimated recoverable amount of the broadcasting CGU exceeded the carrying amount of its net assets including goodwill, by approximately 39% and that of the fixed line business exceeded its carrying amount by approximately 164%.

The key assumptions for the value-in-use calculations at 31 December 2019 include:

- 5 year revenue growth projections for the fixed line business and broadcasting operations;
- a pre-tax discount rate of 10.23% based on the historical industry average weighted-average cost of capital;
- maintenance capital expenditure projections allowing for replacement of existing infrastructure at the end of its useful life; and
- terminal growth rate of 3% for the fixed line and 0% for broadcasting businesses, determined based on management's estimate of the long term compound EBITDA growth rate, consistent with the assumption that a market participant would make.

The fixed line model calculations are particularly sensitive to the revenue growth assumptions, including expectations around the impact of future competition in the Group's existing network zones. However, management considers that it would require a significant decline in revenue growth before any impairment of the fixed line CGU was required.

8 Intangible assets and goodwill (continued)

Intangible assets

	Software in use AED 000	Capital work in progress AED 000	Telecomm-unications license fees AED 000	Rights of use AED 000	Total AED 000
Cost					
At 1 January 2018	1,594,292	280,480	124,500	193,990	2,193,262
Reclassifications*	300,714	13,905	-	-	314,619
Adjustment	-	-	-	(8,539)	(8,539)
Additions	130,949	30,595	-	-	161,544
Transfers	192,389	(192,389)	-	-	-
Write off	(13,107)	-	-	-	(13,107)
At 31 December 2018	2,205,237	132,591	124,500	185,451	2,647,779
Reclassifications*					
Adjustment					
Additions	103,242	53,534	-	13,853	170,629
Transfers	88,754	(88,754)	-	-	-
Write off	(705)	-	-	-	(705)
At 31 December 2019	2,396,528	97,371	124,500	199,304	2,817,703
Amortisation/impairment					
At 1 January 2018	1,396,458	-	73,847	141,675	1,611,980
Reclassifications*	245,711	-	-	-	245,711
Charge for the year	186,570	-	6,223	14,265	207,058
Impairment charge	42,312	-	-	-	42,312
Write off	(13,107)	-	-	-	(13,107)
At 31 December 2018	1,857,944	-	80,070	155,940	2,093,954
Reclassifications*	(65,125)	60,402	-	-	(4,723)
Charge for the year	190,691	-	6,223	29,215	226,129
Impairment charge	-	-	-	-	-
Write off	(53)	-	-	-	(53)
At 31 December 2019	1,983,457	60,402	86,293	185,155	2,315,307
Net book value					
At 31 December 2019	413,071	36,969	38,207	14,149	502,396
At 31 December 2018	347,293	132,591	44,430	29,511	553,825

* These reclassifications represent certain assets reclassified from property, plant and equipment to intangibles assets and from intangible assets to property, plant and equipment (Note 6.1).

The Software in use represents all applications such as ERP and Billing systems which are currently in use while the Capital work in progress relates to the development of these systems. Software is being amortised on a straight-line basis over a period of 5 years.

Telecommunication license fees represent charge by the Telecommunications Regulatory Authority to the Group to grant the license to operate as a telecommunications service provider in the UAE.

8 Intangible assets and goodwill (continued)

Intangible assets (continued)

The fees are being amortised on a straight-line basis over a period of 20 years which is the term of the license, from the date of granting the license.

Indefeasible right of use represent the fees paid to a telecom operator to obtain rights to use Indoor Building Solutions relating to certain sites in the UAE. The fees are amortised on a straight line basis over 10 years. Also included in the balance is an amount charged by an operator of a fibre-optic cable system for the right to use its submarine fibre-optic circuits and cable system. The fees are amortised on a straight-line basis over a period of 15 years from the date of activation of the cable system.

9 Investments accounted for using the equity method

Dubai Smart City Accelerator FZCO (DSCA)

In 2017, the Group acquired 23.53% shares in Dubai Smart City Accelerator FZCO (“the Associate”), a Free Zone Company with limited liability established in Dubai Silicon Oasis Free Zone, in the Emirate of Dubai. The business of the Associate is to run accelerator programs with the purpose of sourcing innovation and technology applicable to the Smart City Industry.

Khazna Data Center Limited (KDC)

The Group has 26% ownership shares in Khazna Data Center Limited (“the Associate”), a limited liability company established in the Masdar City Free Zone, in the Emirate of Abu Dhabi. The business of the Associate is providing wholesale data centre services.

Movement in investments in associates (DSCA and KDC)

	2019 AED 000	2018 AED 000
At 1 January	188,179	142,086
Investments during the year*	70,256	35,879
Share of profit for the year	10,513	10,214
At 31 December	268,948	188,179

Summarised financial information for the Associates are as follows:

Associates’ statement of financial position as of 31 December:

	2019 AED 000	2018 AED 000
Non-current assets	1,444,602	910,526
Current assets	121,556	133,388
Current liabilities	(162,106)	(66,726)
Non-current liabilities	(457,379)	(321,819)
Net assets	946,673	655,369

9 Investments accounted for using the equity method (continued)

Associates' income statement for the year ended 31 December:

	2019 AED 000	2018 AED 000
Revenue	149,618	138,934
Profit for the year	38,264	41,835

*The investments during the year 31 December 2019, represent payment made for additional funding to Khazna Data Center Limited amounting to AED 70,256 thousand.

10 Financial asset at fair value through other comprehensive income

	2019 AED 000	2018 AED 000
Unlisted shares		
Anghami	18,368	18,368

In 2016, the Group acquired 4.8% shares in Anghami, a Cayman Islands exempted company registered in the Cayman Islands (unlisted company). The company is involved in the provision of media related content. The Group classified the investment as financial asset at fair value through other comprehensive income.

Due to the uncertain nature of cash flows arising from investment by the Group in unlisted shares of Anghami, the carrying amount is considered to be the best estimate of its fair value.

11 Derivative financial instruments

In 2015, the Group entered into floating to fixed interest rate swaps with corresponding banks to hedge the interest rate risk relating to a portion of the floating rate interest payable on unsecured bank term loans. The terms of the loans include quarterly interest payments, at a rate of LIBOR + 0.95% on the outstanding principal amount (Note 18).

The hedge covers the risk in variability of LIBOR over the entire term of the loans. The hedging instruments match the actual terms of the related interest payments on the loans in all respects, including LIBOR rate used, reset dates and notional amounts outstanding.

11 Derivative financial instruments (continued)

As of 31 December, the fair value of derivative financial instruments was as follows:

	2019 **AED 000**	2018 AED 000
Interest rate swap contracts – cash flow hedges	520	10,968

The related movement in derivative financial instruments is shown under hedge reserve (Note 24.2).

There was no ineffectiveness during 2019 and 2018 in relation to the interest rate swap contracts.

12 Contract assets and contract liabilities

	Current		**Non-current**	
	2019 **AED 000**	2018 AED 000	**2019** **AED 000**	2018 AED 000
Contract assets*	509,191	539,616	218,353	208,243
Less: provision for impairment of contract assets	(35,996)	(31,359)	(9,359)	(11,556)
	473,195	508,257	208,994	196,687

*Contract assets include unamortised subscriber acquisition costs (contract costs) amounting to AED 304,097 thousands (2018: AED 273,080 thousands).

12.1 The movement in the provision for impairment of contract assets is as follows:

	2019 **AED 000**	2018 AED 000
Opening balance	42,915	29,355
Impairment charge during the year	2,440	13,560
Closing balance	45,355	42,915

	Current		**Non-current**	
	2019 **AED 000**	2018 AED 000	**2019** **AED 000**	2018 AED 000
Contract liabilities	377,019	444,141	193,095	190,631

There was no revenue recognised in the current reporting period that is related to performance obligations that were satisfied in the prior year.

The Group has reviewed its contracts with customers and as permitted under IFRS 15, the transaction price allocated to the unsatisfied contracts is not disclosed.

13 Trade and other receivables

	2019 **AED 000**	2018 AED 000
Trade receivables	1,941,223	2,046,585
Due from other telecommunications operators*	201,176	179,730
Less: provision for impairment of trade receivables and due from other telecommunications operators	(662,358)	(759,281)
Trade receivables, net	1,480,041	1,467,034
Prepayments	95,355	176,739
Advances to suppliers	178,544	134,166
Other receivables**	116,616	129,799
Total trade and other receivables	1,870,556	1,907,738

*Due from other telecommunications operators are presented after netting of payable balances (where right to set off exists) amounting to AED 833,130 thousand (31 December 2018: AED 677,410 thousand).

**Other receivables mainly include interest receivable on term deposits.

The Group's normal credit terms ranges between 15 and 150 days (2018: 15 and 150 days). No interest is charged on the trade and other receivable balances.

The movement in the provision for impairment of trade receivables and due from other telecommunications operators is as follows:

	2019 **AED 000**	2018 AED 000
At 1 January	759,281	661,758
Provision for impairment	215,414	232,237
Write-off during the year	(312,337)	(134,714)
At 31 December	662,358	759,281

14 Related party balances and transactions

Related parties comprise the shareholders of the Company, entities under common shareholding, its directors, key management personnel and entities over which they exercise control, joint control or significant influence. The founding shareholders mentioned in the note are Emirates Investment Authority, Mamoura Diversified Global Holding PJSC and Emirates International Telecommunications Company L.L.C. Transactions with related parties are done on an arm's length basis in the ordinary course of business and are approved by the Group's management or by the Board of Directors.

Related party balances

	2019 AED 000	2018 AED 000
Due from related parties		
Axiom Telecom LLC (Entity under common shareholding)	106,045	129,078
Injazat Data Systems LLC (Entity under common shareholding)	58,950	-
	164,995	129,078
Due to related parties		
Tecom Investments FZ LLC (Entity under common shareholding)	1,970	3,249
Khazna Data Center Limited (Associate)	4,103	6,585
	6,073	9,834

Due to the short-term nature of the related party balances, their carrying amount is considered to be the same as their fair value.

Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. All transactions with related parties referred to below are done on an arm's length basis in the ordinary course of business. The following table reflects the gross value of the transactions with related parties.

	2019 AED 000	2018 AED 000
Entities under common shareholding		
Tecom Investments FZ LLC:		
- Office rent and services	40,630	39,697
Axiom Telecom LLC – Authorised distributor – net sales	1,323,665	1,527,311
Injazat Data Systems LLC – Data Centre - rent and services	9,554	569
Injazat Data Systems LLC – Data Centre – net revenue	72,272	-
Associates		
Khazna Data Center Limited – rent and telecom services	98,138	116,746
Khazna Data Center Limited- additional funding	70,256	34,044
Dubai Smart City Accelerator FZCO- additional funding	-	1,835

14 Related party balances and transactions (continued)

Key management compensation

	2019	2018
	AED 000	AED 000
Short term employee benefits	39,520	38,511
Employees' end of service benefits	706	884
Post-employment benefits	1,311	1,267
Long term incentives	7,463	18,436
	49,000	59,098

Board of Directors fee during the year was AED 10,000 thousand (2018: AED 12,074 thousand).

No loan has been provided to Directors, their spouses, children and relatives of the second degree and any corporates in which they own 20% or more.

The Group also provides telecommunication services to the Federal Government (including Ministries and local bodies). These transactions are at normal commercial terms. The credit period allowed to Government customers ranges from 15 to 150 days. Refer Note 26 for disclosure of the royalty payable to the Federal Government of the UAE. In accordance with IAS 24 (revised 2009): Related Party Disclosures, the Group has elected not to disclose transactions with the UAE Federal Government and other entities over which the Federal Government exerts control, joint control or significant influence.

15 Term deposits

	2019	2018
	AED 000	AED 000
Term deposits	2,950,000	4,000,000
Less: loss allowance	(1,299)	-
	2,948,701	4,000,000

Term deposits represent bank deposits with maturity periods exceeding 3 months from the date of acquisition. These term deposits denominated primarily in UAE Dirham, with banks. Interest is earned on these term deposits at prevailing market rates. The carrying amount of these term deposits approximates to their fair value.

16 Cash and bank balances

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise:

	2019 AED 000	2018 AED 000
Cash at bank (on deposit and call accounts)	269,278	501,431
Cash on hand	716	660
Less: loss allowance	(1,299)	-
Cash and bank balances	268,695	502,091
Less: margin on guarantees (Note 30)	(4,038)	(5,393)
Cash and cash equivalents	264,657	496,698

17 Lease liabilities

	2019 AED 000	2018 AED 000
At 1 January 2019 upon adoption of IFRS 16	2,137,074	-
Lease liabilities for the year	122,521	-
Payments made during the year	(128,448)	-
Re-measurement during the year	(274,342)	-
Closing balance	1,856,805	-

	Current		**Non-current**	
	2019 AED 000	2018 AED 000	**2019 AED 000**	2018 AED 000
Lease liabilities	460,005	-	1,396,800	-

	2019 AED 000	2018 AED 000
Maturity analysis:		
Not later than 1 year	460,005	-
Later than 1 year and not later than 5 years	785,812	-
Later than 5 years	610,988	-
Closing balance	1,856,805	-

The Group does not face a significant liquidity risk with regard to its lease liabilities.

The Group does not have any variable component in lease payments.

18 Borrowings

	Current		Non-current	
	2019	2018	**2019**	2018
	AED 000	AED 000	**AED 000**	AED 000
Bank borrowings	716,332	1,432,665	**-**	716,332
Buyer credit arrangements	-	28,653	**-**	-
	716,332	1,461,318	**-**	716,332

The details of borrowings are as follows:

	Currency	Nominal interest rate	Year of maturity	Opening balance AED 000	Drawn AED 000	Repaid AED 000	Closing balance AED 000
<u>Bank borrowings</u>							
Unsecured term loan 1	USD	LIBOR+0.95%	2020	1,322,460	**-**	(881,640)	440,820
Unsecured term loan 2	USD	LIBOR+0.95%	2020	551,025	**-**	(367,350)	183,675
Unsecured term loan 3	USD	LIBOR+0.95%	2020	275,512	**-**	(183,675)	91,837
				2,148,997	**-**	(1,432,665)	716,332
<u>Buyer credit arrangement</u>							
Buyer credit arrangement	USD	Nil	2019	28,653	**-**	(28,653)	**-**

19 Provision for employees' end of service benefits

The Group provides end of service benefits (defined benefit obligations) to its eligible employees. The most recent actuarial valuations of the present value of the defined benefit obligations were carried out as at 31 December 2019 by a registered actuary in the UAE. The present value of defined benefit obligations and the related current and past service cost, were measured using the Projected Unit Credit Method. Changes in the present value of defined benefit obligations is as follows:

	2019	2018
	AED 000	AED 000
At 1 January	252,564	236,072
Current service cost	35,283	35,309
Interest cost (Note 27)	8,568	8,331
Actuarial gain recognised in other comprehensive income*	(3,028)	(5,313)
Benefits paid during the year	(34,647)	(21,835)
At 31 December	258,740	252,564

*Actuarial gain recognised in other comprehensive income relates to re-measurements of the employees' end of service benefits obligation from changes in financial assumptions amounting to AED 306 thousand (2018: AED 1,861 thousand) and experience adjustments amounting to AED 2,722 thousand (2018: AED 3,452 thousand).

The provision is recognised based on the following significant actuarial assumptions:

	2019	2018
Average period of employment (years)	7.50	7.54
Average annual rate of salary increase	2.77%	3%
Discount rate	3.57%	3.80%

Sensitivity of the provision for employees' end of service benefits to changes in principal assumptions is included below:

			Impact on defined benefit obligation			
	Change in assumption		**Increase in assumption**		**Decrease in assumption**	
	2019	2018	**2019**	2018	**2019**	2018
Average period of employment (years)	1 year	1 year	(0.29 %)	(0.51%)	0.22 %	0.51%
Average annual rate of salary increase	1%	1%	8.48%	8.31%	(7.57%)	(7.40%)
Discount rate	1%	1%	(7.01%)	(6.86%)	7.99%	7.83%

20 Other provisions

Asset retirement obligations

In the course of the Group's activities a number of sites and other commercial premises are utilised which are expected to have costs associated with exiting and ceasing their use. The associated cash outflows are expected to occur at the dates of exit of the assets to which they relate. These assets are long-term in nature, primarily in period up to 10 years from when the asset is brought into use.

	2019	2018
	AED 000	AED 000
At 1 January	115,764	110,924
Additions during the year	49,003	3,375
Adjustment for change in discount/inflation rates	259	(1,795)
Unwinding of discount	4,806	3,260
At 31 December	169,832	115,764

The provision is recognised based on the following significant assumptions:

	2019	2018
Average period of restoration (years)	10	10
Inflation rate	1.80%	2.10%
Discount rate	3.96%	3.99%

21 Trade and other payables

	2019	2018
	AED 000	AED 000
Trade payables and accruals	1,675,211	1,707,932
Due to other telecommunications operators*	523,658	603,129
Accrued federal royalty (Note 26)	2,062,972	2,103,174
Valued Added Tax (VAT) payable	8,987	26,427
Other payables and accruals	329,504	362,074
	4,600,332	4,802,736

*Due to other telecommunications operators are presented after netting of receivable balances (where right to set off exists) amounting to AED 833,130 thousand (31 December 2018: AED 677,410 thousand).

The carrying amounts of trade and other payables approximate their fair value.

22 Share capital

	2019	2018
	No of shares	No of shares
Authorised, issued and fully paid up share capital (par value AED 1 each)	4,532,905,989	4,532,905,989

23 Share premium

	2019	2018
	AED 000	AED 000
Premium on issue of common share capital	232,332	232,332

24 Other reserves

	Statutory reserve (Note 24.1) AED 000	Hedge reserve (Note 24.2) AED 000	Proposed dividend AED 000	Total AED 000
At 1 January 2018	1,415,726	13,594	997,239	2,426,559
Transfer to statutory reserve	175,299	-	-	175,299
Interim cash dividend	-	-	589,278	589,278
Cash dividends paid	-	-	(1,586,517)	(1,586,517)
Fair value changes on cash flow hedge	-	(2,626)	-	(2,626)
At 31 December 2018	1,591,025	10,968	-	1,601,993
At 1 January 2019	1,591,025	10,968	-	1,601,993
Transfer to statutory reserve	173,095	-	-	173,095
Final cash dividend proposed	-	-	997,239	997,239
Proposed interim cash dividend	-	-	589,278	589,278
Cash dividends paid	-	-	(1,586,517)	(1,586,517)
Fair value changes on cash flow hedge	-	(10,448)	-	(10,448)
At 31 December 2019	1,764,120	520	-	1,764,640

24.1 In accordance with the UAE Federal Law No. 2 of 2015 ("Companies Law") and the Company's Articles of Association, 10% of the net profit is required to be transferred annually to a non-distributable statutory reserve. Such transfers are required to be made until the balance of the statutory reserve equals one half of the Company's paid up share capital.

24.2 Hedge reserve is related to derivative financial instrument (Note 11)

25 Operating expenses

	31 December	
	2019	2018
	AED 000	AED 000
Interconnect costs	2,811,216	2,954,075
Product costs	894,253	1,335,156
Depreciation and impairment on property, plant and equipment (Note 6)	1,387,189	1,472,046
Depreciation on right-of-use assets (Note 7)	319,818	-
Amortisation and impairment on intangible assets (Note 8)	226,129	249,370
Staff costs	934,169	1,018,455
Network operation and maintenance	526,756	755,640
Outsourcing and contracting	360,504	422,955
Commission	390,423	388,105
Telecommunication license and related fees	407,575	217,358
Marketing	250,082	317,140
Others	121,707	275,925
	8,629,821	9,406,225

During the year ended 31 December 2019, the Group has paid AED 1,555 thousand (2018: AED 14,430 thousand) for various social contribution purposes.

26 Federal royalty

The royalty rates payable to the UAE Ministry of Finance for the period from 2017 to 2021 are 15% on regulated revenue and 30% on regulated profit after deducting royalty on regulated revenue.

	2019	2018
	AED 000	AED 000
Total revenue for the year (Note 34)	12,587,958	13,414,057
Broadcasting revenue for the year	(160,825)	(156,798)
Other allowable deductions	(3,521,026)	(4,128,702)
Total adjusted revenue	8,906,107	9,128,557
Profit before royalty	3,759,962	3,831,804
Allowable deductions	(113,425)	(91,182)
Total regulated profit	3,646,537	3,740,622

26 Federal royalty (continued)

	2019 AED 000	2018 AED 000
Charge for royalty: 15% (2018:15%) of the total adjusted revenue plus 30% (2018: 30%) of net regulated profit for the year before distribution after deducting 15% (2018: 15%) of the total adjusted revenue.	2,029,103	2,080,685
Adjustments to charge	(95)	(3,745)
Charge for the year	2,029,008	2,076,940
Royalty reimbursement (net)	-	1,872
Total royalty charge for the year	2,029,008	2,078,812

Movement in the royalty accruals is as follows:

	2019 AED 000	2018 AED 000
At 1 January	2,103,174	2,054,019
Payment made during the year	(2,069,210)	(2,027,785)
Charge for the year	2,029,008	2,076,940
At 31 December (Note 21)	2,062,972	2,103,174

27 Finance income and costs

	2019 AED 000	2018 AED 000
Finance income		
Interest income	124,052	145,456
Finance costs		
Interest expense on lease liability	78,541	-
Interest expense others*	46,824	92,226
Exchange (gain)/loss, net	(375)	1,357
	124,990	93,583

*Interest expense others includes interest cost on defined benefit obligations amounted to AED 8,568 thousand (2018: AED 8,331 thousand) (Note 19).

28 Earnings per share

	2019	2018
Profit for the year (AED 000)	1,730,954	1,752,992
Weighted average number of shares (‘000’)	4,532,906	4,532,906
Basic and diluted earnings per share (AED)	0.38	0.39

Diluted earnings per share have not been presented separately as the Group has no commitments that would dilute earnings per share.

29 Changes in working capital

	2019 AED 000	2018 AED 000
Change in:		
Inventories	17,516	(29,928)
Contract assets	20,315	119,504
Trade and other receivables	(275,706)	(459,242)
Trade and other payables	1,805,374	1,695,247
Contract liabilities	(64,658)	40,999
Due from related parties	(35,917)	57,118
Due to related parties	(3,761)	(10,460)
Net changes in working capital	1,463,163	1,413,238

30 Contingent liabilities and assets

The Group has outstanding bank guarantees amounting to AED 70,626 thousand (2018: AED 36,677). Bank guarantees are secured against margin of AED 4,038 thousand (2018: AED 5,393 thousand) (Note 16).

The Group is subject to litigation with a party and expecting a reasonable prospect of success. If successful this is going to have a favourable impact on the Group's consolidated financial statements. Other than above, there are litigations in the normal course of business and the management is of the view that the outcome of these court cases will not have a material impact on the Group's consolidated financial statements. Details of these cases are not disclosed in order not to prejudice the Group’s position in these litigations.

31 Commitments

The Group has outstanding capital commitments amounting to AED 1,321,653 thousand (2018: AED 1,139,214 thousand).

32 Financial instruments and risk management

32.1 Credit risk

Exposure to credit risk

The carrying amount and the fair value of financial assets represent the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Notes	Carrying amount		Fair value	
		2019	2018	**2019**	2018
		AED 000	AED 000	**AED 000**	AED 000
Derivatives					
Interest rate swap contracts – cash flow hedges	11	520	10,968	520	10,968
Non-derivatives					
Financial asset at fair value through other comprehensive income	10	18,368	18,368	18,368	18,368
Contract assets	12	378,092	431,864	378,092	431,864
Trade and other receivables	13	1,596,657	1,596,833	1,596,657	1,596,833
Due from related parties	14	164,995	129,078	164,995	129,078
Term deposits	15	2,948,701	4,000,000	2,948,701	4,000,000
Cash and bank balances	16	268,695	502,091	268,695	502,091
		5,375,508	6,678,234	5,375,508	6,678,234

For the purpose of the exposure to credit risk on financial assets disclosure, non-financial assets (subscriber acquisition costs, prepayments and advances to suppliers) amounting to AED 577,996 thousand (2018: AED 583,985 thousand) have been excluded from contract assets and trade and other receivables.

Impairment of contract assets and trade and other receivables

The ageing of contract assets and trade receivables is as follows:

	Gross 2019 AED 000	**Impaired 2019 %**	**Impaired 2019 AED 000**	Gross 2018 AED 000	Impaired 2018 %	Impaired 2018 AED 000
Not past due	917,467	3.36%	(30,803)	924,288	3.43%	(31,711)
Past due 0-30 days	263,433	7.55%	(19,894)	398,864	4.94%	(19,702)
Past due 31-180 days	491,235	14.11%	(69,335)	599,399	15.13%	(90,706)
More than 180 days	1,726,841	34.03%	(587,681)	1,455,953	45.34%	(660,077)
	3,398,976		(707,713)	3,378,504		(802,196)

Non-financial assets (unamortised subscriber acquisition costs) amounting to AED 304,097 thousand (2018: AED 273,080 thousand) have been excluded from gross amounts.

32 Financial instruments and risk management (continued)

32.1 Credit risk (continued)

Impairment of contract assets and trade and other receivables (continued)

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The expected credit loss are based on the analysis of billing, collection and outstanding balance over an appropriate period 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.

The impairment provision in respect of contract assets and trade receivables is used to record impairment losses unless the Group is satisfied that there is no reasonable expectation of recovery of the amount owing is possible; at that point the amounts considered irrecoverable are written-off. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period of greater than 365 days past due.

32.2 Liquidity risk

The following are the contractual maturities of financial liabilities along with fair values:

31 December 2019

				Contractual cash flows			
	Fair value AED 000	**Carrying amount AED 000**	**Total AED 000**	**6 months or less AED 000**	**6-12 months AED 000**	**1-2 years AED 000**	**Above 2 years AED 000**
Non-derivative financial liabilities							
Borrowings	716,332	716,332	716,332	716,332	-	-	-
Trade payables and accruals	1,675,211	1,675,211	1,675,211	1,675,211	-	-	-
Due to other telecommunication operators	523,658	523,658	523,658	523,658	-	-	-
Accrued royalty	2,062,972	2,062,972	2,062,972	2,062,972	-	-	-
Valued Added Tax (VAT) Payable	8,987	8,987	8,987	8,987	-	-	-
Other payables and accruals	329,504	329,504	329,504	329,504	-	-	-
Due to related parties	6,073	6,073	6,073	6,073	-	-	-
	5,322,737	5,322,737	5,322,737	5,322,737	-	-	-

32 Financial instruments and risk management (continued)

32.2 Liquidity risk (continued)

31 December 2018

	Fair value AED 000	Carrying amount AED 000	Total AED 000	Contractual cash flows: 6 months or less AED 000	6-12 months AED 000	1-2 years AED 000	Above 2 years AED 000
Non-derivative financial liabilities							
Borrowings	2,177,650	2,177,650	2,238,361	764,388	750,896	723,077	-
Trade payables and accruals	1,707,932	1,707,932	1,707,932	1,707,932	-	-	-
Due to other telecommunication operators	603,129	603,129	603,129	603,129	-	-	-
Accrued royalty	2,103,174	2,103,174	2,103,174	2,103,174			
Valued Added Tax (VAT) Payable	26,427	26,427	26,427	26,427	-	-	-
Other payables and accruals	362,074	362,074	362,074	362,074	-	-	-
Due to related parties	9,834	9,834	9,834	9,834	-	-	-
	6,990,220	6,990,220	7,050,931	5,576,958	750,896	723,077	-

Contractual maturities related to lease liabilities disclosed in Note 17.

32.3 Currency risk

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows:

	31 December 2019 Thousand EUR	**31 December 2019 Thousand GBP**	31 December 2018 Thousand EUR	31 December 2018 Thousand GBP
Trade receivables	11,614	451	6,663	3,234
Trade payables	-	(161)	(46)	(591)
Net exposure	11,614	290	6,617	2,643

The following significant exchange rates against AED have been applied during the year:

	Average rate 2019	Average rate 2018	**Reporting date spot rate 2019**	Reporting date spot rate 2018
EUR 1	4.1327	4.3673	4.1195	4.2142
GBP 1	4.7017	4.9380	4.8722	4.6881

32 Financial instruments and risk management (continued)

32.3 Currency risk (continued)

Sensitivity analysis

A 10 percent strengthening of the AED against the following currencies at 31 December would have increased/(decreased) equity and profit by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	2019	2018
	AED 000	AED 000
Increase/(decrease) in profit		
EURO	(4,800)	(2,890)
GBP	(136)	(1,305)

Conversely a 10 percent weakening of the AED against the above currencies at 31 December will have had the exact reverse effect. In each of the above cases the impact on equity would have the same values as the above amounts.

32.4 Interest rate risk

Exposure to interest rate risk

The interest rate profile of the Group's interest bearing financial instruments was:

	Carrying Amount	
	2019	2018
	AED 000	AED 000
Variable interest rate instruments		
Bank borrowings	716,332	2,148,997

Sensitivity analysis

An increase of 100 basis points in interest rates at the reporting date would have decreased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	2019	2018
	AED 000	AED 000
Decrease in profit		
Variable interest rate instruments	7,139	14,377

Conversely a decrease in interest rates by 100 basis points will have had the exact reverse effect. In each of the above cases the impact on equity would have the same values as the above amounts.

During previous years, the Group entered into floating to fixed interest rate swaps with corresponding banks to hedge the interest rate risk relating to a portion of the floating rate interest payable on unsecured bank borrowings. Hedged portion of the bank borrowings is not included in the sensitivity analysis (Note 11).

32 Financial instruments and risk management (continued)

32.5 Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

	2019 **AED 000**	2018 AED 000
Derivative financial instruments	520	10,968
Financial asset at fair value through other comprehensive income	18,368	18,368
Financial assets measured at amortised cost		
Contract assets	378,092	431,864
Trade and other receivables	1,596,657	1,596,833
Due from related parties	164,995	129,078
Term deposits	2,948,701	4,000,000
Cash and bank balances	268,695	502,091
	5,357,140	6,659,866
Lease liabilities	1,856,805	-
Borrowings	716,332	2,177,650
Trade and other payables	4,600,332	4,802,736
Due to related parties	6,073	9,834
	7,179,542	6,990,220

For the purpose of the financial instruments disclosure, non-financial assets amounting to AED 577,996 thousand (2018: AED 583,985 thousand) have been excluded from contract assets, trade and other receivables.

33 Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

33 Offsetting financial assets and financial liabilities (continued)

The following table presents the recognised financial instruments that are offset in the statement of financial position, as at 31 December 2019 and 31 December 2018.

	31 December 2019			31 December 2018		
	Gross amounts AED 000	**Gross amounts set off AED 000**	**Net amount presented AED 000**	Gross amounts AED 000	Gross amounts set off AED 000	Net amount presented AED 000
Financial assets						
Trade and other receivables	2,703,686	(833,130)	1,870,556	2,585,148	(677,410)	1,907,738
Total	2,703,686	(833,130)	1,870,556	2,585,148	(677,410)	1,907,738
Financial liabilities						
Trade and other payables	5,433,462	(833,130)	4,600,332	5,480,146	(677,410)	4,802,736
Total	5,433,462	(833,130)	4,600,332	5,480,146	(677,410)	4,802,736

34 Segment analysis

The Group mainly has operations in the UAE. The Group is organised into four major business segments as follows:

- Mobile segment offers mobility services to the enterprise and consumer markets. Services include mobile voice and data, mobile content and mobile broadband WIFI. Mobile handset sales, including instalment sales, are also included in this segment.
- Fixed segment provides wire line services to the enterprise and consumer markets. Services include broadband, IPTV, IP/VPN business internet and telephony.
- Wholesale segment provides voice and sms to national and international carriers and operators. Services include termination of inbound international voice traffic and international hubbing.
- Others. Others include broadcasting services, international roaming, site sharing, etc.

Segment contribution, referred to by the Group as Gross Margin, represents revenue less direct costs of sales. It is calculated before charging network operating costs, sales and general and administration expenses. This is the measure reported to the Group's Board of Directors for the purpose of resource allocation and assessment of segment performance.

34 Segment analysis (continued)

31 December 2019

	Mobile AED 000	Fixed AED 000	Wholesale AED 000	Others AED 000	Total AED 000
Segment revenue					
Timing of revenue recognition					
Over time	6,536,690	2,484,172	2,059,516	927,196	12,007,574
At a point in time	517,909	9,120	-	53,355	580,384
	7,054,599	2,493,292	2,059,516	980,551	12,587,958
Segment contribution	4,409,691	2,140,970	1,318,954	637,757	8,507,372
Unallocated costs					(4,759,845)
Other income					2,860
Operating profit before federal royalty					3,750,387
Federal royalty					(2,029,008)
Operating profit					1,721,379
Finance income/costs and share of profit of investments accounted for using equity method (net)					9,575
Profit for the year					1,730,954

34 Segment analysis (continued)

31 December 2018

	Mobile AED 000	Fixed AED 000	Wholesale AED 000	Others AED 000	Total AED 000
Segment revenue					
Timing of revenue recognition					
Over time	7,103,905	2,339,042	2,128,333	894,571	12,465,851
At a point in time	904,276	10,418	-	33,512	948,206
	8,008,181	2,349,460	2,128,333	928,083	13,414,057
Segment contribution	4,792,250	2,051,762	1,413,971	471,184	8,729,167
Unallocated costs					(4,965,859)
Other income					6,409
Operating profit before federal royalty					3,769,717
Federal royalty					(2,078,812)
Operating profit					1,690,905
Finance income/costs and share of profit of investments accounted for using equity method (net)					62,087
Profit for the year					1,752,992

The Group's assets and liabilities have not been identified to any of the reportable segments as the majority of the operating fixed assets are fully integrated between segments. The Group believes that it is not practical to provide segment disclosure relating to total assets and liabilities since a meaningful segregation of available data is not feasible.

35 Comparatives

Change in the presentation of consolidated statement of comprehensive income

During 2019, the Group has changed the categorisation and presentation of its expenses in the 'consolidated statement of comprehensive income' from 'by nature' to 'by function', both of which are allowed as per International Financial Reporting Standards. Accordingly, the presentation of comparative information for the year ended 31 December 2018 has been amended to be consistent with the current year presentation. There is no impact of the change on revenues, finance costs, provision for impairment of trade receivables and contract assets, total amount of expenses or on profit for the year.

The table below shows the impact of the change in classification of various expenses for the year ended 31 December 2018:

Presentation of expenses by nature	AED'000	Presentation of expenses by function	AED'000
Interconnect costs	2,954,075	Operating expenses	9,406,225
Product costs	1,335,156		
Depreciation and impairment on property, plant and equipment	1,472,046		
Amortisation and impairment of intangible assets	249,370		
Staff costs	1,018,455		
Network operation and maintenance	755,640		
Outsourcing and contracting	422,955		
Commission	388,105		
Telecommunication license and related fees	217,358		
Rent and utilities	125,852		
Marketing expenses	317,140		
Other expenses	150,073		
	9,406,225		

There is no change to the consolidated statement of financial position presentation or amounts as a result of the above change.