

2016



Annual report 2016





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## Chairman's message

**By integrating innovation throughout all of our activities, we were able to deliver solid results for another year.**



Ahmad Bin Byat  
Chairman

I am honoured to report our financial results for the year. Our continued commitment to pursuing operational efficiency and enhancing customer experience, in line with our strategic objectives, resulted in a solid performance in 2016.

The global telecommunications industry remains in the midst of a major transformation and it is being driven by the demands of the millennial generation. Today's youth expect connectivity, immediate access to information, delivered through simple and instinctive platforms. Their drive, passion for change and willingness to embrace technological advancement is leading the global revolution of how society and corporations interact, and is an inspiration to how we should evolve. The development of smart technology, increased reliance on the cloud, and the evolution of how societies interact, have each put pressure on ICT to adapt.

As such the global telecommunications industry is adapting to accommodate this shift. By embracing this technological and societal shift, and by integrating innovation throughout all of our activities, we were able to deliver solid results for another year.

During 2016, we continued to progress and integrate Smart initiatives throughout our business, in accordance with the UAE's Smart Government ambitions and vision 2021. We are both honoured and excited to be part of the strategy that will facilitate digital integration across the UAE.

We believe that telecommunication is key to improving the quality of people's lives. We remain dedicated to developing strategies, products and services that support the evolution of our city into a truly smart city, one that improves the lives of UAE residents for generations to come. As such, we were excited to support the launch of both the Blockchain Council and the Future Accelerators programme.

The Future Accelerators enable Dubai to find solutions to challenges of the 21st Century and establish its standing as an innovation hub.

Innovation is very much at the core of our business. By retaining a business model that is flexible enough to respond to the ever-changing developments in technology, whilst also executing an ambitious business strategy, we were able to maintain a steady rate of growth within our focus areas, delivering positive results and shareholder value.

As such, I am pleased to report that the Board of Directors has proposed a final dividend of AED 0.21 per share for the full year 2016, providing a total dividend for the year of AED 0.34 per share, of which AED 0.13 per share was awarded as an interim dividend in October 2016.

In the pursuit of simplicity and efficiency, last year, efforts and investments were made to our data network to ensure ease and availability throughout our offerings.

**“ We aim to ensure our strategy and operations are flexible and rapidly evolving so we make the most of technology that benefits our stakeholders. ”**

By continuing to invest in business enablers and empowering the digital transformation of our business, we are capitalising in our agility and scalability to meet future demands.

By exploring ways to streamline our structure, identify clear processes and deliver robust governance around how we outsource certain functions, we are now a stronger business. Driven by the success of our transformation programme, Emtyaz, which began in 2015, we continued to implement strategies and initiatives to make us more efficient. In turn, this enabled us to ensure we deliver the best possible service to our customers and maximise shareholder returns.

As ever, we remain committed to best practice and operating to the highest standards throughout the organisation. We pride ourselves on our business integrity and accountability. As such, during 2016, we continued to adhere to all SCA requirements whilst also implementing a number of new measures. For example, following an agreement between Emirates Integrated Telecommunications Company (EITC) and Dubai's stock exchange, dividends are now distributed through the Dubai Financial Market. Our governance manual was also updated in line with SCA's Board of Director's resolution number (7R.M) of 2016, which continue to evolve with the maturation of the region's regulatory environment.

We have disclosed all material related party transactions that occurred in 2016 within the financial statements and continued efforts were made by the Board to ensure that the conditions on the transactions are fair, reasonable and in the interests of the shareholders.

People are at the heart of our business. Their wellbeing is of the upmost importance and in 2016, we continued to run and roll out initiatives that helped exercise both the body and mind of our employees. We are therefore both humbled to have received our highest ever Gallup score for employee engagement (4.44).

I am also very grateful to have the ongoing advice and support of our Board. I would like to thank the members for their time and effort in 2016, and for helping direct the company along a path of growth.

The world is changing. We are in the midst of a global paradigm shift depicting how we, as communities, individuals and businesses, communicate with each other. As a telecommunications company, we are at the epicentre of this change and we are excited and invigorated by the potential of the future and our role in shaping it. We aim to ensure our strategy and operations are flexible and rapidly evolving so we make the most of technology that benefits our customers, employees and shareholders.

## CEO's message

**Dedication to our strategy of customer experience improvement, digital transformation, and efficiency continues to create value for our stakeholders.**



**Osman Sultan**  
Chief Executive Officer

For the tenth consecutive year, we are pleased to announce positive results across our key indicators. Our commitment to our strategy of customer experience improvement, digital transformation and efficiency continues to create value for our employees, customers and shareholders.

### **The global technology revolution**

Our industry is passing through an important moment of transformation. Driven by the constant changes in the technology and customer behaviour, telecoms operators are finding exciting growth opportunities in new services while facing a more challenging environment in their core businesses.

Globally, the millennial generation is driving a revolution in the demand for data and connectivity. Their passion for change and drive for innovation is forcing companies such as ours to evolve rapidly in order to meet their needs.

As a result, digital advances have altered the way we live, eat, shop and excitingly, the telecommunications industry is at the heart of this transformation. Whilst the technology revolution is exciting, it places us in an exhilarating, yet demanding position as we strive to model our business for continued future success. Internationally, our sector is working hard to answer the challenge of monetising the new forms of communication.

### **The UAE's journey towards Smart Integration**

The UAE is in the midst of a paradigm shift. The impact of the digital revolution is enabling the UAE, to transform into a country driven by innovation and smart technology. As a proud supporter and strategic partner of UAE leadership's vision to develop Dubai into a truly Smart City, we were honoured to be part of a number of key initiatives that advance the ambition. From our presence at the

**“The impact of the digital revolution is enabling the UAE to transform into a country driven by innovation and smart technology.”**

**“We remain firmly on track to capitalize and flourish in a truly digital future, one that makes our people happier.”**

Dubai Future Accelerators Programme, to our participation in the Blockchain Council, we have structured our own business model around the opportunity that is presented by UAE becoming a hub for innovation.

Smart technology is changing our society. Therefore, to continue the success we have built over the past ten years, we are continuously adapting our business model to ensure we remain competitive in this fast-changing world and that we can address the opportunities presented by the digital age.

### **Preparing our business for the future**

During 2016, we concentrated on implementing a strategy built on three pillars: excellence in customer experience and digital transformation of our operations that make life simpler for our customers and efficiency.

Customer happiness is central to our success and longevity. During the last year, we launched our Customer First program, a multi-year initiative aiming to enhance our customers' experience across different customer journeys and touchpoints. By the end of 2016, we started to see the first signs of success.

In progressing towards a digital future, we also explored partnerships and investments to address our customer's increasingly digital needs. For example, we invested in Anghami, a leading music streaming start-up, to evolve

our products and services beyond voice and data. We also expanded the suite of managed services available for large and small UAE enterprises to enable their businesses to flourish and contribute to the wider economy more meaningfully.

Our commitment to playing our part in the transformation of Dubai into a Smart City meant that many advancements in infrastructure and service during 2016 were implemented in accordance with the UAE's Smart Government and Dubai's Smart City initiatives. Programmes such as WiFi UAE are all part of Dubai's emerging status as a Smart City, and this year, we broadened the reach of this initiative further.

We launched the Smart Dubai Platform, in partnership with the Smart Dubai office, an innovative approach to unite the city's physical infrastructure, open and shared data, and citywide smart applications. The platform will become the central operating system and the nerve centre for Dubai, an exciting step towards the realisation of the Smart City vision.

However, as the world becomes more connected, the risks associated with privacy and security also increase. We take our responsibility to society very seriously, as such in 2016 we implemented a public service campaign to warn people about protecting their privacy online. We believe that those

using social media should think twice before sharing personal information due to the potential consequences of doing so. Post Wisely was a highly visible and successful campaign, and one that we believe delivers a critical message to our customers, particularly the younger generation.

We also held our third Cyber Security Conference in October. The primary aim of the event was to support the UAE government in its transformation to a smart government by highlighting information security challenges in smart cities and other national initiatives.

Efficiency continues to be a key priority for us. We continuously assess the allocation of our resources to increase our efficiency and effectiveness. In 2016 we started a major efficiency transformation programme where we conducted an

in-depth review of our commercial, technical and support operations, which provided us with a clear multi-year roadmap.

#### **Delivering robust results in a changing world**

As we reflect on these activities, I am proud to share our financial results for the year with you.

In 2016, we achieved steady rates of growth. Like for like revenues rose 3.2% to AED 12.73 billion, compared to 2015. Due to efforts made to continuously improve operational efficiency, we can report stable levels of profitability with EBITDA for 2016 at AED 5.36 billion. Net profit before royalty remained flat at AED 3.86 billion for the year. We achieved net profit after royalty of AED 1.75 billion, despite a 10% increase in royalty charges.

Our ability to remain agile and execute change, is down to the strength and ability of our people. Our business is built on innovation and collaboration and without the dedication of our employees, we would not be able to accomplish such a significant transformation of our business model to protect and enhance shareholder value. We are therefore humbled to have received our highest ever Gallup score for employee engagement. Therefore, I would also like to express my gratitude to all of our employees for their continued hard work.

We are excited about the bright future ahead, and this is because we have the region's brightest minds in our team – both young and inspiring employees working alongside those with extensive industry experience.

#### **Evolving for a bright future**

My team and I are proud to deliver robust results for the tenth consecutive year. Determination, planning and customer centricity have each helped us to ensure that our business evolves with the challenges the macro environment presents.

We remain firmly on track to capitalise and flourish in a truly digital future, one that makes the lives of our customers, and the wider society simpler, richer and ultimately happier.

I would like to thank our shareholders for their continued trust and our Board of Directors who have provided unerring guidance and support during this time of transformation and look forward to the bright future ahead.



## Our Board of Directors

**Our Board is committed to ensuring our strategy is aligned with the national vision whilst focused on delivering shareholder value.**



Ahmad Bin Byat  
Chairman



Khaled Balama  
Vice Chairman



Saeed Al Yateem  
Al Muhairi  
Board Member



Fadhel Al Ali  
Board Member



Ziad Galadari  
Board Member



Masood Mahmood  
Board Member



Abdullah Al Shamsi  
Board Member



Mohammed Al Suwaidi  
Board Member



Hana Al Rostamani  
Board Member



Homaid Al Shemmari  
Board Member



Ananda Bose  
Chief Wholesale and  
Corporate Affairs Officer



Carlos Domingo  
Chief New Business and  
Innovation Officer



Ali Nurcan  
Head of Transformation  
and Delivery Management



Hany Aly  
Executive VP  
Enterprise Business



Rashid El Sheikh  
Executive VP  
Corporate Services



Saleem Al Balooshi  
Executive VP Network  
Development & Operations



Samir Naguib  
Executive VP  
Consumer Business

## Our management team

**Our management team is dedicated to the efficient delivery of our strategy, achieving excellence and driving innovation.**



Osman Sultan  
Chief Executive Officer



Farid Faraidooni  
Chief Operations Officer



Amer Kazim  
Chief Financial Officer



Ibrahim Nassir  
Chief Human Capital &  
Administration Officer



Hala Badri  
Executive VP  
Brand & Communications



Carlos Domingo  
Chief New Business and  
Innovation Officer



Our management team

## Highlights

We are transforming our business for a future based on digital, putting our customers first and focusing on retaining shareholder value.

### Financial

|                              |  |
|------------------------------|--|
| Growth in total revenue      | Increase to AED 12.73 billion, 3.2% increase compared to AED 12.34 billion in 2015           |
| Growth in mobile subscribers | Increase of 12% to 8.65 million subscribers compared to AED 7.72 million subscribers in 2015 |
| Rise in Fixed line revenue   | 4.4% increase compared to 2015 to reach AED 2.67 billion                                     |
| Rise in mobile revenue       | Slight rise to AED 8.97 billion, 0.3% increase compared to AED 8.94 billion in 2015          |

### Operations

|   |   |  |
|---|---|--|
| Our <b>Customer First</b> initiative facilitates excellent customer experience throughout all we do | We made numerous improvements to our network during 2016 so we can offer our customers <b>fast connectivity</b> | Transforming our business for the digital age is a <b>top priority</b> , each new product and service developed in 2016 placed connectivity at its heart |
|---|---|--|

### Human capital

|   |  |   |
|---|--|---|
| People are at the heart of our business, we strive to ensure their happiness and wellness through a wide range of initiatives | Continual learning and development is central to enabling our business to grow. We continue to offer and career development programmes | We received our <b>highest ever</b> Gallup score of employee engagement |
|---|--|---|



**“ By focusing on operational efficiency and customer experience, we continue to maintain our progress for another year. ”**

#### Statistical summary

|  | 2016  | 2015  | 2014  | 2013  | 2012  |
|--|-------|-------|-------|-------|-------|
| <b>Active Subscribers (in thousands)</b> |       |       |       |       |       |
| Mobile                                   | 8,646 | 7,723 | 7,343 | 7,244 | 6,457 |
| Fixed Total                              | 698   | 674   | 639   | 599   | 561   |
| Landline including Call Select           | 345   | 337   | 327   | 310   | 299   |
| Broadband                                | 197   | 185   | 172   | 157   | 140   |
| TV                                       | 156   | 152   | 140   | 132   | 122   |
| Market Share                             | 46.9% | 45.2% | 46.3% | 47.4% | 48.7% |
| Value Share                              | 30.4% | 30.0% | 31.1% | 30.4% | 30.2% |



## Awards and recognition

Our commitment to excellence enabled us to win a number of awards in 2016.

### Business excellence awards

- Presented with the Best Enterprise Mobility and Best Cloud Security Solutions at the Cloud MENA Awards 2016
- Awarded Best Smart City Initiative and Best Cloud Provider at this year's Telecom Review Summit
- datamena named Best Internet Exchange Innovation at the 2016 Global Carrier Awards
- datamena awarded Data Centre Provider of the Year at the prestigious Intelligent CIO Technology Excellence Awards
- Won the prestigious Security Implementation of the Year award at the 12th Annual Network Middle East Innovation Awards. The Managed Services team's Secure Web Hosting implementation was recognised as the best in the region
- Presented with Satellite Services Innovation of the Year Award at the 12th Annual Digital Studio Awards
- Awarded Best in-house CEM Innovation and Best Use of CEM Technology at the Third Annual Customer Experience Management Middle East Live Award
- du Samacom Teleport achieved provisional certification under the World Teleport Association's (WTA) recently launched Teleport Certification Program, the first teleport in the Middle East
- Presented with the Editor's Choice Award for Managed Services Innovation at the Annual CommsMEA Awards
- Won Satellite Service Provider of the Year at the ASBU Broadcast PRO Awards
- Presented with Best Enterprise Service Data Centre at the Telecoms World Middle East Awards
- Honoured with an award from Dr. Hussein Abdul Rahman Al Rand, Assistant Undersecretary for Health Centres and Clinics at the UAE Ministry of Health for ongoing support during the countrywide blood donation campaign. Over 500 employees had donated blood during the campaign
- Presented with an award for pioneering training for Emirati nationals in the accounting, auditing and financial management professions, by the Ministry of Economy

### Awards for our brand

- 'Tropa for Life' an integrated campaign, targeting the UAE Filipino community was awarded a Gold Effie at the MENA Effie Awards
- duFC, the only international scouting platform in partnership with LaLiga, was ranked as a 5-star event for 2015/2016 under the International Sports Events Ranking System, the only Middle Eastern company to be part of the 5-star category
- du Tuesday and Kabayan Bundle campaigns excelled at Dubai Lynx winning 9 awards across various categories





## Financial summary

**Our company has again recorded a year of steady growth and delivered against its strategic objectives in what were, at times, challenging conditions.**

### Financial highlights (AEDm)

|                             | 2016   | 2015   | 2014   | 2013   | 2012  |
|-----------------------------|--------|--------|--------|--------|-------|
| Total Revenue               | 12,727 | 12,337 | 12,238 | 10,799 | 9,842 |
| EBITDA                      | 5,364  | 5,419  | 5,030  | 4,306  | 3,999 |
| EBITDA %                    | 42.1%  | 43.9%  | 41.1%  | 39.9%  | 40.6% |
| Net Profit before Royalty   | 3,864  | 3,862  | 3,702  | 3,014  | 2,823 |
| Net Profit after Royalty    | 1,753  | 1,941  | 2,109  | 1,986  | 1,980 |
| Free Cash Flow              | 1,672  | 2,267  | 2,188  | 2,329  | 1,748 |
| Earnings per Share (in AED) | 0.38   | 0.42   | 0.46   | 0.43   | 0.43  |

Note: 2013-2014 EBITDA shown in accordance with new definition

During 2016, we continued to focus on operational efficiency and enhancing the overall customer experience. By embracing new technology and integrating innovation across our entire business we were able to maximise value for both our customers and shareholders.

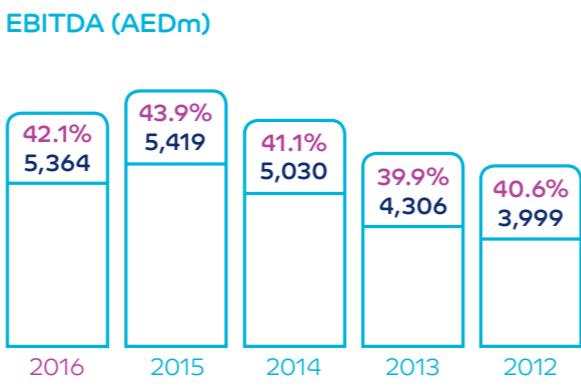
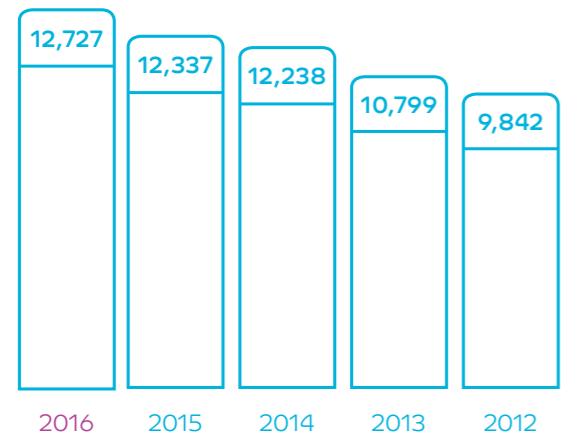
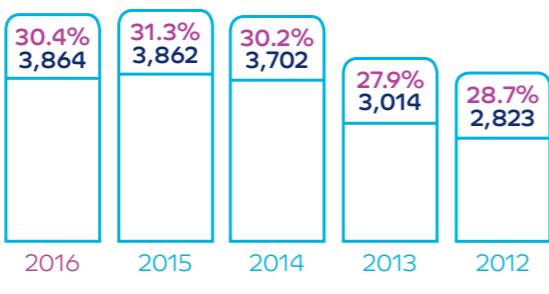
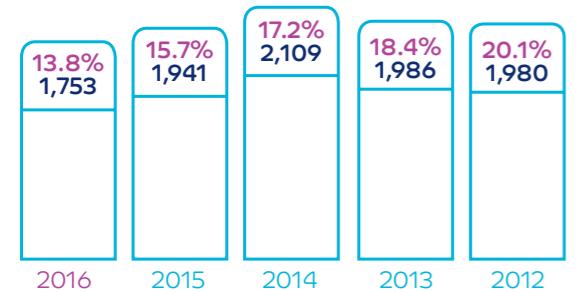
Data remains a core component of our story. In today's fast changing telecoms environment, we continue to look beyond traditional revenue streams, adapting our business model to explore ways of better leveraging our digital offering in order to create more value.

We have continued to invest in our network, allowing us to capture more opportunities from our increasingly data-centric business. The 52% increase in data usage from 2015 to 2016 shows our customer's appetite for data consumption has increased dramatically as we release more competitive offers into the market. However, the industry-wide issue of monetising data remains a challenge.

Revenue for the year ended 31 December 2016 were AED 12.73 billion, 3.2% higher than in 2015 (AED 12.34 billion).

EBITDA for 2016 remained stable at AED 5.36 billion, driven by continued customer demand for connectivity, further service improvements and competitive differentiation.

Our continued focus on operational efficiencies, delivered through an internal efficiency programme, has enabled the company to achieve a healthy level of profitability. Net profit before royalty was flat in 2016, at AED 3.86 billion in line with 2015. Net profit after royalty stood at AED 1.75 billion, down 9.7% from AED 1.94 billion in 2015, due mostly to an increase in year-on-year royalty of 9.9%.

**Total revenue (AEDm)**
**Net profit before royalty (AEDm)**
**Net profit after royalty (AEDm)**


Net profit after royalty margin (%)  
 Net profit after royalty (AEDm)



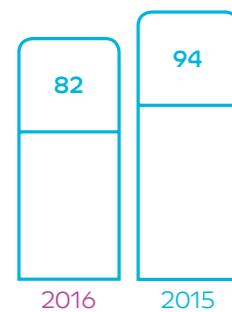
**Mobile**

Our mobile business remained robust with our total mobile customer base increasing 12% to 8.6 million subscribers at the end of 2016, compared to 7.7 million in 2015.

**Mobile ARPU**

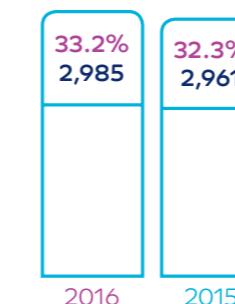
Mobile ARPU for the year was AED 82 compared with AED 94 in 2015. In line with global industry figures, we continue to see consumers opt to spend more on data and less on voice packages. As a result, we continue to see fluctuations in ARPU levels.

Cognisant of this trend, we remain focused on exploring ways to monetise data to increase data revenue and ultimately our proportion of higher value post-paid customers. However, we need to readjust to a new normal in ARPU and believe the current level is more sustainable going forward.

**Mobile ARPU (AED)****Mobile data**

Our mobile data revenue increased by 0.8% in 2016 to AED 2.98 billion, compared with AED 2.96 billion the previous year. In 2016, data represented 33.2% of mobile revenues, up from 32.3% in 2015.

As demand for data continues to grow, we are seeking more sophisticated ways of maximising our ability to deliver innovative data solutions.

**Mobile data revenue (AEDm)**

Data revenue as a percentage of revenue (%)  
 Data revenue (AEDm)

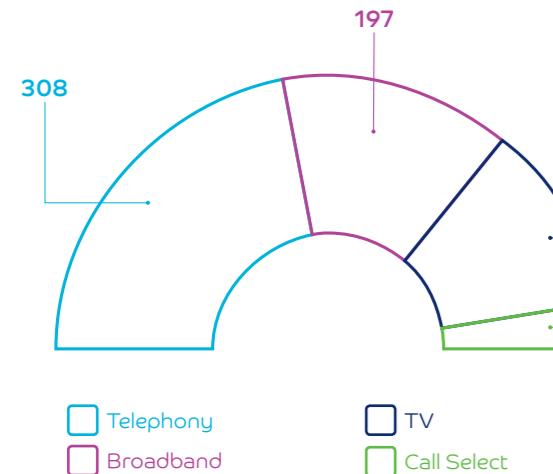
**“Connectivity is the beating heart of human development”**



## Fixed line

Our fixed line business generated AED 2.67 billion in revenues in 2016, a 4.4% increase in 2015 where it generated AED 2.55 billion.

### Fixed line subscribers for 2016 (thousands)



## Wholesale

Our wholesale revenues, which cover International Voice termination (to UAE) and International Hubbing (transit), increased by 21.8% from AED 631.7 million in 2015 to AED 769.3 million in 2016.

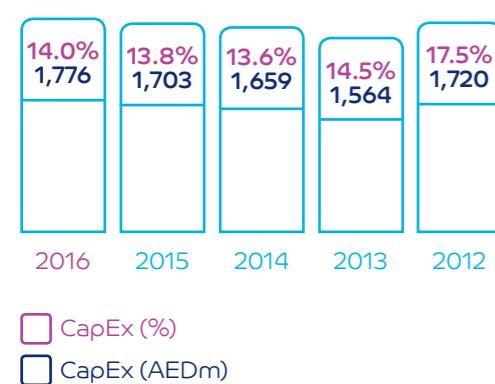
## Broadcasting

Broadcasting revenues, generated primarily by our upload/download and other value-added service capabilities, increased to AED 167.7 million in 2016, 4.5% more than AED 160.6 million in 2015.

## Capital expenditure

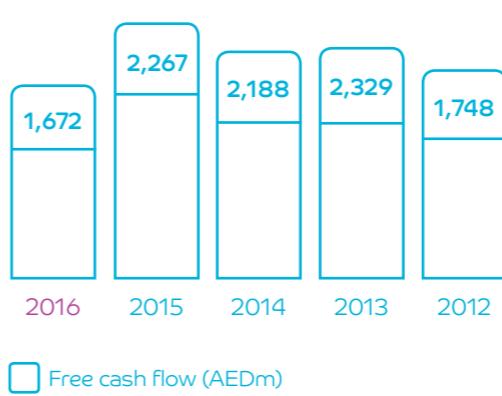
Capital expenditure was AED 1.78 billion, at similar levels to 2015, as we continued to invest in our network infrastructure.

### Capital expenditures (AEDm)



## Cash and debt overview

Free cash flow decreased by 26.2% to AED 1.67 billion from AED 2.27 billion in 2015, reflecting the higher royalty charges.



## Strategic guidelines

**Our strategy is focused on transforming the company by establishing competitive levers for the future and building an effective delivery model.**

Throughout 2016, we focused on sustainable and profitable growth despite the backdrop of challenging macro environment. We increased our focus on mobile data and continued to offer innovative products and solutions to meet the evolving needs of our customers. Sustained investments were made to provide seamless, superior and segmented customer experience, enhance the scalability of the network, and digital transformation of our operations to meet future demands.

Looking ahead, evolution of consumer behavior, technology and our business model will accelerate and telecom operators shall seek ways to remain relevant in the digital future. Our strategy for 2017 and beyond remains focused on establishing competitive levers for the future which shall be realised through a value-focused efficient and effective core, innovative products and solutions, and

differentiation through digitalisation and enhanced customer experience. In addition, an effective delivery model that embeds best practices in our Network and IT factory, enhances productivity by simplifying and streamlining end-to-end processes and employs best in class human capital will solidify our position to deliver on future expectations and fulfil our commitment for sustainable growth and value creation to our shareholders.

### The key strategic objectives of our company in 2017 will be to:

- Protect a solid position in mobile business
- Build capabilities for nationwide fixed business
- Realise structural efficiency and effectiveness
- Invest in competitive assets and growth enablers
- Continue our thrust on new innovative areas

**“ In 2016, we focused on efficiency and value creation, positioning the company for success in a continually evolving and competitive telecommunications market.”**

### 2016 Strategy map

#### Vision

- To enhance your life – anytime, anywhere

KPIs

#### Financial > Sustainable growth and value creation

- Focus on value and data driven growth
- Invest in business enablers to sustain competitiveness
- Actively pursuing business transformation for value creation

- Mobile Market Share
- Service Revenue
- Mobile Data Revenue YoY growth
- Enterprise Revenue YoY growth
- EBITDA
- Free Cash Flow

#### Customer > Innovate and provide seamless customer experience

- Offer innovative products and services and improved digital engagement
- Provide segmented and simplified customer experience

• Net Promoters' Score

#### Operations/Processes > Simplified and cost efficient operations

- State-of-the-art and optimised technology infrastructure
- Build further efficiencies in the core business

- Network Quality Index
- Efficiency Index

#### Growth & Learning > Create a high performing organisation

- Focus on quality driven Emiratisation
- Sustain employee engagement

- Emiratisation Index
- Employee Engagement Score

### 2017 key focus areas

Extract further value, sustain growth in the core business

Build efficiencies in the core business

Differentiate customer experience – segmented, consistent, superior service

State of the art and optimised technology infrastructure

Digitalisation of operations

Fuel new businesses

## Operational highlights

**In 2016 we began our transformation, developing innovative, digital ways to satisfy our customers' needs, whilst retaining the quality of our traditional communication services.**

### Putting our customers first

Our primary aim is to ensure that our services are delivered with excellent customer experience across the board. With this in mind, we introduced our Customer First programme in 2016. Sponsored by the CEO, the programme assesses all aspects of customer interaction, implementing practical steps to improve our performance. Each area was analysed by specialist teams to devise improvements that ultimately ensure that our customers find our services simple, easy, and efficient.

For example, the Voice of the Customer programme asks customers for feedback so that we may identify the operational areas that require enhancement. One area customers identified was the speed of service in our retail stores. We analysed each element of our retail offering to identify ways to reduce wait time and, as a result, implemented a retail booking appointment service delivered via our mobile app which decreased customers' average wait time significantly across all of our outlets. To improve our customer experience, we launched 'Ask Labiba', a platform which consolidates our existing knowledge base into a single source of consistent bi-lingual responses and solutions. By increasing our agents' competence, reducing the content delivery time and increasing first-contact resolution, we will significantly improve service satisfaction levels.

### Efficiency as a key focus

Efficiency is a core requirement for us and we continuously focus on ways we can improve our processes and systems. Building on the Emytaz programme initiated in 2015, which simplified our vendor portfolio significantly, we started a multi-phase technology efficiency programme involving our billing systems and other service functionalities in 2016.

We have also started a major efficiency transformation programme to assess both our business and operating models comprehensively. This incorporated the products we sell, the way we serve our customers, how we are organised, and the way we manage our technology operations. The outcome was the creation of a comprehensive, long-term efficiency roadmap, which we have already started to implement.

### Technology transformation

Working within our strategic framework, we laid the foundations during 2016 to transform from a hybrid to a layered, service-based platform. The transformation, called the Technology Blueprint, will bring us in line with international best practice. The layered service architecture will enable swift product, service and resource bundling and the capability to auto scale via a virtualised and programmable network on top of industry standard high volume cloud infrastructure. It will also streamline our processes so that we can manage a service from end-to-end, to deliver excellent customer experience. Adopting this new framework will encourage Zero touch orchestration, agility of operations and scalability to meet future demands.

We made numerous improvements to our network during 2016 so we can offer our customers fast connectivity. We improved indoor 3G coverage to 92% from 83% and our outdoor LTE coverage reached a major milestone of 98% with significant coverage and performance improvements in areas such as Yas Island, Zayed Military City, Musaffah Industrial Area & Al Wathba in Abu Dhabi as well as Madinat Zayed in the Western Region. Similarly, in Dubai, we have significantly improved our mobile coverage and capacity in areas including the World Trade Centre, Burj Khalifa and Business Bay. We also significantly improved our network in

neighbouring Emirates including Al Mujarrah in Sharjah, Al Moshrif and Rashidiya in Ajman, Ras Al Khaimah City in Ras Al Khaimah, and Al Hamra in Umm Al Quwain.

Customer use of our services continues to rise with a 12% uplift in voice traffic and 15% 3G data traffic increase in 2016. We upgraded an additional 30,000 customers to the GPON network which enables significantly higher upload and download speeds. We also demonstrated multi-gigabit WiFi technology for the first time in the Middle East at GITEX, demonstrating our future capability.

### Digitalisation for the future

Digitalising our operations continues to be a top priority and we undertook a number of initiatives in 2016 in line with this strategic pillar. For example, we introduced improvements to our digital platforms, resulting in a 20% overall increase in the number of customers managing and paying for services online.

In the first half of 2016 alone, we experienced a 50% increase in the number of customers paying bills online through our Quick Pay service; the latest addition to our range of digital services through the online self-service tool. In addition, more than 50 new functionalities were added to the My Account section of our website, saving thousands of customers from queuing in stores and phoning our call centres every day.

Our involvement in a 16-nation consortium to deliver a 20,000-kilometer subsea cable called SEA-ME-WE 5, completed in December, helps meet the increasing demand for higher-capacity infrastructure. We take into consideration any opportunity to improve ICT infrastructure in the UAE, not only to benefit its intrinsic business requirements, but also benefit the UAE as a whole.

### Continued support of the UAE's Vision 2021

As part of our drive towards digitisation, throughout 2016 we explored ways to support the



UAE's vision of creating a wholly connected Smart City. By unifying operations to enable impact across the city, from infrastructure connected through the Internet of Things, to open and shared data driving insights and innovation, to service enablement powering seamless city experiences and impactful smart connected services, we assisted in creating initiatives to make the lives of Dubai residents simpler through more efficient services.

As a strategic partner of the Smart Dubai initiative, we are developing 'The Smart Dubai Platform', a new operating system that unites the city's infrastructure and open and shared data while enabling services and citywide smart applications.

A key tenant to becoming a Smart City is providing connectivity. Our network infrastructure allows us to deliver faster connectivity and wider accessibility for our customers. We are continuously reviewing and upgrading our network to ready it for new technologies.

We also announced the establishment of UAE 5G Innovation Gate (U5GIG), where, together with a consortium of industry experts, we will work to define and develop a global 5G network.

In addition, during 2016 we extended the reach of WiFi UAE, enabling an additional 350 sites. With more than 1.5 million sessions per month, WiFi UAE creates a network of interconnectivity between people and things as we assist in the ambition of developing a truly integrated smart city.

Through our membership of the Dubai Global Blockchain Council (GBC), we launched a pilot initiative during 2016 to introduce a safe, common system for instantly sharing and verifying electronic health records (EHR) between hospitals and clinics. This will help bring a new age of efficiency to the healthcare sector. We also announced a collaboration with Dubai Taxi Corporation and Roads and Transport Authority to launch WiFi UAE access via smart screens in 500 cars from its Dubai Airport fleet.

### **Building strong partnerships to benefit our customers**

As part of our strategy to provide benefit to the mass market, we also partnered with a number of local and international brands. For example, during 2016 we signed an agreement with Pepsi to promote our new pre-paid daily bundles and formed a

partnership with Fly Dubai to offer Recharge and Fly promotions. Our new Tourist Plan SIM cards provide visitors a range of offers including free UBER rides, Rent-a-Car deals and two-for-one deals with The Entertainer.

Our partnership with Anghami, the leading music platform in the Middle East, is further evidence of how our company is evolving to provide a more holistic offer to customers through improved digital services. This initiative offers customers access to the largest catalogue of Arabic and International licensed music content for both online streaming and offline access.

We also partnered with Huawei during 2016 to launch the world's first commercial Transport Software-Defined Network, transforming the traditional network to a Data-Centre based T-SDN network that helps enhance service connections.

Additional partnerships signed this year include ADIB, Ali Baba, Careem, CISCO, EMC, ENBD and Unilever. Each partnership enables us to provide services outside of our core product, helping us to delight our customers by expanding the breadth of services they can access through our products.

While digitising our services, we also expanded into new revenue streams during 2016. We closed a deal with SAP to support UAE governments and private entrepreneurs with cloud-based applications from our data centre. Through this partnership, we can offer real-time private cloud applications so organisations can gain in-depth insights into operations, employee productivity and their user experience.

### **Prioritising our customer's needs**

Recognising that SMEs, an integral driver of the UAE economy, have limited resources to grow their brand, we, together with digital pioneers Zoser, re-launched the yellow pages directory. This will not only help connect consumers with local firms through a comprehensive online business directory, but businesses will also benefit from potential new sales leads.

In the field of Fixed and Managed Services, in addition to expanding our cloud services, we launched an impressive portfolio of new solutions; some of them first in the GCC region. The Enterprise Mobility Management solution, enables enterprises



to create a secure and fully managed mobile environment. It offers a comprehensive, user-friendly and flexible solution to properly manage devices running on any operating system. It also provides employees secure access to the tools, resources and content they need to confidently achieve their business objectives.

The Media Cloud, which launched in October, enables digital transformation in the media industry through rapid deployment of broadcast and content services across the Middle East. We are the first telecommunications provider in the MENA region to launch end-to-end Media Cloud services.

Our key priority in the enterprise area remains the provision of leading integrated telecom and ICT solutions that help businesses to be more productive and agile in their own market space, at competitive prices with superior account management and customer service.

During 2016, we launched secure web hosting to help businesses combat cyber-attacks and opened an Enterprise Security Operations Centre. It is operated by a dedicated team of security experts who provide 24/7 security monitoring, incident detection and response, further safeguarding digital enterprises. We also launched a Managed Data Centre and Co-location Services to minimise downtime and give businesses a

reliable and highly connected foundation. Considering our mobile customers, we extended the portfolio of device offerings with superior data packages, and Easy Roaming 2.0 to ensure connectivity no matter where our customers are.

We also launched the Happy Home offer, allowing customers to subscribe to our new Internet, TV and home phone plans at reduced rates in a bundle.

We have also revamped and expanded our prepaid bundles. With the introduction of new prepaid bundles, customers will never be out of touch again with non-stop chat and social data, flexible minutes and data.

During 2016, we also brought the best global technology to our customers, introducing the, iPhone 7, iPhone 7 Plus, Apple Watch Series 2, and Samsung Galaxy S7 to the market, supported by a range of attractive plans and offers.

### **Transformation for the future**

We focus on supporting the UAE's vision by providing highly effective telecoms infrastructure and the services needed to attain this objective. Placing the customer at the centre of everything we do is part of our DNA and continues to drive our innovative approach as we bridge the shift to the digital age.

## Corporate governance

We aim to continually evolve our corporate governance to ensure we maintain the highest standard operating model to benefit all of our stakeholders.

We believe good corporate governance is fundamental to building investor trust, which is key to maintaining a sustainable business model and ultimately increasing value for our stakeholders. To support our commitment to operate in a highly ethical, transparent manner, we continued to update our governance policies during 2016 in line with SCA's Board of Director's resolution number (7R.M) of 2016, which not guide how our Board, but also how our people, operate.

This year, our governance manual was updated in line with SCA's Board of Director's resolution number (7R.M) of 2016, which continue to evolve with the maturation of the region's regulatory environment. Dividends are now also distributed through the DFM following an agreement between EITC and the market.

Towards the end of 2016, we engaged Deloitte to undertake an in-depth governance maturity assessment to benchmark our activities against international standards, ensuring we remain a market leader in the areas of transparency and accountability. This will complement our annual Board evaluation exercise and isolate areas where we can elevate our practices to achieve even higher levels of accountability. The review will be completed in 2017 and the results will be shared with the Board.

Extending our philosophy to act with integrity at all times to our core, and non-core businesses, we established a Board of Directors for EITC Investment Holdings Ltd, a 100% owned subsidiary. This

board, who met twice in 2016, is comprised of two independent directors and four executive directors and provides a framework to supervise, direct and monitor EITC's incorporated companies.

Like all telecommunications companies, we aim to re-adjust our business model to accommodate the ever increasing desire to interact digitally. It is also important that our employees and suppliers uphold the same dedication to fair business conduct. We want to ensure employees feel empowered to express any reservations about our company's activities so, in addition to our internal channel, we now have an independent third-party hotline to manage our Whistle Blowing process. Employees can confidentially report concerns, manipulation, bribery, corruption, or misappropriation at work that threaten others through this new channel.

### Shareholder information

- The UAE Government, through its ownership of EIA, indirectly owns 39.5% of the existing shares
- The Abu Dhabi Government, through its ownership of Mubadala, indirectly owns 19.75% of the existing shares
- Dubai Holding, through its ownership of EIT, indirectly owns 19.5% of the existing shares
- The remainder of the shares are held by public shareholders, comprising individuals who are UAE and non-UAE nationals and companies majority owned by a UAE entity

Our corporate governance report is available at:  
[du.ae/about/corporate-governance](http://du.ae/about/corporate-governance)



## Sustainability and community engagement

**We are committed to pursuing innovation and corporate social responsibility across every aspect of our business in our ambition to be a truly sustainable business.**

We continue to work towards reducing our environmental impact and ensure that we foster a supportive work environment. This in turn enables growth and development and contributes to our community's happiness.

### Our people

In line with our commitment to lifelong learning and the development of a customer-centric culture, we have continued to develop our du University learning framework throughout 2016. Over the past twelve months, 1588 of our employees participated in a course at the university, averaging seven training days per person. Over 700 staff members from our shops and franchised stores undertook retail and store management training. We also launched the School of Technology, an additional arm of the university that forms part of our strategy to transform our business for a digital future. Participant feedback from du University showed 99% satisfaction with the training offered, with 98% of students reporting that they are able to actively apply their new skills within their day-to-day role.

We continue to engage with our staff through a number of targeted initiatives, offering them a chance to have a dialogue with us and allowing them to foster a sense of community and wellbeing. As a result of this commitment, we secured our highest ever Gallup score for employee engagement (4.4).

We believe that volunteering positively impacts employee engagement and team building, therefore we encourage our people to participate where they can. In 2016, our volunteering programme continued to grow from strength to strength, with 349 of our staff dedicating their time and skills towards the community.

Our wellness initiatives continue to be a key part of our internal framework and participation reached its highest ever level. For example, 2016 saw the biggest ever participation in the Dubai Marathon with over 300 colleagues and family members participating; a 20% increase on 2015. We also launched our first ever women's-only wellness day, attended by 140 employees, over 25% of our workforce. We were also the biggest corporate team to take part in the Spartan Race, a 200-strong team.

### Our environment

Caring and protecting for our environment remains one of our top responsibilities. In 2016 we rolled out our redesigned SIM card packaging which is more sustainable – environmentally and financially. The new packs have eliminated the use of plastic by 99%, and primarily use paper and cardboard that are recyclable.

We are proud to be playing a part in supporting the UAE Government's Vision 2021 regarding the clean energy mix, and the National Energy Strategy's aim for a 15% reduction in carbon dioxide emissions by 2021. As such, we continue to have 250 base stations running on hybrid energy sources and by doing so have saved 11.5M of diesel, the equivalent of reducing our carbon footprint by 28,710 tonnes.

We installed seven new mobile network sites, fully powered by solar power. Erected in Abu Dhabi Western region, the new sites have an annual diesel saving of 180,000L, equivalent to 450 tons of carbon. We plan to install four more solar mobile network sites in 2017.

Our technology-based solutions, for example the Cloud, IoT elements and the Smart City initiative are all designed to help our customers reduce their



environmental footprint. Our products and services enable customers to work remotely, operate more efficiently and avoid travel. These actions save energy, fuel and carbon emissions (CO<sub>2</sub>e), therefore, we are helping the UAE to reduce its environmental impact.

### Our customers

We continued our efforts to put customers first and released a range of partnership offers that benefit the entire market. For example, we signed a partnership with The Entertainer that resulted in a du Entertainer app offering exclusive deals/discounts for premium customers. We also continued the success of du Live! bringing our customers exclusive access to a number of exciting acts to the UAE for our customers. This included a New Year's Eve performance from British indie rock band, Coldplay.

du Tuesday continued with a number of fantastic premieres including Independence Day 2, involving stars such as Will Smith and Liam Hemsworth. In addition, we launched our association with Dubai Opera, the newest most exciting addition to the Emirate's bustling cultural scene to provide exclusive customer offers for performances including Les Misérables and The Pearl Fisheries.

### Our community

The government recognised 2016 to be the 'Year of Reading' and we supported this initiative by partnering with the Arabic publishing company

'Kalimat' to provide a total of 11,900 books to be distributed across the UAE's schools. We have also engaged in several volunteering activities to promote the spirit of reading. In addition, we have also made donations of AED 3 million towards HH Sheikh Mohammed's 'Reading Nation' campaign and auctioned five exclusive mobile numbers to support the campaign's fundraiser auction. The sale of these numbers resulted in AED 2.5 million for the campaign.

The advancement of the digital age and social connectivity, is an exciting evolution in the telecommunications industry, but it also creates some potential risks to customers. Conscious of this, we launched our first ever Public Service Announcement (PSA) campaign, Post Wisely, addressing the dangers of over-sharing personal information on social media channels.

The campaign was developed as a result of a combination of research into people's behaviour online, the rise in crime linked to sharing of information online, and our responsibility towards promoting cyber safety as a provider of internet services. The adverts have generated almost five million views on our YouTube channel alone, and were shared widely across all social media. Feedback via social media platforms has shown the effectiveness of this campaign, with many users stating that the campaign had made them reconsider what they post online.



We recognise that technology can improve lives and we seek ways to enable this for our customers and wider society. Our association with BabNoor, an app that enables communication for students with learning disabilities, continued to produce positive improvements. In 2016, we completed phase 1 distributing 390 iPads enabled with the BabNoor app. Then we moved on to phase 2 where we committed to distribute 2,200 app licenses, 1000 of which have been sent out to various educational centres across the UAE.

The feedback from our partnership with BabNoor has been incredibly positive. 88% of teachers rated the app highly in facilitating student-teacher interaction in the classroom. 98% of teachers would recommend the app to other special needs centres

and teachers to use with their students. 88% of the students with autism using BabNoor are able to easily browse through the app in search for what they need.

Continuing our efforts with the UAE's students, Agent 055 Network, encouraging college students to explore entrepreneurship continued to develop throughout 2016. This is also the first project of its kind to offer an internship to expatriate students at well recognised companies. A Social Return on Investment (SROI) study of the inaugural batch concluded in April 2016, demonstrated a social value of AED 3 created for each Dirham invested in the programme. Student feedback also showed greater inclination towards starting their own businesses, and an increase in ability in business skills including

complex problem solving, business communication and networking as a result of participation. A new batch of students were recruited for the second phase in October 2016, including three Emirati and 13 expatriate students.

We remain a strong supporter of wellness and fitness in the community as well. du Football Champions (duFC) had a very successful 2015/2016 season that resulted in one of the duFC Elite Team, Ahmad El Yamani, to train with Malaga CF. We also further developed our fitness platform by bringing 'du Tough Mudder' – an 8KM & 16KM mud and obstacle course designed to test physical strength, stamina, and mental grit to the UAE.

Our Ramadan campaign, Mawaed Al Rahman, continued to be one of our most successful community projects. Working alongside our staff and senior management, 864 of UAE's residents joined in as volunteers to pack and distribute 12,300 boxes of essential Ramadan food ingredients to needy families across the Emirates. With the aim of strengthening social bonds, we also created 'Digital Fasting', a YouTube series that was also aired on our social media channels, promoting the concept of taking a break from digital devices during Ramadan. The series showcased the adventures of Emirati boy Omar Bin Haider who took on our challenge using basic tools to go offline between suhoor and iftaar, and focus on the valuable essence of life.

## Consolidated financial statements

### Independent auditor's report to the shareholders of the Emirates Integrated Telecommunications Company PJSC

#### **Our opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Emirates Integrated Telecommunications Company PJSC ('the Company') and its subsidiaries (together 'the Group') as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

#### **What we have audited**

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

#### **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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other independence requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

#### **Our audit approach**

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

The areas, in our professional judgment, that were of most significance to the audit ('Key audit matters') and where we focused most audit efforts identified during the year were:

- Carrying value of goodwill.
- Capitalisation and useful lives of property, plant and equipment.
- Federal royalty.
- Revenue recognition – accuracy of revenue recorded given the complexity of the systems.
- IT systems and controls.

We have set out below our explanation of each item and a summary of the audit approach.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

# Independent auditor's report to the shareholders of the Emirates Integrated Telecommunications Company PJSC (continued)

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in

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

| Key audit matter   | How our audit addressed the Key audit matter  | Key audit matter  | How our audit addressed the Key audit matter   |
|--|---|---|--|
| <p><b>Carrying value of goodwill</b><br/>The Group has goodwill of AED 549 million contained within two cash generating units ('CGU') as referred to in Note 7 to the consolidated financial statements. We focused on the area due both to the size of the goodwill balance and because of judgments involved about the future results and key assumptions involved in management's assessment of the carrying value.</p> <p>No impairment charges have been recognised in previous or current periods, as management have concluded that there was no impairment of goodwill. With challenging trading conditions, increasing fixed line competition in the Group's fixed network areas and pressure on margins, the Group's performance and prospects could be impacted in the relevant fixed line and broadband segments, increasing the risk of goodwill impairment.</p> <p>For the CGUs that contain goodwill, determination of recoverable amount is based on a value-in-use model. This requires judgment on the part of management in both identifying and then valuing the relevant CGUs. Recoverable amounts are based on management's view of variables such as estimates of future revenues, margins and operating expenses, timing and extent of future maintenance capital expenditure, growth rates and the most appropriate discount rate.</p> <p>Refer to Notes 2 and 7 to the consolidated financial statements for critical accounting estimates and assumptions used by management.</p> | <p>We evaluated the appropriateness of management's identification of the CGUs and the continued satisfactory operation of the Company's controls over the impairment assessment process.</p> <p>Our procedures mainly included challenging management on the suitability of the impairment model and reasonableness of the assumptions used through performing the following:</p> <ul style="list-style-type: none"> <li>• assessment of assumptions used in relation to forecast revenues, margins, operating costs and maintenance capital expenditure expected on the relevant network;</li> <li>• performing independent sensitivity analysis on cash flows, growth rates, discount rates, where necessary involving our independent valuation specialists;</li> <li>• testing the mathematical accuracy of the cash flow models and agreeing relevant data to Board approved long-term plans; and</li> <li>• assessing the reliability of management's forecast through a review of actual performance against previous forecasts.</li> </ul> <p>We considered the appropriateness of the related disclosures in Note 7 to the consolidated financial statements.</p> | <p><b>Capitalisation and useful lives of property, plant and equipment</b><br/>As at 31 December 2016, the Group has property, plant and equipment of AED 8.45 billion with the most significant balance represented by 'plant and equipment' (note 6). Our focus on the area was due to the sheer proportion of the balance in the statement of financial position and also because of the use of certain judgments.</p> <p>There are a number of areas where management judgment has impacted the carrying value of property, plant and equipment. These include:</p> <ul style="list-style-type: none"> <li>• the decision to capitalise or expense costs;</li> <li>• the review of estimated useful lives, including commissioning of an independent third party review and benchmarking;</li> <li>• the asset impairment review including the impact of changes in the Company's strategy; and</li> <li>• the timeliness of the transfer from capital work in progress to depreciated fixed assets.</li> </ul> <p>Refer to Notes 3.2 and 2.3 for information on accounting policies and critical accounting estimates and judgments.</p> | <p>We tested controls over the plant and equipment cycle, evaluated the appropriateness of capitalisation policies including transfers from capital work in progress, performed tests of detail on costs capitalised, the transfer of assets in the course of construction, maintenance expenditure and depreciation calculations.</p> <p>In performing these procedures, we assessed judgments made by management including:</p> <ul style="list-style-type: none"> <li>• assessing the need for accelerated depreciation in light of asset upgrade and replacement programmes and of impairment charges given changes to various projects over time;</li> <li>• the nature of underlying costs capitalised as part of the cost of assets (e.g. staff costs);</li> <li>• the appropriateness of asset lives used in the calculation of depreciation, including considering the results of a detailed assessment performed by management taking into account advice from third party experts; and</li> <li>• the application of potential prospective changes to certain asset lives.</li> </ul> |
|  |   | <p><b>Federal royalty</b><br/>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 25 to the consolidated financial statements.</p> <p>The royalty charge set out in note 25 for the year is AED 2,111.4 million with an accrual at 31 December 2016 of AED 2,110.8 million.</p>  | <p>We have reviewed the guidelines provided to the Group by the MoF, together with other relevant correspondence, and assessed 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 is subject to Federal royalty. In addition, we have reviewed the management controls around the calculation and approval of the Federal royalty charge.</p>  |

## Independent auditor's report to the shareholders of the Emirates Integrated Telecommunications Company PJSC (continued)

| Key audit matter (continued)  | How our audit addressed the Key audit matter   | Key audit matter (continued)  | How our audit addressed the Key audit matter  |
|---|--|---|---|
| <p><b>Federal royalty (continued)</b></p> <p>The royalty calculations are subject to the use of certain judgments, 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 the guidelines provided by the UAE Ministry of Finance ('the MoF') are amended or as clarifications are received from the MoF.</p>   | <p>We have performed the following:</p> <ul style="list-style-type: none"> <li>• assessed management's interpretation of regulated and unregulated activities through review of the guidelines, discussions with management and consideration of the history of settled positions with the MoF;</li> <li>• tested the mathematical accuracy of the calculation and agreed them to the underlying supporting data; and</li> <li>• assessed the appropriateness of the related disclosures in Note 25 of the consolidated financial statements.</li> </ul>   | <p><b>IT systems and controls</b></p> <p>We place high reliance on the Group's IT systems and key internal controls, a normal practice for a telecom audit. This resulted in a significant portion of our audit effort directed towards this area.</p> <p>Our focus was on understanding and validating the impacts of key changes being made to the control environment having established an extensive understanding and baseline in the previous years.</p> <p>The Group is in the process of replacing and upgrading various IT systems to enhance business effectiveness and improve efficiency. These also include improvements to user access controls in respect of a number of key systems. Some of these are in the process of implementation, but are not yet finalised.</p>   | <p>We have performed detailed end-to-end walkthroughs of the finance and operational processes, utilising our understanding from the prior years to reassess the design effectiveness of the key internal controls and identify changes.</p> <p>We then conducted testing of the operating effectiveness of these controls to obtain sufficient, appropriate evidence that they operated throughout the year as intended.</p> <p>In response to the changes and control enhancements made during the year, we performed the following:</p> <ul style="list-style-type: none"> <li>• reviewed the design of the controls to ensure they mitigated any financial reporting risks and tested samples from the controls that resulted from the enhancements;</li> <li>• where systems were changed or enhanced during the year, we tested the IT general controls;</li> <li>• tested enhanced user access management controls and logging of user access;</li> <li>• tested controls and performed additional substantive procedures of key general ledger account reconciliations and manual journals; and</li> <li>• where necessary we amended our planned audit approach and performed additional substantive testing.</li> </ul> |
| <p><b>Revenue recognition - accuracy of revenue recorded given the complexity of the systems</b></p> <p>There is an inherent risk around the accuracy of revenue recognised given the complexity of the systems and changing mix of business products and services, including the variety of plans available for consumer and enterprise customers, tariff structures, roaming and international hubbing ('wholesale') agreements, site sharing agreements, incentive programmes and discounts.</p> <p>The application of the revenue recognition accounting standard is complex and involves a number of key judgments and estimates.</p> <p>Refer to Note 3.14 and 2.3 for accounting policies and critical accounting estimates and judgments.</p> | <p>Our audit approach included a combination of controls testing and substantive procedures which covered the following:</p> <ul style="list-style-type: none"> <li>• testing the relevant infrastructure technology (IT) environment in which billing, rating and other relevant support systems reside, including the change control procedures in place around systems that generate revenues;</li> <li>• testing end-to-end reconciliation from support systems for billings and ratings to general ledger, including testing a sample of Call Detail Records;</li> <li>• performing tests on the accuracy of customer bills generation on a sample basis;</li> <li>• carrying out test call samples in order to obtain comfort over the rating and duration by extracting data from support systems;</li> <li>• testing third-party key reconciliations to wholesale revenue recognised in the general ledger;</li> <li>• reviewing significant new contracts and regulatory determinations, understanding and testing the related revenue and other accounting treatments and entries; and</li> <li>• testing the nature and accounting for a sample of discounts.</li> </ul> <p>We also considered the application of the Group's accounting policies to amounts billed and accrued, and the accounting implications of new postpaid, fixed line and broadcast business initiatives to assess whether the Group's accounting policies were appropriate for these initiatives and were followed.</p> | <p><b>Other information</b></p> <p>The Directors are responsible for the other information. The other information comprises the Chairman's message and Chief Executive Officer's review (but does not include the consolidated financial statements and our auditor's report thereon) which we obtained prior to the date of this auditor's report, and the Group's complete Annual Report, which is expected to be made available to us after that date.</p> <p>Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.</p> <p>In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above 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.</p> <p>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.</p> |   |

# Independent auditor's report to the shareholders of the Emirates Integrated Telecommunications Company PJSC (continued)

## Other information (continued)

When we read the Group's complete Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

## Responsibilities of management and 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 International Financial Reporting Standards and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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.

## Report on other legal and regulatory requirements

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

- 1) we have obtained all the information we considered necessary for the purposes of our audit;

- 2) 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;
- 3) the Group has maintained proper books of accounts;
- 4) the financial information included in the Chairman's message and Chief Executive Officer's review is consistent with the books of account of the Group;
- 5) as disclosed in Notes 9 and 19 to the consolidated financial statements, the Group has purchased or invested in certain shares during the year ended 31 December 2016;
- 6) Note 12 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted;
- 7) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the year ended 31 December 2016 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the Company, its Articles of Association which would materially affect its activities or its financial position as at 31 December 2016; and
- 8) Note 22 to the consolidated financial statements discloses the social contributions made during the year ended 31 December 2016.

PricewaterhouseCoopers  
15 February 2017

**Mohamed ElBorno**  
Registered Auditor Number 946  
Dubai, United Arab Emirates

## Consolidated statement of financial position

|  | As at 31 December |                  |                  |
|--|-------------------|------------------|------------------|
|  | Note              | 2016<br>AED 000  | 2015<br>AED 000  |
| <b>Non-current assets</b>                        |                   |                  |                  |
| Property, plant and equipment                    | 6                 | 8,449,197        | 8,333,480        |
| Intangible assets                                | 7                 | 1,173,469        | 1,200,961        |
| Investment in an associate                       | 8                 | 113,935          | 110,867          |
| Available-for-sale financial asset               | 9                 | 18,368           | -                |
| Derivative financial instruments                 | 10                | 6,280            | 3,033            |
| Trade and other receivables                      | 11                | 32,373           | -                |
| <b>Total non-current assets</b>                  |                   | <b>9,793,622</b> | <b>9,648,341</b> |
| <b>Current assets</b>                            |                   |                  |                  |
| Inventories                                      |                   | 39,579           | 83,237           |
| Trade and other receivables                      | 11                | 1,968,517        | 1,448,359        |
| Due from related parties                         | 12                | 220,147          | 397,145          |
| Short term investments                           | 13                | 6,150,000        | 6,200,000        |
| Cash and bank balances                           | 14                | 239,498          | 163,288          |
| <b>Total current assets</b>                      |                   | <b>8,617,741</b> | <b>8,292,029</b> |
| <b>Current liabilities</b>                       |                   |                  |                  |
| Trade and other payables                         | 15                | 5,838,210        | 5,326,980        |
| Due to related parties                           | 12                | 12,736           | 28,071           |
| Borrowings                                       | 16                | 783,473          | 133,669          |
| <b>Total current liabilities</b>                 |                   | <b>6,634,419</b> | <b>5,488,720</b> |
| <b>Net current assets</b>                        |                   | <b>1,983,322</b> | <b>2,803,309</b> |
| <b>Non-current liabilities</b>                   |                   |                  |                  |
| Borrowings                                       | 16                | 3,596,356        | 4,357,789        |
| Provision for employees' end of service benefits | 17                | 225,627          | 186,887          |
| Other provisions                                 | 18                | 102,021          | 88,318           |
| <b>Total non-current liabilities</b>             |                   | <b>3,924,004</b> | <b>4,632,994</b> |
| <b>Net assets</b>                                |                   | <b>7,852,940</b> | <b>7,818,656</b> |
| <b>Represented by</b>                            |                   |                  |                  |
| Share capital and reserves                       |                   |                  |                  |
| Share capital                                    | 19                | 4,571,429        | 4,571,429        |
| Share premium                                    | 20                | 393,504          | 393,504          |
| Other reserves, net of treasury shares           | 21                | 2,003,042        | 1,987,804        |
| Retained earnings                                |                   | 884,965          | 865,919          |
| <b>Total equity</b>                              |                   | <b>7,852,940</b> | <b>7,818,656</b> |

The consolidated financial statements were approved by the Board of Directors on 15 February 2017 and signed on its behalf by:

Khalid Mohamed Balama  
Vice Chairman

Osman Sultan  
Chief Executive Officer

The notes on pages 50 to 88 form an integral part of these consolidated financial statements.

## Consolidated statement of comprehensive income

|   | For the year ended 31 December |                  |                  |
|---|--------------------------------|------------------|------------------|
|   | Note                           | 2016<br>AED 000  | 2015<br>AED 000  |
| Revenue   | 31                             | 12,726,648       | 12,337,048       |
| Interconnect costs  |                                | (2,984,383)      | (2,845,095)      |
| Staff costs   |                                | (967,807)        | (908,466)        |
| Network operation and maintenance   |                                | (704,599)        | (753,792)        |
| Product costs   |                                | (754,259)        | (569,286)        |
| Outsourcing and contracting   |                                | (441,246)        | (496,575)        |
| Commission  |                                | (402,434)        | (269,041)        |
| Telecommunication license and related fees  |                                | (351,416)        | (338,596)        |
| Marketing   |                                | (337,371)        | (359,391)        |
| Rent and utilities  | 22                             | (110,309)        | (106,828)        |
| Other expenses  |                                | (359,515)        | (274,136)        |
| Other income  |                                | 50,069           | 3,329            |
| Earnings before interest, tax, depreciation and amortisation (EBITDA)                               | 6                              | 5,363,378        | 5,419,171        |
| Depreciation and impairment   | 7                              | (1,368,677)      | (1,384,161)      |
| Amortisation and impairment of intangible assets  |                                | (158,948)        | (172,695)        |
| <b>Operating profit</b>   |                                | <b>3,835,753</b> | <b>3,862,315</b> |
| Finance income  | 24                             | 143,060          | 112,821          |
| Finance expense   | 24                             | (117,884)        | (116,202)        |
| Share of profit of investment in an associate accounted for using equity method                     | 8                              | 3,068            | 2,977            |
| <b>Profit before royalty</b>  |                                | <b>3,863,997</b> | <b>3,861,911</b> |
| Royalty   | 25                             | (2,111,441)      | (1,920,558)      |
| <b>Profit for the year</b>  |                                | <b>1,752,556</b> | <b>1,941,353</b> |
| <b>Other comprehensive (loss)/income</b>  |                                |                  |                  |
| Items that may be re-classified subsequently to profit or loss                                      |                                |                  |                  |
| Fair value changes on cash flow hedge   | 21                             | 3,247            | 3,033            |
| Items that will not be re-classified to profit or loss  |                                |                  |                  |
| Actuarial (loss)/gain on defined benefit obligations  | 17                             | (13,252)         | 1,246            |
| Other comprehensive (loss)/income for the year  |                                | (10,005)         | 4,279            |
| <b>Total comprehensive income for the year attributable entirely to shareholders of the Company</b> |                                | <b>1,742,551</b> | <b>1,945,632</b> |
| Basic and diluted earnings per share (AED)  | 26                             | 0.38             | 0.42             |

The notes on pages 50 to 88 form an integral part of these consolidated financial statements.

## Consolidated statement of cash flows

|   | For the year ended 31 December |                    |                    |
|---|--------------------------------|--------------------|--------------------|
|   | Note                           | 2016<br>AED 000    | 2015<br>AED 000    |
| <b>Cash flows from operating activities</b>                 |                                |                    |                    |
| Profit before royalty                                       |                                | 3,863,997          | 3,861,911          |
| <b>Adjustments for:</b>                                     |                                |                    |                    |
| Depreciation and impairment                                 |                                | 1,368,677          | 1,384,161          |
| Amortisation and impairment of intangible assets            |                                | 158,948            | 172,695            |
| Provision for employees' end of service benefits            | 17                             | 33,906             | 30,058             |
| Provision for impairment of trade and other receivables     | 11                             | 134,729            | 88,283             |
| Release of provision for impairment of trade receivables    | 11                             | (37,441)           | -                  |
| Finance income  | 24                             | (143,060)          | (112,821)          |
| Interest expense  | 24                             | 117,884            | 115,019            |
| Unwinding of discount on asset retirement obligations       | 18                             | 3,543              | 4,207              |
| Share of profit of investment in an associate               | 8                              | (3,068)            | (2,977)            |
| Changes in working capital                                  | 27                             | (91,140)           | 103,150            |
| <b>Cash generated from operations</b>                       |                                | 5,406,975          | 5,643,686          |
| Royalty paid  | 25                             | (1,947,457)        | (1,562,257)        |
| <b>Net cash generated from operating activities</b>         |                                | <b>3,459,518</b>   | <b>4,081,429</b>   |
| <b>Cash flows used in investing activities</b>              |                                |                    |                    |
| Purchase of property, plant and equipment                   |                                | (1,580,807)        | (1,631,206)        |
| Purchase of intangible assets                               |                                | (175,983)          | (138,687)          |
| Payment for additional investment in an associate           |                                | -                  | (73,631)           |
| Payment for available-for-sale financial asset acquired     |                                | (18,368)           | -                  |
| Interest received   |                                | 73,146             | 79,829             |
| Margin on guarantees (placed)/released                      | 14                             | (2,641)            | 3,885              |
| Short term investments placed                               |                                | (2,640,000)        | (4,435,000)        |
| Short term investments released                             |                                | 2,690,000          | 4,075,000          |
| <b>Net cash used in investing activities</b>                |                                | <b>(1,654,653)</b> | <b>(2,119,810)</b> |
| <b>Cash flows used in financing activities</b>              |                                |                    |                    |
| Proceeds from borrowings                                    |                                | 50,204             | 282,056            |
| Repayment of borrowings                                     |                                | (161,833)          | (221,196)          |
| Decrease in balance due from founding shareholders*         |                                | -                  | 38,900             |
| Interest paid   |                                | (111,095)          | (121,228)          |
| Dividends paid  | 21                             | (1,508,572)        | (1,965,715)        |
| <b>Net cash used in financing activities</b>                |                                | <b>(1,731,296)</b> | <b>(1,987,183)</b> |
| <b>Net increase/(decrease) in cash and cash equivalents</b> |                                | <b>73,569</b>      | <b>(25,564)</b>    |
| Cash and cash equivalents at the beginning of the year      |                                | 155,136            | 180,700            |
| <b>Cash and cash equivalents at end of the year</b>         | 14                             | <b>228,705</b>     | <b>155,136</b>     |

## Non-cash transaction

\*Settlement of due from founding shareholders (appearing in due from related parties) and the acquisition of treasury shares is a non-cash transaction. Details are provided in Note 19.1.

The notes on pages 50 to 88 form an integral part of these consolidated financial statements.

## Consolidated statement of changes in equity

|   | Share capital<br>(Note 19)<br>AED 000 | Share premium<br>(Note 20)<br>AED 000 | Other reserves,<br>net of treasury<br>shares<br>(Note 21)<br>AED 000 | Retained<br>earnings<br>AED 000 | Total<br>AED 000   |
|---|---------------------------------------|---------------------------------------|--|---------------------------------|--------------------|
| At 1 January 2015   | 4,571,429                             | 393,504                               | 1,792,982  | 1,080,824                       | 7,838,739          |
| Profit for the year   | -                                     | -                                     | -  | 1,941,353                       | 1,941,353          |
| Other comprehensive income  | -                                     | -                                     | 3,033  | 1,246                           | 4,279              |
| <b>Total</b>  | <b>4,571,429</b>                      | <b>393,504</b>                        | <b>1,796,015</b>   | <b>3,023,423</b>                | <b>9,784,371</b>   |
| Transfer to statutory reserve   | -                                     | -                                     | 194,135  | (194,135)                       | -                  |
| Transfer to retained earnings   | -                                     | -                                     | (2,346)  | 2,346                           | -                  |
| Interim cash dividend <sup>(1)</sup>                                      | -                                     | -                                     | 594,286  | (594,286)                       | -                  |
| Special cash dividend <sup>(2)</sup>                                      | -                                     | -                                     | 457,143  | (457,143)                       | -                  |
| Final cash dividend proposed <sup>(3)</sup>                               | -                                     | -                                     | 914,286  | (914,286)                       | -                  |
| Cash dividends paid   | -                                     | -                                     | (1,965,715)  | -                               | (1,965,715)        |
| <b>Total transactions with shareholders recognised directly in equity</b> | <b>-</b>                              | <b>-</b>                              | <b>191,789</b>   | <b>(2,157,504)</b>              | <b>(1,965,715)</b> |
| At 31 December 2015   | 4,571,429                             | 393,504                               | 1,987,804  | 865,919                         | 7,818,656          |
| Profit for the year   | -                                     | -                                     | -  | 1,752,556                       | 1,752,556          |
| Other comprehensive income/(loss)   | -                                     | -                                     | 3,247  | (13,252)                        | (10,005)           |
| <b>Total</b>  | <b>4,571,429</b>                      | <b>393,504</b>                        | <b>1,991,051</b>   | <b>2,605,223</b>                | <b>9,561,207</b>   |
| Transfer to statutory reserve   | -                                     | -                                     | 175,256  | (175,256)                       | -                  |
| Transfer to retained earnings   | -                                     | -                                     | (1,194)  | 1,194                           | -                  |
| Interim cash dividend <sup>(1)</sup>                                      | -                                     | -                                     | 594,286  | (594,286)                       | -                  |
| Final cash dividend proposed <sup>(3)</sup>                               | -                                     | -                                     | 951,910  | (951,910)                       | -                  |
| Cash dividends paid   | -                                     | -                                     | (1,508,572)  | -                               | (1,508,572)        |
| Acquisition of treasury shares  | -                                     | -                                     | (199,695)  | -                               | (199,695)          |
| <b>Total transactions with shareholders recognised directly in equity</b> | <b>-</b>                              | <b>-</b>                              | <b>11,991</b>  | <b>(1,720,258)</b>              | <b>(1,708,267)</b> |
| At 31 December 2016   | 4,571,429                             | 393,504                               | 2,003,042  | 884,965                         | 7,852,940          |

(1) An interim cash dividend of AED 0.13 per share (2015: AED 0.13 per share) amounted to AED 594,286 thousand (2015: AED 594,286 thousand) was paid during the year.

(2) A special cash dividend of Nil (2015: AED 0.10 per share) amounted to Nil (2015: AED 457,143 thousand) was paid during the year.

(3) A final cash dividend of AED 0.21 per share (2015: AED 0.20 per share) amounted to AED 951,910 thousand (2015: AED 914,286 thousand) is proposed.

The notes on pages 50 to 88 form an integral part of these consolidated financial statements.

# Notes to the consolidated financial statements for the year ended 31 December 2016

## 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 2016 include the financial statements of the Company and its subsidiaries (together 'the Group').

The Company has either directly or indirectly the following subsidiaries:

| Subsidiaries                             | Principal activities   | Shareholding |      | Country of incorporation |
|--|--|--------------|------|--------------------------|
|  |  | 2016         | 2015 |                          |
| 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                  | Telecommunication and network  | 100%         | 100% | UAE                      |
| Smart Dubai Platform Project Company LLC | Software development, IT infrastructure, public networking and computer systems housing services             | 100%         | -    | UAE                      |

## 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 (IFRIC) 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 an available-for-sale financial asset and derivative financial instruments that have been measured at fair value.

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

UAE Federal Law No. 2 of 2015 ('Companies Law') which is applicable to the Group has come into effect on 1 July 2015. The Group has assessed and evaluated the provisions of the Companies Law and is in the process of ensuring compliance within the transitional period of this Law which has been extended till 30 June 2017.

## 2.1 New standards, amendments and interpretations

### (a) Standards, amendment and interpretations issued and effective during the financial year beginning 1 January 2016 but having no material impact to the Group's financial statements

- IFRS 11 (amendment), 'Joint arrangements' (effective from 1 January 2016);
- IAS 16 'Property, plant and equipment' and IAS 38 'Intangible assets'(amendment) (effective 1 January 2016);
- IFRS 10 'Consolidated financial statements' and IAS 28 'Investment in associates' (amendment) (effective from 1 January 2016);
- IAS 27 (amendment) 'Separate financial statements' (effective from 1 January 2016);
- IFRS 5 (amendment) 'Non-current assets held for sale and discontinued operations' regarding methods of disposal (effective from 1 January 2016);
- IFRS 7 (amendment) 'Financial instruments: Disclosures' regarding servicing contracts and offsetting of financial assets and liabilities (effective from 1 January 2016);
- IAS 19 (amendment) 'Employee benefits' regarding discount rates (effective from 1 January 2016);
- IAS 34 (amendment) 'Interim financial reporting' regarding disclosure (effective from 1 January 2016);
- IAS 1 (amendment) 'Presentation of financial statements' on the disclosure initiative (effective from 1 January 2016); and
- IFRS 14, 'Regulatory deferral accounts' (effective from 1 January 2016).

### (b) New standards and amendments issued but not effective until financial years beginning after 1 January 2016 and not early adopted by the Group

- IFRS 9, 'Financial instruments: Classification and Measurement' (effective from 1 January 2018);
- IFRS 15, 'Revenue from contracts with customers' (effective from 1 January 2018);
- IFRS 16, 'Leases' (effective from 1 January 2019); and
- IAS 7, 'Statement of cash flows' on the disclosure initiative (effective from 1 January 2017).

IFRS 15 'Revenue from contracts with customers', establishes principles for reporting useful

information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. This standard is effective for annual periods beginning on or after 1 January 2018 while earlier application is permitted. The core principle of IFRS 15 is that an entity recognises 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.

This revenue standard will impact telecommunication entities with certain changes having the potential for the greatest impact, such as:

- Additional revenue will be allocated to discounted or 'free' products provided at the beginning of a service period due to the elimination of the 'contingent revenue cap', and changes to and restrictions in the use of the 'residual method' currently applied by the companies;
- Activation fees, customer acquisition costs, and certain contract fulfilment costs will be deferred over the period of the contract; and
- Revenue from postpaid bundles will be affected, in which revenue related to handset component will be recognised upfront.

The Group is in the final stages of assessing the impact of this new revenue standard and expects it to result in acceleration of recognition of some revenue streams when adopted. Management have commenced developing the necessary system solutions and enhancements to enable the Group to apply this standard from 1 January 2018.

IFRS 16 will primarily change lease accounting for lessees; lease agreements will give rise to the recognition of an asset representing the right to use the leased item and a loan obligation for future lease payables. Lease costs will be recognised in the form of depreciation of the right to use the asset and interest on the lease liability. Lessee accounting under IFRS 16 will be similar to existing IAS 17 accounting for finance leases, but will be substantively different for operating leases under IAS 17 where rental charges are currently recognised on a straight-line basis and no lease asset or lease loan obligation is recognised.

# Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

## 2. Basis of preparation (continued)

The Group is assessing the impact of the accounting changes that will arise under IFRS 16.

For other standards, amendments and interpretations, management is in the process of identifying the relevance and the impact on its consolidated financial statements. Management expects that most of these other standards, amendments and interpretations will not have a material impact on the consolidated financial statements.

### 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 period, excluding treasury shares. 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.

### 2.3 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 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:

#### 1) Provision for impairment of trade and other receivables

The impairment charge reflects estimates of losses arising from the failure or inability of the parties concerned to make the required payments. The charge is based on the aging of counter party accounts (including un-billed but accrued revenue), historic experience and the information available on the parties' financial position. Changes to the estimated

impairment provision may be required if the financial condition of the parties was to improve or deteriorate or as the Group launches new instalment based products carrying increased credit risk.

#### 2) 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 unit 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 unit being tested, but do include the Group's expectations of future capital expenditure necessary to maintain the Group's network existing operations. 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 7. The Group has performed a sensitivity analysis by varying these input factors by a reasonably possible margin and assessing whether the changes in input factors result in any of the goodwill allocated to appropriate cash generating units being impaired. No impairment is recognised on the goodwill in the current and the prior year.

#### 3) 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 2.3.

#### 4) 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 18.

#### 5) Impairment of available-for-sale financial asset

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For equity investments, a significant or prolonged decline in the fair value of security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured at the difference between the acquisition cost and the current fair value, less any impairment loss that financial asset previously recognised in profit or loss - is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated statement of income on equity instruments are not reversed through consolidated statement of income.

#### 6) 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.

#### 7) Residual value method

Postpaid products with multiple deliverables that have value to customers on a standalone basis

are defined as multiple element arrangements. Postpaid products typically include the sale of a handset, subscriber identification module (SIM) card and a service package. The principles in IAS 18 require that revenue in respect of each separable element of a transaction is measured at its fair value. Management believe that the price which is regularly charged for a standalone element is the best evidence of its fair value.

In case of postpaid customers' arrangements, the total contract value is lower than the total fair value of the standalone elements. Therefore, management has decided to apply the residual value method to allocate the revenue over various elements. In applying the residual value method, consideration is allocated to each of the undelivered elements in the transaction, and any consideration remaining (the residual value) is allocated to the delivered elements.

The main alternative method for recognising revenue on components of such products is the relative fair value method, which will be adopted when the Group adopts IFRS 15 (Note 2.1).

## 3. Summary of significant accounting policies

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

### 3.1 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.

## Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

### 3. Summary of significant accounting policies (continued)

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 profit or loss.

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 IAS 39 either in profit or loss 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.

#### (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 profit or loss 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.

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.

#### 3.2 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 3.11.2).

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.

#### 3.3 Intangible assets

##### Goodwill

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.

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.

# Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

## 3. Summary of significant accounting policies (continued)

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.

### Licenses and other rights of use

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    |

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.

### 3.4 Leases

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 (Note 23). 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.

### 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 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 method, less provision for impairment.

### 3.7 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.

## 3.8 Financial instruments

### 3.8.1 Non-derivative financial assets

#### Classification

The Group classifies its financial assets as loans and receivables and available-for-sale assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

#### (a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'due from related parties' 'short term investments' and 'cash and bank balances' in the consolidated statement of financial position.

#### (b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are designated as available-for-sale or are not classified in any of the other categories of financial assets. 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.

#### Recognition and measurement

The Group recognises financial assets when it becomes a party to the contractual provision of the instruments. The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Loans and receivables are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment losses.

Available-for-sale financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition available-for-sale financial assets are measured at fair value with fair value movements being recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in consolidated statement of comprehensive income as 'Gains and losses from investment securities'.

### 3.8.2 Non-derivative financial liabilities

The Group has the following non-derivative financial liabilities: '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.

### 3.8.3 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 hedges of a particular risk associated with the cash flows of recognised assets and liabilities.

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.

## Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

### **3. Summary of significant accounting policies (continued)**

The fair value of the derivative financial instruments used for hedging purposes are disclosed in note 9. Movement in the hedging reserve in shareholders' equity is shown in Note 20. 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.

#### **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 profit or loss within other income or other expense.

Amounts accumulated in equity are reclassified to profit or loss 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 profit or loss within 'finance expenses'.

#### **3.8.4 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.

#### **3.8.5 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.

#### **3.8.6 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.

#### **3.8.7 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.

#### **3.9 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.

#### **3.10 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 expense in the consolidated statement of comprehensive income.

#### **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.

#### **3.11 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 discount rates are set in line with the best available estimate of market yields currently available at the reporting date with reference to high quality corporate bonds or other basis, if applicable.

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

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.

#### **3.12 Impairment**

##### **3.12.1 Financial assets**

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

A provision for impairment against doubtful trade receivables is created in the period in which management becomes aware of the uncertainty. The calculation for the provision for impairment takes into consideration factors like service type, customer segment, aging of customer's accounts, customer collection trends, payment made by the customers, disputes and specific or individually identified receivables.

#### **Assets carried at amortised cost**

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an

# Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

## 3. Summary of significant accounting policies (continued)

improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

### Available-for-sale financial asset

For equity investments, a significant or prolonged decline in the fair value of security below its cost is also evidence that the assets are impaired. In addition, the Group considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance or changes in technology.

### 3.12.2 Non-financial assets

Intangible assets that have an indefinite useful life or intangible assets (including capital work in progress) not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation 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.

### 3.13 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 expense.

### 3.14 Revenue recognition

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 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.

Revenue from the sale of goods and the rendering of services is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue, and associated costs incurred or to be incurred, can be measured reliably. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved.

Postpaid products with multiple deliverables that have value to a customer on standalone basis are defined as multiple element arrangements. Postpaid products typically include the sale of a handset, subscriber identification module (SIM) card and a service package which mainly include voice, data and SMS/MMS. These arrangements (mainly the subsidy plans) are divided into separate performance obligations, and revenue is mainly recognised through application of the residual value method.

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

In applying the residual value method, consideration is allocated to each of the undelivered elements in

the transaction, and any consideration remaining (the residual value) is allocated to the delivered elements.

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 deferred revenue 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.

Access charges, airtime and other services used by postpaid customers are invoiced and recorded as part of a periodic billing cycle and recognised as revenue over the related access period, with unbilled revenue resulting from services already provided from the billing cycle date to the end of each period accrued.

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

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

Contract revenue is recognised under the percentage of completion method. Profit on contracts is recognised only when the outcome of the contracts can be reliably estimated.

Provision is made for foreseeable losses estimated to complete contracts. Contract revenue mainly comprises revenue from managed services provided by the Group.

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.

Incentives (promotions) are provided to customers in various forms and are usually offered on signing

a new contract, sale of SIM card, sale of recharge or as part of a regular promotional offering. Incentives provided on the signing of contracts or sale of SIM cards to customers are recognised as an upfront discount against revenue. Incentives provided on the sale of recharge vouchers to prepaid customers are recognised as a deduction against revenue over the estimated period of usage of the respective recharge while incentives provided to postpaid customers are recorded over their billing period.

Incentives are also provided upon sale of SIM cards and vouchers to intermediaries. Where amounts paid upfront to intermediaries represent an amount contributed to enable the intermediaries to offer discounts to customers, they are recognised as a discount from revenue.

Rental income arising from mobile site sharing agreements is recognised as revenue over the period for which access rights are provided.

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.

Whether the Group is considered to be the principal or an agent in the transaction depends on analysis by management of both the legal form and substance of the agreement between the Group and its business partners; such judgements impact the amount of reported revenue and operating expenses but do not impact reported profits, assets, liabilities or cash flows.

### 3.15 Commission to intermediaries

Intermediaries are paid commissions by the Group mainly in return for acquiring new customers and selling recharge credits. Such commissions are recognised as an expense in the period when the respective services are provided.

### 3.16 Recognition of finance income and expenses

Finance income comprises interest income on short term investments and other bank deposits. Interest income is recognised as it accrues in profit or loss, using the effective interest rate method.

# Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

## 3. Summary of significant accounting policies (continued)

Finance expense 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.

### 3.17 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in the consolidated statement of comprehensive income in the period in which they are incurred.

### 3.18 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.

### 3.19 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.

### 3.20 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 profit or loss 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 Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

### 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.

### 4.3 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.

### (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 and other receivables

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 demographics of the Group's customer base has less of an influence on credit risk.

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 establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. All individually significant assets (such as receivables from broadcast customers and distributors etc.) are assessed for specific impairment. Receivables related to postpaid and broadband customers are assessed for impairment based on portfolio of similar assets while considering the aging of balances and portfolio collection history.

Information on the aging of trade and other receivables is given in Note 29.1

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

## Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

### 5. Financial risk management (continued)

#### Short term investments 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 December 31 of the Group's short term investments and bank balances based on Fitch and Moody's rating scale.

| Ratings | Short term investments |                  | Cash and bank balances |                 |
|---------|------------------------|------------------|------------------------|-----------------|
|         | 2016<br>AED 000        | 2015<br>AED 000  | 2016<br>AED 000        | 2015<br>AED 000 |
| AA      | 150,000                | 550,000          | -                      | -               |
| Aa3     | -                      | -                | 62,586                 | 50,338          |
| A1      | 275,000                | 375,000          | 548                    | 299             |
| A+      | 700,000                | 3,260,000        | 957                    | 2,598           |
| A2      | -                      | -                | 5,179                  | 4,796           |
| A       | -                      | -                | 96,890                 | 64,090          |
| A3      | 400,000                | 625,000          | 25,214                 | 6,294           |
| A-      | 3,750,000              | -                | 14,953                 | 3,522           |
| Baa1    | 875,000                | 1,390,000        | 6,779                  | 6,624           |
| Others  | -                      | -                | 26,392                 | 24,727          |
|         | <b>6,150,000</b>       | <b>6,200,000</b> | <b>239,498</b>         | <b>163,288</b>  |

#### (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 29.2 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.

#### (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

#### 1) 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 29.3.

#### 2) 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 2016 and 2015, 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.

The sensitivity analysis performed by the Group in respect to the interest rate risk is detailed in Note 29.4. 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 short term investments. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

|   | 2016<br>AED 000  | 2015<br>AED 000  |
|---|------------------|------------------|
| Total borrowings (Note 16)  | 4,379,829        | 4,491,458        |
| Less: Cash and bank balances/short term investments (Notes 13 and 14) | (6,389,498)      | (6,363,288)      |
| Net debt  | (2,009,669)      | (1,871,830)      |
| Total equity  | 7,852,940        | 7,818,656        |
| Total capital   | <b>5,843,271</b> | <b>5,946,826</b> |
| Gearing ratio   | (34%)            | (31%)            |

## Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

### 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:

|   | In AED'000   |               |               |        |
|---|--------------|---------------|---------------|--------|
|   | Level 1      | Level 2       | Level 3       | Total  |
| At 31 December 2016                         |              |               |               |        |
| Available-for-sale financial asset (Note 9) | -            | -             | 18,368        | 18,368 |
| Derivative financial instrument (Note 10)   | -            | 6,280         | -             | 6,280  |
|   | <b>6,280</b> | <b>18,368</b> | <b>24,648</b> |        |
| At 31 December 2015                         |              |               |               |        |
| Derivative financial instruments (Note 10)  | -            | 3,033         | -             | 3,033  |

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. 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.

**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).

### 6. Property, plant and equipment

|  | Buildings<br>AED 000 | Plant and<br>equipment<br>AED 000 | Furniture<br>and<br>fixtures<br>AED 000 | Motor<br>vehicles<br>AED 000 | Capital<br>work in<br>progress<br>AED 000 | Total<br>AED 000  |
|--|----------------------|-----------------------------------|---|------------------------------|---|-------------------|
| <b>Cost</b>                            |                      |                                   |   |                              |   |                   |
| At 1 January 2015                      | 47,208               | 11,865,186                        | 238,021                                 | 1,536                        | 1,624,949                                 | 13,776,900        |
| Additions                              | -                    | 326,680                           | 10,509                                  | -                            | 1,205,515                                 | 1,542,704         |
| Addition: asset retirement obligations | -                    | 1,906                             | -                                       | -                            | -   | 1,906             |
| Transfers                              | -                    | 1,887,038                         | 9,105                                   | -                            | (1,896,143)                               | -                 |
| Disposals                              | -                    | (221,409)                         | (2,879)                                 | -                            | -   | (224,288)         |
| <b>At 31 December 2015</b>             | <b>47,208</b>        | <b>13,859,401</b>                 | <b>254,756</b>                          | <b>1,536</b>                 | <b>934,321</b>                            | <b>15,097,222</b> |
| Additions                              | 4,752                | 555,514                           | 12,839                                  | -                            | 907,891                                   | 1,480,996         |
| Addition: asset retirement obligations | -                    | 10,160                            | -                                       | -                            | -   | 10,160            |
| Transfers                              | -                    | 824,263                           | 5,108                                   | -                            | (829,371)                                 | -                 |
| Disposals                              | -                    | (60,448)                          | (2,131)                                 | (117)                        | -   | (62,696)          |
| <b>At 31 December 2016</b>             | <b>51,960</b>        | <b>15,188,890</b>                 | <b>270,572</b>                          | <b>1,419</b>                 | <b>1,012,841</b>                          | <b>16,525,682</b> |
| <b>Depreciation/impairment</b>         |                      |                                   |   |                              |   |                   |
| At 1 January 2015                      | 19,740               | 5,335,747                         | 211,086                                 | 1,459                        | 6,496                                     | 5,574,528         |
| Charge for the year                    | 2,234                | 1,286,041                         | 18,407                                  | 21                           | -   | 1,306,703         |
| Disposals/write-off                    | -                    | (189,338)                         | (2,813)                                 | -                            | (2,796)                                   | (194,947)         |
| Impairment charge                      | -                    | 76,570                            | -                                       | -                            | 888                                       | 77,458            |
| <b>At 31 December 2015</b>             | <b>21,974</b>        | <b>6,509,020</b>                  | <b>226,680</b>                          | <b>1,480</b>                 | <b>4,588</b>                              | <b>6,763,742</b>  |
| Charge for the year                    | 2,233                | 1,314,713                         | 18,009                                  | 22                           | -   | 1,334,977         |
| Disposals/write-off                    | -                    | (52,349)                          | (2,110)                                 | (117)                        | (1,358)                                   | (55,934)          |
| Impairment charge                      | -                    | 30,974                            | -                                       | -                            | 2,726                                     | 33,700            |
| <b>At 31 December 2016</b>             | <b>24,207</b>        | <b>7,802,358</b>                  | <b>242,579</b>                          | <b>1,385</b>                 | <b>5,956</b>                              | <b>8,076,485</b>  |
| <b>Net book value</b>                  |                      |                                   |   |                              |   |                   |
| <b>At 31 December 2016</b>             | <b>27,753</b>        | <b>7,386,532</b>                  | <b>27,993</b>                           | <b>34</b>                    | <b>1,006,885</b>                          | <b>8,449,197</b>  |
| <b>At 31 December 2015</b>             | <b>25,234</b>        | <b>7,350,381</b>                  | <b>28,076</b>                           | <b>56</b>                    | <b>929,733</b>                            | <b>8,333,480</b>  |

The carrying amount of the Group's buildings include a nominal amount of AED 1 (2015: AED 1) in relation to land granted to the Group by the UAE Government.

## Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

### 7. Intangible assets

|                         | 2016<br>AED 000  | 2015<br>AED 000  |
|-------------------------|------------------|------------------|
| Goodwill                | 549,050          | 549,050          |
| Other intangible assets | 624,419          | 651,911          |
|                         | <b>1,173,469</b> | <b>1,200,961</b> |

#### Goodwill

The Group acquired the business and assets 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:

|                         | 2016<br>AED 000 | 2015<br>AED 000 |
|-------------------------|-----------------|-----------------|
| Broadcasting operations | 135,830         | 135,830         |
| Fixed line business     | 413,220         | 413,220         |
|                         | <b>549,050</b>  | <b>549,050</b>  |

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 plan approved by the Board of Directors.

The estimated recoverable amount of the broadcasting CGU exceeded the carrying amount of its net assets including goodwill, by approximately 50% and that of the fixed line business exceeded its carrying amount by approximately 170%.

The key assumptions for the value-in-use calculations at 31 December 2016 include:

- 5 year revenue growth projections for the fixed line business;
- a pre-tax discount rate of 9.42% 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 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 consider that it would require a significant decline in revenue growth before any impairment of the fixed line CGU was required. The headroom in respect of the broadcasting CGU is smaller and will be monitored closely going forward.

#### Other intangible assets

|                            | Software<br>in use<br>AED 000 | Capital work<br>in progress<br>AED 000 | Telecomm-<br>unications<br>license fees<br>AED 000 | Rights of use<br>AED 000 | Total<br>AED 000 |
|----------------------------|-------------------------------|--|--|--------------------------|------------------|
| <b>Cost</b>                |                               |  |  |                          |                  |
| At 1 January 2015          | 1,180,806                     | 155,436                                | 124,500  | 348,491                  | 1,809,233        |
| Additions                  | 15,284                        | 133,059                                | -  | 16,863                   | 165,206          |
| Transfers                  | 150,620                       | (150,620)                              | -  | -                        | -                |
| Write off                  | (748)                         | -                                      | -  | (748)                    |                  |
| <b>At 31 December 2015</b> | <b>1,345,962</b>              | <b>137,875</b>                         | <b>124,500</b>                                     | <b>365,354</b>           | <b>1,973,691</b> |
| <b>At 1 January 2016</b>   | <b>1,345,962</b>              | <b>137,875</b>                         | <b>124,500</b>                                     | <b>365,354</b>           | <b>1,973,691</b> |
| Additions                  | 12,675                        | 290,145                                | -  | -                        | 302,820          |
| Adjustments*               | -                             | -                                      | -  | (171,364)                | (171,364)        |
| Transfers                  | 89,216                        | (89,216)                               | -  | -                        | -                |
| Write off                  | (2,461)                       | -                                      | -  | (2,461)                  |                  |
| <b>At 31 December 2016</b> | <b>1,445,392</b>              | <b>338,804</b>                         | <b>124,500</b>                                     | <b>193,990</b>           | <b>2,102,686</b> |
| <b>Amortisation</b>        |                               |  |  |                          |                  |
| At 1 January 2015          | 950,460                       | -                                      | 55,172   | 143,702                  | 1,149,334        |
| Charge for the year        | 127,248                       | -                                      | 6,225  | 31,379                   | 164,852          |
| Impairment charge          | 7,843                         | -                                      | -  | -                        | 7,843            |
| Write off                  | (249)                         | -                                      | -  | -                        | (249)            |
| <b>At 31 December 2015</b> | <b>1,085,302</b>              | <b>-</b>                               | <b>61,397</b>                                      | <b>175,081</b>           | <b>1,321,780</b> |
| <b>At 1 January 2016</b>   | <b>1,085,302</b>              | <b>-</b>                               | <b>61,397</b>                                      | <b>175,081</b>           | <b>1,321,780</b> |
| Charge for the year        | 130,637                       | -                                      | 6,225  | 8,571                    | 145,433          |
| Adjustments*               | -                             | -                                      | -  | (49,277)                 | (49,277)         |
| Impairment charge          | 62,792                        | -                                      | -  | -                        | 62,792           |
| Write off                  | (2,461)                       | -                                      | -  | -                        | (2,461)          |
| <b>At 31 December 2016</b> | <b>1,276,270</b>              | <b>-</b>                               | <b>67,622</b>                                      | <b>134,375</b>           | <b>1,478,267</b> |
| <b>Net book value</b>      |                               |  |  |                          |                  |
| <b>At 31 December 2016</b> | <b>169,122</b>                | <b>338,804</b>                         | <b>56,878</b>                                      | <b>59,615</b>            | <b>624,419</b>   |
| <b>At 31 December 2015</b> | <b>260,660</b>                | <b>137,875</b>                         | <b>63,103</b>                                      | <b>190,273</b>           | <b>651,911</b>   |

The Software in use represents all applications such as Oracle and Billing systems which are currently in use while the Capital in 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 the fees charged by the Telecommunications Regulatory Authority to the Group to grant the license to operate as a telecommunications service provider in

the UAE. 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.

\*During the year, the Group received determination No (1) of 2016 dated 13 November 2016 from Telecommunications Regulatory Authority (TRA) regarding charges for indoor mobile site sharing with the other telecom operator. This determination clarified the charges for obtaining right to use Indoor Building Solutions (IBS) relating to sites in

## Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

### 7. Intangible assets (continued)

the UAE. The schedule above includes the changes applied to reflect the above determination, whereby passive indoor mobile site sharing charges are now recognised as annual rental costs included in network operations and maintenance costs. The remaining capitalised active site sharing costs 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.

LIBOR + 0.95% on the outstanding principal amount (Note 16).

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.

### 8. Investment in an associate

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.

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

|   | 2016<br>AED 000 | 2015<br>AED 000 |
|---|-----------------|-----------------|
| At 1 January  | 110,867         | 107,890         |
| Share of profit for the year                                      | 3,068           | 2,977           |
| <hr/>   |                 |                 |
| <b>At 31 December</b>   | <b>113,935</b>  | <b>110,867</b>  |
| <hr/>   |                 |                 |
| Summarised financial information for the Associate is as follows: |                 |                 |
| <hr/>   |                 |                 |
| <b>Statement of financial position as of 31 December:</b>         |                 |                 |
| Non-current assets  | 671,964         | 555,807         |
| Current assets  | 87,835          | 65,167          |
| Current liabilities   | (74,055)        | (40,055)        |
| Non-current liabilities   | (318,197)       | (222,342)       |
| <b>Net assets</b>   | <b>367,547</b>  | <b>358,577</b>  |
| <hr/>   |                 |                 |
| <b>Income statement for the year ended 31 December:</b>           |                 |                 |
| Revenue   | 77,915          | 69,133          |
| Profit for the year   | 11,800          | 11,450          |

### 9. Available-for-sale financial asset

|                        | 2016<br>AED 000 | 2015<br>AED 000 |
|------------------------|-----------------|-----------------|
| <b>Unlisted shares</b> |                 |                 |
| Anghami                | 18,368          | -               |

During the year 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 available-for-sale financial asset at the date of acquisition.

### 10. Derivative financial instruments

During the year 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

### 11. Trade and other receivables

|   | 2016<br>AED 000  | 2015<br>AED 000  |
|---|------------------|------------------|
| Trade receivables   | 1,212,677        | 1,018,863        |
| Unbilled revenue  | 600,012          | 423,585          |
| Due from other telecommunications operators                               | 373,408          | 481,463          |
| Less: payable balances set off where right to set off exists              | (277,232)        | (434,797)        |
| Less: provision for impairment of trade receivables and unbilled revenues | (439,793)        | (482,797)        |
| <b>Trade and other receivables, net (Note 11.1)</b>                       | <b>1,469,072</b> | <b>1,006,317</b> |
| Advances to suppliers   | 143,715          | 119,692          |
| Prepayments   | 228,246          | 242,440          |
| Other receivables   | 159,857          | 79,910           |
| <b>Total trade and other receivables</b>                                  | <b>2,000,890</b> | <b>1,448,359</b> |
| <hr/>   |                  |                  |
|   | 2016<br>AED 000  | 2015<br>AED 000  |
| Non-current   | 32,373           | -                |
| Current   | 1,968,517        | 1,448,359        |
| <b>Total</b>  | <b>2,000,890</b> | <b>1,448,359</b> |

11.1 The majority of the provision for impairment of trade receivables is against balances more than 180 days overdue. At 31 December 2016, AED 658,671 thousand (2015: AED 452,861

thousand) of receivables are more than 180 days overdue against which impairment provision of AED 342,351 thousand (2015: AED 378,249 thousand) has been recorded.

## Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

### 11. Trade and other receivables (continued)

The movement in the provision for impairment of trade receivables is as follows:

|  | 2016<br>AED 000 | 2015<br>AED 000 |
|--|-----------------|-----------------|
| At 1 January   | 480,238         | 423,389         |
| Provision for impairment                             | 117,435         | 88,067          |
| Release of provision for impairment during the year* | (37,441)        | -               |
| Write-off during the year                            | (140,292)       | (31,218)        |
| <b>At 31 December</b>                                | <b>419,940</b>  | <b>480,238</b>  |

\*This release of provision for impairment is included under 'other income'.

The movement in the provision for impairment of amounts due from telecommunication operators is as follows:

|                          | 2016<br>AED 000 | 2015<br>AED 000 |
|--------------------------|-----------------|-----------------|
| At 1 January             | 2,559           | 2,343           |
| Provision for impairment | 1,132           | 216             |
| <b>At 31 December</b>    | <b>3,691</b>    | <b>2,559</b>    |

The movement in the provision for impairment of unbilled revenue receivables is as follows:

|                          | 2016<br>AED 000 | 2015<br>AED 000 |
|--------------------------|-----------------|-----------------|
| At 1 January             | -               | -               |
| Provision for impairment | 16,162          | -               |
| <b>At 31 December</b>    | <b>16,162</b>   | <b>-</b>        |

| Total provision for impairment of trade and other receivables | 439,793 | 482,797 |
|---|---------|---------|
|---|---------|---------|

Trade and other receivables are considered for impairment based on collection trends resulting in provisions against current and older balances. Ageing analysis of trade and other receivables and provision

thereon is provided in Note 29.1. The Group had no significant concentration of credit risk. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above.

### 12. 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

#### Related party balances

|   | 2016<br>AED 000 | 2015<br>AED 000 |
|---|-----------------|-----------------|
| <b>Due from related parties</b>                             |                 |                 |
| Axiom Telecom LLC (Entity under common shareholding)        | 220,147         | 190,892         |
| Founding shareholders (Note 19.1)                           | -               | 206,253         |
|   | <b>220,147</b>  | <b>397,145</b>  |
| <b>Due to related parties</b>                               |                 |                 |
| Tecom Investments FZ LLC (Entity under common shareholding) | 6,940           | 19,054          |
| Khazna Data Center Limited (Associate)                      | 5,796           | 9,017           |
|   | <b>12,736</b>   | <b>28,071</b>   |

#### Related party transactions

All transactions with related parties referred to below are carried out at normal commercial terms and conditions and at market rates. The following table reflects the gross value of transactions with related parties.

|  | 2016<br>AED 000 | 2015<br>AED 000 |
|--|-----------------|-----------------|
| <b>Entities under common shareholding</b>                  |                 |                 |
| Tecom Investments FZ LLC:                                  |                 |                 |
| Office rent and services                                   | 36,933          | 60,703          |
| Infrastructure cost  | 14,821          | 60,626          |
| Axiom Telecom LLC – Authorised distributor – net sales     | 2,149,557       | 2,687,872       |
| Injazat Data Systems LLC – Data Centre – rent and services | 9,239           | 8,055           |
| <b>Associate</b>   |                 |                 |
| Khazna Data Center Limited – rent and services             | 66,648          | 43,309          |
| <b>Key management compensation</b>                         |                 |                 |
| Short term employee benefits                               | 33,879          | 37,028          |
| Employees' end of service benefits                         | 663             | 697             |
| Post-employment benefits                                   | 1,434           | 2,923           |
| Long term incentives                                       | 7,029           | 10,757          |
|  | <b>43,005</b>   | <b>51,405</b>   |

The fee paid to Board of Directors during the year was AED 12,255 thousand (2015: AED 9,158 thousand).

## Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

### 12. Related party balances and transactions (continued)

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

### 13. Short term investments

|                        | 2016<br>AED 000 | 2015<br>AED 000 |
|------------------------|-----------------|-----------------|
| Short term investments | 6,150,000       | 6,200,000       |

Short term investments represent bank deposits with maturity periods exceeding 3 months from the date of acquisition. Management does not have any intention to hold these short term investments for more than 1 year from the reporting date.

### 14. Cash and bank balances

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

|   | 2016<br>AED 000 | 2015<br>AED 000 |
|---|-----------------|-----------------|
| Cash at bank (on deposit and call accounts) | 238,880         | 162,851         |
| Cash on hand                                | 618             | 437             |
|   | 239,498         | 163,288         |
| Less: margin on guarantees (Note 28)        | (10,793)        | (8,152)         |
|   | 228,705         | 155,136         |

### 15. Trade and other payables

|   |                  |                  |
|---|------------------|------------------|
| Trade payables and accruals                                     | 2,027,736        | 1,823,253        |
| Due to other telecommunications operators                       | 1,006,089        | 1,114,067        |
| Less: receivable balances set off where right to set off exists | (277,232)        | (434,797)        |
| Accrued royalty (Note 25)                                       | 2,110,809        | 1,952,569        |
| Deferred revenue  | 638,594          | 545,779          |
| Customer deposits   | 138,558          | 133,584          |
| Employee benefit accruals                                       | 179,009          | 179,099          |
| Retention payable   | 13,600           | 13,004           |
| Others  | 1,047            | 422              |
|   | <b>5,838,210</b> | <b>5,326,980</b> |

Ministries and local bodies). These transactions are at normal commercial terms. 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.

### 16. Borrowings

|                                      | 2016<br>AED 000  | 2015<br>AED 000  |
|--------------------------------------|------------------|------------------|
| Bank borrowings                      | 4,297,995        | 4,297,995        |
| Buyer credit arrangements            | 81,834           | 193,463          |
|                                      | 4,379,829        | 4,491,458        |
| Less: current portion of borrowings* | (783,473)        | (133,669)        |
|                                      | <b>3,596,356</b> | <b>4,357,789</b> |

\*Current portion of borrowings comprised of term loans of AED 716,332 thousand (2015: Nil) and buyer credit arrangements of AED 67,141 thousand (2015: AED 133,669 thousand).

The details of borrowings are as follows:

|                            | Currency | Nominal interest rate | Year of maturity | Opening balance AED 000 | Drawn AED 000 | Settled AED 000  | Closing balance AED 000 |
|----------------------------|----------|-----------------------|------------------|-------------------------|---------------|------------------|-------------------------|
| Term loans                 |          |                       |                  |                         |               |                  |                         |
| Unsecured term loan 1      | USD      | LIBOR+0.95%           | 2020             | 2,644,920               | -             | -                | 2,644,920               |
| Unsecured term loan 2      | USD      | LIBOR+0.95%           | 2020             | 1,102,050               | -             | -                | 1,102,050               |
| Unsecured term loan 3      | USD      | LIBOR+0.95%           | 2020             | 551,025                 | -             | -                | 551,025                 |
|                            |          |                       |                  | <b>4,297,995</b>        | -             | -                | <b>4,297,995</b>        |
| Buyer credit arrangements  |          |                       |                  |                         |               |                  |                         |
| Buyer credit arrangement 1 | USD      | LIBOR+1.20%           | 2017             | 179,381                 | -             | (119,588)        | 59,793                  |
| Buyer credit arrangement 2 | USD      | Nil                   | 2019             | 14,082                  | 50,204        | (42,245)         | 22,041                  |
|                            |          |                       |                  | <b>193,463</b>          | <b>50,204</b> | <b>(161,833)</b> | <b>81,834</b>           |

### 17. 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 at 31 December 2016 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:

|  | 2016<br>AED 000 | 2015<br>AED 000 |
|--|-----------------|-----------------|
| At 1 January   | 186,887         | 165,396         |
| Current service cost   | 33,906          | 30,058          |
| Interest cost  | 6,900           | 6,709           |
| Benefits paid during the year                                  | (15,318)        | (14,030)        |
| Actuarial loss/(gain) recognised in other comprehensive income | 13,252          | (1,246)         |
|  |                 |                 |
| At 31 December   | <b>225,627</b>  | <b>186,887</b>  |

## Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

### 17. Provision for employees' end of service benefits (continued)

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

|  | 2016 | 2015  |
|--|------|-------|
| Average period of employment (years)   | 7.87 | 7.37  |
| Average annual rate of salary increase | 3%   | 2.50% |
| Discount rate                          | 4%   | 3.85% |

### 18. 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.

|                           | 2016<br>AED 000 | 2015<br>AED 000 |
|---------------------------|-----------------|-----------------|
| At 1 January              | 88,318          | 113,279         |
| Additions during the year | 10,160          | 1,906           |
| Release of provision      | -               | (31,074)        |
| Unwinding of discount     | 3,543           | 4,207           |
| <b>At 31 December</b>     | <b>102,021</b>  | <b>88,318</b>   |

The provision is recognised based on the following significant assumptions:

|                                       | 2016  | 2015  |
|---------------------------------------|-------|-------|
| Average period of restoration (years) | 10    | 10    |
| Inflation rate                        | 3%    | 3%    |
| Discount rate                         | 3.88% | 3.85% |

### 19. Share capital

| 2016   | 2015          |
|--|---------------|
| Authorised, issued and fully paid up share capital<br>(par value AED 1 each) | 4,571,428,571 |

**19.1 Treasury shares:** During the year, the Group bought back 38,522,582 (2015: Nil) ordinary shares from founding shareholders under Executive Share Option Plan ('ESOP') at a total consideration of AED 199,599 thousand (2015: AED Nil). Receivable from founding shareholders is adjusted against consideration of treasury shares (Note 12). These

shares are held as treasury shares as at 31 December, 2016 (Note 21.3) and are expected to be cancelled once the appropriate approvals are obtained. Upon cancellation, the difference between par value of shares and actual consideration will be adjusted from share premium.

### 20. Share premium

| 2016<br>AED 000                          | 2015<br>AED 000 |
|--|-----------------|
| Premium on issue of common share capital | 393,504         |

## Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

### 21. Other reserves, net of treasury shares

|                                       | Share based payment reserve AED 000 | Statutory reserve (Note 21.1) AED 000 | Hedge reserve (Note 21.2) AED 000 | Proposed dividend AED 000 | Treasury shares (Note 21.3) AED 000 | Total AED 000    |
|---------------------------------------|-------------------------------------|---------------------------------------|-----------------------------------|---------------------------|-------------------------------------|------------------|
| <b>At 1 January 2015</b>              | 3,540                               | 875,156                               | -                                 | 914,286                   | -                                   | 1,792,982        |
| Transfer to statutory reserve         | -                                   | 194,135                               | -                                 | -                         | -                                   | 194,135          |
| Transfer to retained earnings         | (2,346)                             | -                                     | -                                 | -                         | -                                   | (2,346)          |
| Interim cash dividend                 | -                                   | -                                     | -                                 | 594,286                   | -                                   | 594,286          |
| Special cash dividend                 | -                                   | -                                     | -                                 | 457,143                   | -                                   | 457,143          |
| Final cash dividend proposed          | -                                   | -                                     | -                                 | 914,286                   | -                                   | 914,286          |
| Cash dividends paid                   | -                                   | -                                     | -                                 | (1,965,715)               | -                                   | (1,965,715)      |
| Fair value changes on cash flow hedge | -                                   | -                                     | 3,033                             | -                         | -                                   | 3,033            |
| <b>At 31 December 2015</b>            | <b>1,194</b>                        | <b>1,069,291</b>                      | <b>3,033</b>                      | <b>914,286</b>            | <b>-</b>                            | <b>1,987,804</b> |
| <b>At 1 January 2016</b>              | <b>1,194</b>                        | <b>1,069,291</b>                      | <b>3,033</b>                      | <b>914,286</b>            | <b>-</b>                            | <b>1,987,804</b> |
| Transfer to statutory reserve         | -                                   | 175,256                               | -                                 | -                         | -                                   | 175,256          |
| Transfer to retained earnings         | (1,194)                             | -                                     | -                                 | -                         | -                                   | (1,194)          |
| Interim cash dividend                 | -                                   | -                                     | -                                 | 594,286                   | -                                   | 594,286          |
| Final cash dividend proposed          | -                                   | -                                     | -                                 | 951,910                   | -                                   | 951,910          |
| Cash dividends paid                   | -                                   | -                                     | -                                 | (1,508,572)               | -                                   | (1,508,572)      |
| Fair value changes on cash flow hedge | -                                   | -                                     | 3,247                             | -                         | -                                   | 3,247            |
| Acquisition of treasury shares        | -                                   | -                                     | -                                 | -                         | (199,695)                           | (199,695)        |
| <b>At 31 December 2016</b>            | <b>-</b>                            | <b>1,244,547</b>                      | <b>6,280</b>                      | <b>951,910</b>            | <b>(199,695)</b>                    | <b>2,003,042</b> |

**21.1** 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.

**21.2** Hedge reserve is related to derivative financial instrument (Note 10).

**21.3** Treasury shares represent ordinary shares bought back from founding shareholders under Executive Share Option Plan ('ESOP') (Note 19.1).

### 22. Other expenses

|   | 2016 AED 000   | 2015 AED 000 |
|---|----------------|--------------|
| Provision for impairment of receivables | 133,912        | 88,283       |
| Office expenses                         | 74,510         | 75,274       |
| Consulting                              | 98,087         | 65,134       |
| Legal and license fees                  | 13,792         | 20,742       |
| Others                                  | 39,214         | 24,703       |
| <b>359,515</b>                          | <b>274,136</b> |              |

During the year ended 31 December 2016, the Group has paid AED 8,750 thousand (2015: AED 8,276 thousand) for various social contribution purposes.

### 23. Operating leases

Non-cancellable operating lease rentals are payable as follows:

|                            | 2016 AED 000     | 2015 AED 000 |
|----------------------------|------------------|--------------|
| Less than one year         | 263,589          | 246,476      |
| Between one and five years | 572,062          | 539,477      |
| More than five years       | 530,686          | 352,465      |
| <b>1,366,337</b>           | <b>1,138,418</b> |              |

The Group leases a number of warehouses, premises and sites to operate its network. The leases typically run for a period of 5 to 20 years with an option to renew the lease upon expiry. Lease contracts contain terms to allow for annual increase to reflect market rentals.

### 24. Finance income and expenses

|                         | 2016 AED 000   | 2015 AED 000 |
|-------------------------|----------------|--------------|
| <b>Finance income</b>   |                |              |
| Interest income         | 143,060        | 112,821      |
| <b>Finance expenses</b> |                |              |
| Interest expense*       | 114,147        | 115,019      |
| Exchange loss, net      | 3,737          | 1,183        |
| <b>117,884</b>          | <b>116,202</b> |              |

\*Interest expense includes early loan settlement fees amounted to Nil (2015: AED 23,135 thousand) and interest cost on defined benefit obligations amounted to AED 6,900 thousand (2015: AED 6,709 thousand) (Note 17).

## Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

### 25. Royalty

The royalty rates payable to the UAE Ministry of Finance for the period from 2012 to 2016 are as follows:

| Royalty   | 2016 | 2015  | 2014 | 2013 | 2012  |
|---|------|-------|------|------|-------|
| On regulated revenue  | 15%  | 12.5% | 10%  | 7.5% | 5%    |
| On regulated profit after deducting royalty on licensed revenue | 30%  | 30%   | 25%  | 20%  | 17.5% |

|   | 2016<br>AED 000  | 2015<br>AED 000  |
|---|------------------|------------------|
| Total revenue for the year  | 12,726,648       | 12,337,048       |
| Broadcasting revenue for the year (Note 31)   | (167,719)        | (160,551)        |
| Other allowable deductions  | (3,306,805)      | (2,966,229)      |
| <b>Total adjusted revenue</b>   | <b>9,252,124</b> | <b>9,210,268</b> |
| Profit before royalty   | 3,863,997        | 3,861,911        |
| Allowable deductions  | (83,252)         | (80,546)         |
| <b>Total regulated profit</b>   | <b>3,780,745</b> | <b>3,781,365</b> |
| Charge for royalty: 15% (2015:12.5%) of the total adjusted revenue plus 30% (2015: 30%) of net regulated profit for the year before distribution after deducting 15% (2015: 12.5%) of the total adjusted revenue. | 2,105,697        | 1,940,308        |
| Adjustments to charge   | -                | (19,750)         |
| Charge for the year   | 2,105,697        | 1,920,558        |
| Royalty reimbursement (net)*  | 5,744            | -                |
| <b>Total royalty charge for the year</b>  | <b>2,111,441</b> | <b>1,920,558</b> |

Movement in the royalty accruals is as follows:

|                                 | 2016<br>AED 000  | 2015<br>AED 000  |
|---------------------------------|------------------|------------------|
| At 1 January                    | 1,952,569        | 1,594,268        |
| Payment made during the year    | (1,947,457)      | (1,562,257)      |
| Charge for the year             | 2,105,697        | 1,920,558        |
| <b>At 31 December (Note 15)</b> | <b>2,110,809</b> | <b>1,952,569</b> |

\*During the year, the Group received a determination No (1) of 2016 dated 13 November 2016 from Telecommunications Regulatory Authority (TRA) regarding charges for indoor mobile site sharing with the other telecom operator. This determination included a requirement to add revenue based royalty charges for site sharing between the two operators.

The Group based on current understanding of the determination, has treated this as a reimbursement of royalty. The net position as at 31 December 2016 is a net payable of AED 5,744 thousands after considering the royalty reimbursement receivable from the other operator.

### 26. Earnings per share

|  | 2016      | 2015      |
|--|-----------|-----------|
| Profit for the year (AED 000)              | 1,752,556 | 1,941,353 |
| Weighted average number of shares ('000)*  | 4,565,324 | 4,571,429 |
| Basic and diluted earnings per share (AED) | 0.38      | 0.42      |

\*The weighted average number of shares for the current year 2016 takes into account the weighted average effect of changes in treasury shares during the year (Note 19.1).

### 27. Changes in working capital

|   | 2016<br>AED 000 | 2015<br>AED 000 |
|---|-----------------|-----------------|
| Change in:                                    |                 |                 |
| Inventories                                   | 43,658          | 66,946          |
| Trade and other receivables                   | (579,905)       | 205,843         |
| Trade and other payables                      | 498,457         | (214,110)       |
| Due from related parties                      | (22,697)        | 30,430          |
| Due to related parties                        | (15,335)        | 28,071          |
| Payment of employees' end of service benefits | (15,318)        | (14,030)        |
| <b>Net changes in working capital</b>         | <b>(91,140)</b> | <b>103,150</b>  |

### 28. Contingent liabilities and commitments

The Group has outstanding capital commitments and bank guarantees amounting to AED 784,634 thousand and AED 10,793 thousand, respectively

(2015: AED 856,353 thousand and AED 8,152 thousand, respectively). Bank guarantees are secured against margin of AED 10,793 thousand (2015: AED 8,152 thousand) (Note 14).

## Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

### 29. Financial instruments

#### 29.1 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:

|   | Note | Carrying amount  |                  | Fair values      |                  |
|---|------|------------------|------------------|------------------|------------------|
|   |      | 2016<br>AED 000  | 2015<br>AED 000  | 2016<br>AED 000  | 2015<br>AED 000  |
| <b>Derivatives</b>                              |      |                  |                  |                  |                  |
| Interest rate swap contracts – cash flow hedges | 10   | 6,280            | 3,033            | 6,280            | 3,033            |
| <b>Non-derivatives</b>                          |      |                  |                  |                  |                  |
| Available-for-sale financial asset              | 9    | 18,368           | -                | 18,368           | -                |
| Trade and other receivables                     | 11   | 1,628,929        | 1,086,227        | 1,628,929        | 1,086,227        |
| Due from related parties                        | 12   | 220,147          | 397,145          | 220,147          | 397,145          |
| Short term investments                          | 13   | 6,150,000        | 6,200,000        | 6,150,000        | 6,200,000        |
| Cash and bank balances                          | 14   | 239,498          | 163,288          | 239,498          | 163,288          |
|   |      | <b>8,256,942</b> | <b>7,846,660</b> | <b>8,256,942</b> | <b>7,846,660</b> |

For the purpose of the exposure to credit risk on financial assets disclosure, non-financial assets amounting to AED 371,961 thousand (2015: AED 362,132 thousand) have been excluded from trade and other receivables.

#### Impairment of trade and other receivables

The ageing of trade and other receivables is as follows:

|                      | Gross<br>2016<br>AED 000 | Impaired<br>2016<br>AED 000 | Gross<br>2015<br>AED 000 | Impaired<br>2015<br>AED 000 |
|----------------------|--------------------------|-----------------------------|--------------------------|-----------------------------|
| Not past due         | 1,002,001                | (29,644)                    | 765,696                  | (2,875)                     |
| Past due 0-30 days   | 251,656                  | (13,930)                    | 309,334                  | (6,625)                     |
| Past due 31-180 days | 273,769                  | (53,868)                    | 396,020                  | (95,048)                    |
| More than 180 days   | 658,671                  | (342,351)                   | 452,861                  | (378,249)                   |
|                      | <b>2,186,097</b>         | <b>(439,793)</b>            | <b>1,923,911</b>         | <b>(482,797)</b>            |

The impairment provision in respect of trade and other receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable are written-off.

### 29.2 Liquidity risk

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

| 31 December 2016                         | Fair<br>values<br>AED 000 | Carrying<br>amount<br>AED 000 | Contractual cash flows |                                |                           |                         |                             |
|--|---------------------------|-------------------------------|------------------------|--------------------------------|---------------------------|-------------------------|-----------------------------|
|  |                           |                               | Total<br>AED 000       | 6 months<br>or less<br>AED 000 | 6-12<br>months<br>AED 000 | 1-2<br>years<br>AED 000 | Above<br>2 years<br>AED 000 |
| Non-derivative financial liabilities     |                           |                               |                        |                                |                           |                         |                             |
| Borrowings                               | 4,379,829                 | 4,379,829                     | 4,547,570              | 105,678                        | 758,362                   | 1,495,803               | 2,187,727                   |
| Trade payables and accruals              | 2,027,736                 | 2,027,736                     | 2,027,736              | 2,027,736                      | -                         | -                       | -                           |
| Due to other telecommunication operators | 728,857                   | 728,857                       | 728,857                | 728,857                        | -                         | -                       | -                           |
| Customer deposits                        | 138,558                   | 138,558                       | 138,558                | 138,558                        | -                         | -                       | -                           |
| Employee benefit accruals                | 179,009                   | 179,009                       | 179,009                | 179,009                        | -                         | -                       | -                           |
| Retention payable                        | 13,600                    | 13,600                        | 13,600                 | 13,600                         | -                         | -                       | -                           |
| Accrued royalty                          | 2,110,809                 | 2,110,809                     | 2,110,809              | 2,110,809                      | -                         | -                       | -                           |
| Due to related parties                   | 12,736                    | 12,736                        | 12,736                 | 12,736                         | -                         | -                       | -                           |
| Others                                   | 1,047                     | 1,047                         | 1,047                  | 1,047                          | -                         | -                       | -                           |
|  | <b>9,592,181</b>          | <b>9,592,181</b>              | <b>9,759,922</b>       | <b>5,318,030</b>               | <b>758,362</b>            | <b>1,495,803</b>        | <b>2,187,727</b>            |

| 31 December 2015                         | Fair<br>values<br>AED 000 | Carrying<br>amount<br>AED 000 | Contractual cash flows |                                |                           |                         |                             |
|--|---------------------------|-------------------------------|------------------------|--------------------------------|---------------------------|-------------------------|-----------------------------|
|  |                           |                               | Total<br>AED 000       | 6 months<br>or less<br>AED 000 | 6-12<br>months<br>AED 000 | 1-2<br>years<br>AED 000 | Above<br>2 years<br>AED 000 |
| Non-derivative financial liabilities     |                           |                               |                        |                                |                           |                         |                             |
| Borrowings                               | 4,491,458                 | 4,491,458                     | 4,694,236              | 108,583                        | 93,980                    | 840,415                 | 3,651,258                   |
| Trade payables and accruals              | 1,823,253                 | 1,823,253                     | 1,823,253              | 1,823,253                      | -                         | -                       | -                           |
| Due to other telecommunication operators | 679,270                   | 679,270                       | 679,270                | 679,270                        | -                         | -                       | -                           |
| Customer deposits                        | 133,584                   | 133,584                       | 133,584                | 133,584                        | -                         | -                       | -                           |
| Employee benefit accruals                | 179,099                   | 179,099                       | 179,099                | 179,099                        | -                         | -                       | -                           |
| Retention payable                        | 13,004                    | 13,004                        | 13,004                 | 13,004                         | -                         | -                       | -                           |
| Accrued royalty                          | 1,952,569                 | 1,952,569                     | 1,952,569              | 1,952,569                      | -                         | -                       | -                           |
| Due to related parties                   | 28,071                    | 28,071                        | 28,071                 | 28,071                         | -                         | -                       | -                           |
| Others                                   | 422                       | 422                           | 422                    | 422                            | -                         | -                       | -                           |
|  | <b>9,300,730</b>          | <b>9,300,730</b>              | <b>9,503,508</b>       | <b>4,917,855</b>               | <b>93,980</b>             | <b>840,415</b>          | <b>3,651,258</b>            |

## Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

### 29. Financial instruments (continued)

#### 29.3 Currency risk

##### Exposure to currency risk

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

|                   | 31 December 2016<br>Thousand |         | 31 December 2015<br>Thousand |         |
|-------------------|------------------------------|---------|------------------------------|---------|
|                   | EUR                          | GBP     | EUR                          | GBP     |
| Trade receivables | 6,463                        | 835     | 12,400                       | 361     |
| Trade payables    | (2,758)                      | (1,952) | (595)                        | (1,199) |
| Net exposure      | 3,705                        | (1,117) | 11,805                       | (838)   |

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

|       | Average rate |        | Reporting date<br>spot rate |        |
|-------|--------------|--------|-----------------------------|--------|
|       | 2016         | 2015   | 2016                        | 2015   |
| EUR 1 | 4.0594       | 4.1068 | 3.8640                      | 3.9888 |
| GBP 1 | 5.0207       | 5.6471 | 4.5333                      | 5.4134 |

##### 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.

| Increase/(decrease) in profit | 2016<br>AED 000 |     | 2015<br>AED 000 |     |
|-------------------------------|-----------------|-----|-----------------|-----|
|                               | Euro            | GBP | Euro            | GBP |
|                               | (1,504)         | 561 | (4,848)         | 473 |

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.

### 29.4 Interest rate risk

#### Exposure to interest rate risk

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

|                                    | Carrying Amount  |                  |
|------------------------------------|------------------|------------------|
|                                    | 2016<br>AED 000  | 2015<br>AED 000  |
| Variable interest rate instruments |                  |                  |
| Bank borrowings                    | 4,297,995        | 4,297,995        |
| Buyer credit arrangements          | 81,834           | 193,463          |
|                                    | <b>4,379,829</b> | <b>4,491,458</b> |

##### 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.

| Decrease in profit | 2016<br>AED 000                    |  | 2015<br>AED 000                    |  |
|--------------------|------------------------------------|--|------------------------------------|--|
|                    | Variable interest rate instruments |  | Variable interest rate instruments |  |
|                    | 22,943                             |  | 28,389                             |  |

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 the year, 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. Hedged portion of the bank term loans is not included in the sensitivity analysis (Note 10).

## Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

### 29. Financial instruments (continued)

#### 29.5 Financial instruments by category

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

|                                    | 2016<br>AED 000  | 2015<br>AED 000  |
|------------------------------------|------------------|------------------|
| Derivative financial instruments   | 6,280            | 3,033            |
| Available-for-sale financial asset | 18,368           | -                |
| Loans and receivables              |                  |                  |
| Trade and other receivables        | 1,628,929        | 1,086,227        |
| Due from related parties           | 220,147          | 397,145          |
| Short term investments             | 6,150,000        | 6,200,000        |
| Cash and bank balances             | 239,498          | 163,288          |
|                                    | <b>8,238,574</b> | <b>7,846,660</b> |
| Borrowings                         | 4,379,829        | 4,491,458        |
| Trade and other payables           | 5,199,616        | 4,781,201        |
| Due to related parties             | 12,731           | 28,071           |
|                                    | <b>9,592,181</b> | <b>9,300,730</b> |

For the purpose of the financial instruments disclosure, non-financial assets and non-financial liabilities amounting to AED 371,961 thousand and AED 638,594 thousand, respectively

(2015: AED 362,132 thousand and AED 545,779 thousand, respectively) have been excluded from trade and other receivables and trade and other payables, respectively.

### 30. 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.

The following table presents the recognised financial instruments that are offset in the statement of financial position, as at 31 December 2016 and 31 December 2015.

|                              | 31 December 2016            |  |                                    | 31 December 2015            |  |                                    |
|------------------------------|-----------------------------|--|------------------------------------|-----------------------------|--|------------------------------------|
|                              | Gross<br>amounts<br>AED 000 | Gross<br>amounts<br>set off<br>AED 000 | Net amount<br>presented<br>AED 000 | Gross<br>amounts<br>AED 000 | Gross<br>amounts<br>set off<br>AED 000 | Net amount<br>presented<br>AED 000 |
| <b>Financial assets</b>      |                             |  |                                    |                             |  |                                    |
| Trade and other receivables  | 2,278,122                   | (277,232)                              | 2,000,890                          | 1,883,156                   | (434,797)                              | 1,448,359                          |
| <b>Total</b>                 | <b>2,278,122</b>            | <b>(277,232)</b>                       | <b>2,000,890</b>                   | <b>1,883,156</b>            | <b>(434,797)</b>                       | <b>1,448,359</b>                   |
| <b>Financial liabilities</b> |                             |  |                                    |                             |  |                                    |
| Trade and other payables     | 6,115,442                   | (277,232)                              | 5,838,210                          | 5,761,777                   | (434,797)                              | 5,326,980                          |
|                              | <b>6,115,442</b>            | <b>(277,232)</b>                       | <b>5,838,210</b>                   | <b>5,761,777</b>            | <b>(434,797)</b>                       | <b>5,326,980</b>                   |

### 31. Segment analysis

The Group has operations only 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 data services to national and international carriers and operators. Services include termination of

inbound international voice traffic, international roaming agreements, international hubbing and point-to-point leased line connectivity.

- Broadcasting segment delivers integrated satellite and broadcasting services to broadcasters and media companies.

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.

## Notes to the consolidated financial statements for the year ended 31 December 2016 (continued)

### 31. Segment analysis (continued)

|   | 31 December 2016 | Mobile<br>AED 000 | Fixed<br>AED 000 | Wholesale<br>AED 000 | Broadcasting<br>AED 000 | Total<br>AED 000 |
|---|------------------|-------------------|------------------|----------------------|-------------------------|------------------|
| Segment revenue   | 9,121,969        | 2,667,697         | 769,263          | 167,719              | 12,726,648              |                  |
| Segment contribution  | 6,263,793        | 2,141,742         | 116,725          | 64,927               | 8,587,187               |                  |
| Unallocated costs   | -                | -                 | -                | -                    | (4,801,503)             |                  |
| Finance income and expenses, other income, share of profit of investment in associate | -                | -                 | -                | -                    | 78,313                  |                  |
| Profit before royalty   | -                | -                 | -                | -                    | 3,863,997               |                  |
| Royalty   | -                | -                 | -                | -                    | (2,111,441)             |                  |
| <b>Profit for the year</b>  | <b>-</b>         | <b>-</b>          | <b>-</b>         | <b>-</b>             | <b>1,752,556</b>        |                  |

|   | 31 December 2015 | Mobile<br>AED 000 | Fixed<br>AED 000 | Wholesale<br>AED 000 | Broadcasting<br>AED 000 | Total<br>AED 000 |
|---|------------------|-------------------|------------------|----------------------|-------------------------|------------------|
| Segment revenue   | 8,989,984        | 2,554,834         | 631,679          | 160,551              | 12,337,048              |                  |
| Segment contribution  | 6,396,075        | 2,058,633         | 135,849          | 59,734               | 8,650,291               |                  |
| Unallocated costs   | -                | -                 | -                | -                    | (4,791,305)             |                  |
| Finance income and expenses, other income, share of profit of investment in associate | -                | -                 | -                | -                    | 2,925                   |                  |
| Profit before royalty   | -                | -                 | -                | -                    | 3,861,911               |                  |
| Royalty   | -                | -                 | -                | -                    | (1,920,558)             |                  |
| <b>Profit for the year</b>  | <b>-</b>         | <b>-</b>          | <b>-</b>         | <b>-</b>             | <b>1,941,353</b>        |                  |

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.

