



Saudi Telecom Company
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

Saudi Telecom Company
(A Saudi Joint Stock Company)
Consolidated financial statements
For the year ended 31 December 2017

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Independent auditor's report

To the shareholders of Saudi Telecom Company
(A Saudi joint stock company)

Opinion

We have audited the accompanying consolidated financial statements of Saudi Telecom Company (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise of the consolidated statement of financial position as at 31 December 2017, and the consolidated statements of profit or loss, comprehensive income, cash flows and changes in equity for the year then ended, and notes to these consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section, of our report. We are independent of the Group in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia and are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming an auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter listed below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters listed below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Independent auditor's report

To the shareholders of Saudi Telecom Company (continued)
(A Saudi joint stock company)

Key audit matter	How our audit addressed the key audit matter
<p>Revenue recognition</p> <p>The Group's revenue consist primarily of subscription fees in telecommunication and data packages and use of the network totalling SR 47 billion for the year ended 31 December 2017.</p> <p>We have considered this as a key audit matter as the application of accounting standards for revenue recognition in the telecommunications sector includes a number of key judgments and estimates. There are inherent risks about the accuracy of revenues recorded due to the complexity associated with the network environment and significant dependency on IT applications, as well as the impact of changing pricing techniques and hierarchy on the revenue recognition process.</p> <p>Further, there are risks associated with registration and subscription of telecommunication services and the difficulty of verifying the existence of such operations, in addition to the materiality of the amount and volume of transactions involved.</p> <p><i>Please refer to the significant accounting policies in note 3.3 for revenue recognition policy, and note 33 for more detail of revenue.</i></p>	<p>Our audit procedures performed on the revenue recognition process included, among others, the following:</p> <ul style="list-style-type: none"> • We involved our IT specialists to assist in testing the design, implementation and effectiveness of internal controls systems related to revenue recognition, particularly those related to subscription fees for telecom and data packages, network usage, and billing to customers. • On sample basis, we reviewed revenue reconciliation prepared by management between the primary billing systems and the general ledger. • We performed analytical procedures by comparing expectations of revenue and analysed the variances from the actual revenues on a monthly basis. We assessed these variances through discussion with relevant business unit managers. • On sample basis, we analysed prepaid revenue and deferred revenue based on expectations developed from internal and external data. Further, we have reviewed related revenue recognition criteria applicable to the Group. • We assessed the adequacy of the Group's disclosures regarding accounting policies for revenue recognition.

Independent auditor's report

To the shareholders of Saudi Telecom Company (continued)
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Key audit matter	How our audit addressed the key audit matter
Accounting for zakat and withholding tax claims from the General Authority of Zakat and Tax (GAZT)	
<p>The Group received claims from the GAZT as at 31 December 2017 relating to Zakat and withholding tax as follows:</p> <p>Zakat: The Group received the zakat assessments from its inception until 2011, which resulted in additional exposure. The Group has challenged the claims and submitted its appeal is underway before the relevant committee.</p> <p>Withholding tax: The Group received withholding tax assessment from the GAZT for the service of the rental of networks of international operators outside the Kingdom of Saudi Arabia for the years from 2004 to 2015. The Group's management believes that this service should not be subject to withholding tax and has appealed against such assessment, which still underway before the relevant committee.</p> <p>We consider this as a key audit matter as accounting for zakat and withholding tax involve significant management estimates and the materiality of the additional amounts claimed.</p> <p><i>Refer to the significant accounting policies related to zakat and withholding taxes in note 3.9 and notes 29, and 44-C which disclose the Group's zakat and withholding tax.</i></p>	<p>Our audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> • Obtained and reviewed correspondences between the Group, the GAZT and the Group's independent external zakat and withholding tax consultants to determine the amount of the additional assessments made by the GAZT. • Held meetings with those charged with governance and senior management of the Group to obtain an update on the zakat and withholding tax matters and the results of their interactions with the relevant appellate committees. • Used our specialist to assess the appropriateness of the exposures disclosed for both zakat and withholding tax for the years assessed by the GAZT and the appropriateness of management's judgement in light of the facts and circumstances of the Group. • Obtained and reviewed related decisions from the Appellate Committee on zakat assessment. • We also assessed the appropriateness of the disclosures included in the consolidated financial statements of the Group.

Independent auditor's report

To the shareholders of Saudi Telecom Company (continued)

(A Saudi joint stock company)

Key audit matter	How our audit addressed the key audit matter
<p>Accounts Receivable</p> <p>As at 31 December 2017, the Group's trade receivables amounted to SR 22.7 billion against which a specific and collective allowance for doubtful debts of SR 2.7 billion was maintained.</p> <p>We have considered this as a key audit matter as the Group performs complex and subjective judgments and makes assumptions to determine the allowance and the timing of recognition of such allowance.</p> <p>In particular, the determination of the allowance of doubtful debts includes:</p> <ul style="list-style-type: none"> • The identification of doubtful events and judgments used to calculate allowance against specific receivables; and • The use of assumptions underlying the calculation of collective allowance for portfolio of receivables and the use of methods to make those calculations. <p><i>Refer to the significant accounting policies in note 3-17-6, and note 10 for the related movement of allowance balance of the group.</i></p>	<p>Our audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> • We assessed the design and implementation, and tested the operating effectiveness of the key controls over the following: <ul style="list-style-type: none"> - Identification of impaired receivables; and - Management processes for establishing and monitoring both specific and collective allowance. • We tested sample of receivables in order to assess whether doubtful event had occurred and to assess whether an allowance for doubtful debts had been identified and recorded in a timely manner. <p>Where an allowance was individually assessed, we tested, on sample basis, the calculation of such allowance performed by the management. Obtained an understanding of the latest developments with respect to the customer and the basis of measuring the allowance and considered whether key judgments were appropriate given the customer circumstances.</p> <p>For collective doubtful debts allowance used by the Group, on sample basis, we:</p> <ul style="list-style-type: none"> • Tested the completeness and accuracy of the underlying information used in the allowance model by agreeing the inputs to the Group's source documents. • Tested the historical data used in the models from underlying systems and records. • Evaluated the assumptions used by management, which includes collection rates, recovery rates and bad debts ratios. • Tested mathematical accuracy of the allowance for doubtful debts model.

Independent auditor's report

To the shareholders of Saudi Telecom Company (continued)

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Key audit matter	How our audit addressed the key audit matter
<p>Capitalization and asset lives</p> <p>The Group has a substantial capital expenditure plan and therefore incurs significant annual expenditure in relation to the development and maintenance of both infrastructure assets and assets in relation to network and related equipment.</p> <p>Costs related to upgrading or enhancing networks are treated as capital expenditures. Expenses spent to maintain the network's operating capacity are recognized as expenses on the same year in which they are incurred. Capital projects often contain a combination of enhancement and maintenance activities that are difficult to separate, and therefore the distribution of costs between capital and operation depends heavily on management estimates.</p> <p>Further, there are a number of areas where management judgment impacts the carrying value and depreciation of property and equipment, which include:</p> <ul style="list-style-type: none"> • Decision to capitalize or expense costs; • Review of the annual lives of property, plant, and equipment including the impact of changes in the Group's strategy; and • The timing of assets transfer when they are ready for their intended use. <p>We have considered this as a key audit matter since it highly depends on management's assumptions and estimates as well as the materiality of the amounts involved.</p> <p><i>Refer to the significant accounting policies for property, plant and equipment in notes 3.10, and note 7 for the related disclosures.</i></p>	<p>Our audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> • We tested the effectiveness of the key controls in place over the capitalization of property and equipment and evaluated the Group's capitalisation policies. <p>In addition to the above, we also performed the following procedures on cost capitalized:</p> <ul style="list-style-type: none"> • Evaluated the Group's capitalisation policy for compliance with relevant accounting standards; • Tested the internal control system for the implementation of the expenditure policy during the year, including access to minutes of meetings where the capital expenditure plan was approved, and the compliance of actual expenditure with it. • On a sample basis, we performed review of capitalisation of projects expenses against the Group's capitalisation policy, with emphasis on those where the actual costs differed significantly from the expenditure plan.

Independent auditor's report

To the shareholders of Saudi Telecom Company (continued)

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Key audit matter	How our audit addressed the key audit matter
Provisions and contingencies related to government fees	
<p>There is a dispute between the Group and the Communications and Information Technology Commission (CITC) regarding the basis of government fees calculation, which has resulted in additional claim from CITC as at 31 December 2017.</p> <p>Management believes, based on independent legal opinions and similar judgments in the Saudi telecom market, that those additional claims are not eligible for payment.</p> <p>We considered this as a key audit matter due to management's judgment and estimates as well as the materiality of the amounts involved.</p> <p><i>Refer to the significant accounting policies in note 3.14 relating to provision, and notes 24 and 44.b which disclose the group's related provisions.</i></p>	<p>Our audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> • Tested the effectiveness of the Group's internal control for recording and estimating the government fees. We evaluated the Group's correspondence with CITC and reviewed the completeness of all related claims. • We reviewed the external legal advice received by the management, and discussed the matter with the Group's legal and regulatory officers. • We tested the Group's calculation by comparing the inputs used in the calculation against the balances in the trial balance and evaluated the assumptions used in the calculation. • We evaluated and reviewed similar cases and compared related assumptions and results with that of the Group. • We assessed the adequacy of the disclosures in the Group's consolidated financial statements.

Independent auditor's report

To the shareholders of Saudi Telecom Company (continued)
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Key audit matter	How our audit addressed the key audit matter
Assets Valuation – Property and equipment, and intangible assets	
<p>As at 31 December 2017, the Group's consolidated financial position included property and equipment amounting to SR 39.9 billion and intangible assets amounting to SR 7.8 billion.</p> <p>The assessment of the recoverable value of these assets, or the relevant cash-generating unit ('CGU'), involves significant judgment in respect of factors such as technological change, challenging economic conditions and changing regulatory environment and restrictions, operating/capital costs and other economic assumptions of the Group and the investee companies.</p> <p>We have considered this as a key audit matter as it highly depends on management's assumptions and estimates as well as the materiality of the amounts involved.</p> <p><i>Refer to the significant accounting policies in note 3.12, and note 4.1.2 for the related disclosures.</i></p>	<p>Our audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> • Tested the design and implementation of the internal controls procedures to assess the Group's determination of impairment of assets, if any. • Evaluated management's assumptions and estimates used to determine the recoverable value of the assets through the involvement of our independent valuation specialists in comparing these assumptions against external benchmarks (for example, market tariffs and discount rates) and based on our knowledge of the Group and its industry. • Reviewed the management's method in the identification of individual CGUs. • Validated the mathematical accuracy of cash flow models and agreeing relevant data to the latest approved balance. • Performed sensitivity analysis on assets with a higher risk of impairment. • Assessed the adequacy of the Group's disclosures regarding the carrying value and evaluating the impairment.

Independent auditor's report

To the shareholders of Saudi Telecom Company (continued)
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Key audit matter	How our audit addressed the key audit matter
<p>First time IFRS adoption</p> <p>As a result of the regulatory requirement in the Kingdom of Saudi Arabia, effective 1 January 2017, the Group is required to prepare the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and that are endorsed in the Kingdom of Saudi Arabia ("KSA") and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA").</p> <p>For all years up to and including the year ended 31 December 2016, the Group had prepared its consolidated financial statements in accordance with Generally Accepted Accounting Principles (GAAP) issued by SOCPA in KSA ("SOCPA GAAP"). The consolidated financial statements for the year ended 31 December 2017 are the Group's first consolidated financial statements prepared in accordance with IFRS, as endorsed in KSA and other standards and pronouncements that are issued by SOCPA.</p> <p>Accordingly, the Group has for the first time applied IFRS, as endorsed in KSA, for the preparation of its consolidated financial statements for the year beginning 1 January 2017. In compliance with the requirements of IFRS 1, as endorsed in KSA, the Group's consolidated statement of financial position as at 1 January 2016 was prepared after incorporating the required adjustments to reflect the transition to IFRS as endorsed in KSA. The Group has assessed the impact of the transition from SOCPA GAAP to IFRS, as endorsed in KSA and significant adjustments have been made in the consolidated financial statements of the Group as at 1 January 2016 and 31 December 2016.</p> <p>We considered this as a key audit matter since the first time adoption of IFRS has significant impact on the consolidated financial statements from a recognition measurement and disclosure perspective.</p> <p><i>Refer to note 47 to the consolidated financial statements for the details of transition and the reconciliation adjustments between SOCPA GAAP and IFRS, as endorsed in KSA.</i></p>	<p>We performed the following procedures in respect of the transition to IFRS as endorsed in KSA:</p> <ul style="list-style-type: none"> • Assessed the appropriateness of the implementation of IFRS, as endorsed in KSA, in accordance with the provisions of IFRS 1 as endorsed in KSA. • Assessed the appropriateness of the accounting policies adopted. • Evaluated the position papers on technical matters, detailed implementation plans (DIPs) and GAAP differences identified by the Group's management. • Tested a sample of adjustments (including calculation and recording) made to various balances and transactions to bring them in line with IFRS as endorsed in KSA. • Assessed the appropriateness of disclosures made for the impact of the transition from SOCPA GAAP to IFRS, as endorsed in KSA. • Assessed the appropriateness of exceptions to retrospective application of certain IFRSs, as endorsed in KSA and optional exemptions availed by the Group from full retrospective application of certain IFRSs, as endorsed in KSA, in preparing the consolidated financial statements.

Independent auditor's report

To the shareholders of Saudi Telecom Company (continued)
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Other information included in the Group's 2017 annual report

Other information consists of the information included in the Group's 2017 annual report, other than the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information in its annual report. The Group's 2017 annual report is expected to be made available to us after the date of this auditors' report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. When we read the Group's 2017 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 that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants and the provisions of Companies' Law and the Company's By-laws, and for such internal controls 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent auditor's report

To the shareholders of Saudi Telecom Company (continued)
(A Saudi joint stock company)

Auditor's responsibilities for the audit of the consolidated financial statements

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism 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 controls 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 controls.
- 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 controls 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.

Independent auditor's report

To the shareholders of Saudi Telecom Company (continued)
(A Saudi joint stock company)

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 year 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.

for Ernst & Young



Rashid S. AlRashoud
Certified Public Accountant
License No. 366



Riyadh: 4 Rajab 1439
(21 March 2018)

Saudi Telecom Company
(A Saudi Joint Stock Company)

Consolidated statement of financial position as at 31 December 2017

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	31 December 2017	31 December 2016	1 January 2016
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment	7	39,940,616	39,418,554	37,960,520
Intangible assets and goodwill	8	7,773,839	7,840,443	7,555,857
Investments in associates and joint ventures	19	6,927,303	6,301,641	6,253,461
Other non-current assets	12	8,657,822	7,652,195	7,733,876
TOTAL NON-CURRENT ASSETS		63,299,580	61,212,833	59,503,714
CURRENT ASSETS				
Inventories	9	460,431	466,766	923,214
Trade and other receivables	10	25,549,424	19,768,149	12,740,745
Short term murabahas	13	14,465,364	15,004,490	16,803,421
Other current assets	14	1,770,961	1,693,448	2,324,482
Cash and cash equivalents	17	2,567,044	3,631,202	4,487,827
TOTAL CURRENT ASSETS		44,813,224	40,564,055	37,279,689
TOTAL ASSETS		108,112,804	101,776,888	96,783,403
EQUITY AND LIABILITIES				
EQUITY				
Issued capital	20	20,000,000	20,000,000	20,000,000
Statutory reserves	21	10,000,000	10,000,000	10,000,000
Other reserves	22	(1,769,028)	(1,935,833)	(709,624)
Retained earnings		34,010,412	31,877,188	30,978,331
Equity attributable to owners of the Parent Company		62,241,384	59,941,355	60,268,707
Non-controlling interests		1,003,289	1,336,976	1,420,842
TOTAL EQUITY		63,244,673	61,278,331	61,689,549
LIABILITIES				
NON-CURRENT LIABILITIES				
Long-term borrowings	23	4,005,980	4,017,231	5,744,076
Provisions	24	1,202,448	1,158,654	1,050,030
Provision for end of service benefits	26	3,922,769	3,775,668	3,678,290
Deferred revenues	25	1,763,440	1,445,777	1,590,681
Other non-current liabilities	27	145,543	292,530	418,041
TOTAL NON-CURRENT LIABILITIES		11,040,180	10,689,860	12,481,118
CURRENT LIABILITIES				
Trade and other payables	28	13,827,806	13,885,561	13,200,276
Short-term borrowings	23	647,763	1,867,220	1,905,482
Provisions	24	7,633,984	5,682,808	1,551,492
Tax and zakat liabilities	29	1,623,423	1,460,129	1,679,138
Deferred revenues	25	2,872,083	2,816,841	1,926,777
Other current liabilities	30	7,222,892	4,096,138	2,349,571
TOTAL CURRENT LIABILITIES		33,827,951	29,808,697	22,612,736
TOTAL LIABILITIES		44,868,131	40,498,557	35,093,854
TOTAL EQUITY AND LIABILITIES		108,112,804	101,776,888	96,783,403

The accompanying notes from 1 to 48 form an integral part of these consolidated financial statements

These financials were originally prepared in Arabic and the Arabic version should prevail.

Saudi Telecom Company
(A Saudi Joint Stock Company)

Consolidated statement of profit or loss for the year ended 31 December 2017

(All amounts in Saudi Riyals thousands unless otherwise stated)

	<i>Notes</i>	<u>2017</u>	<u>2016</u>
Revenues	33	50,746,675	52,673,659
Cost of revenues	34	(21,255,477)	(23,985,878)
GROSS PROFIT		<u>29,491,198</u>	<u>28,687,781</u>
OPERATING EXPENSES			
Selling and marketing	35	(5,726,280)	(6,327,144)
General and administration	36	(4,471,573)	(4,331,428)
Depreciation and amortisation	7,8	(8,208,360)	(8,078,118)
TOTAL OPERATING EXPENSES		<u>(18,406,213)</u>	<u>(18,736,690)</u>
OPERATING PROFIT		11,084,985	9,951,091
OTHER INCOME AND EXPENSES			
Cost of early retirement		(600,000)	(401,703)
Finance income	37	584,681	722,732
Finance cost	38	(354,199)	(379,062)
Other income/ (expenses), net		85,075	(62,565)
Share of profit from investments in associates and joint ventures, net		308,384	116,246
Other losses, net	39	(18,091)	(70,110)
TOTAL OTHER INCOME AND EXPENSES		<u>5,850</u>	<u>(74,462)</u>
NET PROFIT BEFORE ZAKAT, TAX AND NON-CONTROLLING INTEREST		11,090,835	9,876,629
Zakat and income tax	29	(720,700)	(750,797)
NET PROFIT		<u>10,370,135</u>	<u>9,125,832</u>
<i>Net profit attributable to:</i>			
Equity holders of the parent		10,133,224	8,898,857
Non-controlling interests		236,911	226,975
		<u>10,370,135</u>	<u>9,125,832</u>
Basic and diluted earnings per share (in Saudi Riyals)	40	<u>5.07</u>	<u>4.45</u>

The accompanying notes from 1 to 48 form an integral part of these consolidated financial statements

Saudi Telecom Company
(A Saudi Joint Stock Company)

Consolidated statement of comprehensive income for the year ended 31 December 2017
(All amounts in Saudi Riyals thousands unless otherwise stated)

	<i>Note</i>	<u>2017</u>	<u>2016</u>
NET PROFIT		10,370,135	9,125,832
OTHER COMPREHENSIVE INCOME			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Re-measurement of end of service benefits provision	26	(117,361)	(64,011)
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Foreign currency translation differences		(15,367)	(46,315)
Fair value changes on available-for-sale financial assets, net		90,557	196,241
Fair value changes from cash flow hedges, net		(2,595)	(8,678)
<i>Total items that may be reclassified subsequently to profit or loss</i>		72,595	141,248
TOTAL OTHER COMPREHENSIVE INCOME		(44,766)	77,237
TOTAL COMPREHENSIVE INCOME		10,325,369	9,203,069
<i>Total comprehensive income attributable to:</i>			
Equity holders of the parent		10,082,689	8,980,444
Non-controlling interests		242,680	222,625
		10,325,369	9,203,069

The accompanying notes from 1 to 48 form an integral part of these consolidated financial statements

Saudi Telecom Company
(A Saudi Joint Stock Company)

Consolidated statement of cash flows for the year ended 31 December 2017
(All amounts in Saudi Riyals thousands unless otherwise stated)

	<i>Notes</i>	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit before zakat, tax and non-controlling interests		11,090,835	9,876,629
<i>Adjustments for:</i>			
Depreciation and amortisation	7,8	8,208,360	8,078,118
Doubtful debts allowance	10	870,614	775,050
Finance income	37	(584,681)	(722,732)
Finance costs	38	354,199	379,062
Provision for employee end of service benefits and other provisions		2,808,241	4,954,866
Share of gain from investments in associates and joint ventures, net		(308,384)	(116,246)
Other losses, net	39	18,091	70,110
		22,457,275	23,294,857
<i>Movements in working capital:</i>			
Trade and other receivables		(6,772,947)	(7,460,010)
Inventories		6,334	456,449
Other assets		(573,167)	853,544
Trade and other payables		(263,130)	709,707
Deferred revenues		411,999	745,160
Other liabilities		2,582,832	908,210
Cash generated from operations		17,849,196	19,507,917
Less: Income taxes and zakat paid	29	(649,427)	(680,701)
Less: Employee end of service benefits paid	26	(499,614)	(452,120)
Net cash from operating activities		16,700,155	18,375,096
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment		(6,576,858)	(7,607,416)
Additions to intangible assets		(2,143,417)	(2,414,905)
Proceeds from sale of property, plant and equipment		13,375	36,136
Purchase of interest in an associate		(375,095)	-
Dividends received from associates		41,077	26,062
Proceeds from finance income		752,261	555,023
Proceeds and payments related to financial assets, net		498,916	1,677,396
Net cash used in investing activities		(7,789,741)	(7,727,704)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(8,019,234)	(8,031,468)
Acquisition of non-controlling interests in a subsidiary	16-2	(437,382)	(1,619,339)
Repayment of borrowings		(3,298,573)	(1,711,564)
Proceeds from borrowings		1,924,461	-
Finance costs paid		(149,454)	(148,195)
Net cash used in financing activities		(9,980,182)	(11,510,566)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(1,069,768)	(863,174)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		3,631,202	4,487,827
Net foreign exchange difference		5,610	6,549
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	17	2,567,044	3,631,202

The accompanying notes from 1 to 48 form an integral part of these consolidated financial statements

Saudi Telecom Company
(A Saudi Joint Stock Company)

Consolidated statement of changes in equity for the year ended 31 December 2017
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	Attributable to equity holders of the Parent Company				Total equity holders	Non-controlling interests (note 16.2)	Total equity
		Issued capital (note 20)	Statutory reserves (note 21)	Other reserves (note 22)	Retained earnings			
<i>As at 1 January 2017</i>		20,000,000	10,000,000	(1,935,833)	31,877,188	59,941,355	1,336,976	61,278,331
Net profit		-	-	-	10,133,224	10,133,224	236,911	10,370,135
Other comprehensive income		-	-	(50,535)	-	(50,535)	5,769	(44,766)
Total comprehensive income		-	-	(50,535)	10,133,224	10,082,689	242,680	10,325,369
Dividends paid to shareholders	46	-	-	-	(8,000,000)	(8,000,000)	-	(8,000,000)
Acquisition of non-controlling interest	2-16	-	-	67,474	-	67,474	(546,772)	(479,298)
Dividends paid to non-controlling interests		-	-	-	-	-	(29,595)	(29,595)
Other reserves	22	-	-	149,866	-	149,866	-	149,866
<i>As at 31 December 2017</i>		20,000,000	10,000,000	(1,769,028)	34,010,412	62,241,384	1,003,289	63,244,673
<i>As at 1 January 2016</i>		20,000,000	10,000,000	(709,624)	30,978,331	60,268,707	1,420,842	61,689,549
Net profit		-	-	-	8,898,857	8,898,857	226,975	9,125,832
Other comprehensive income		-	-	81,587	-	81,587	(4,350)	77,237
Total comprehensive income		-	-	81,587	8,898,857	8,980,444	222,625	9,203,069
Dividends paid to shareholders	46	-	-	-	(8,000,000)	(8,000,000)	-	(8,000,000)
Acquisition of non-controlling interest		-	-	(1,312,848)	-	(1,312,848)	(306,491)	(1,619,339)
Other reserves	22	-	-	5,052	-	5,052	-	5,052
<i>As at 31 December 2016</i>		20,000,000	10,000,000	(1,935,833)	31,877,188	59,941,355	1,336,976	61,278,331

The accompanying notes from 1 to 48 form an integral part of these consolidated financial statements

These financials were originally prepared in Arabic and the Arabic version should prevail.

1. GENERAL INFORMATION

A) ESTABLISHMENT OF THE COMPANY

Saudi Telecom Company (the “Company”) was established as a Saudi Joint Stock Company pursuant to Royal Decree No. M/35 dated 24 Dhul Hijja 1418H (corresponding to 21 April 1998) that authorised the transfer of the telegraph and telephone division of the Ministry of Post, Telegraph and Telephone (“MoPTT”) with its various components and technical and administrative facilities to the Company, and in accordance with the Council of Ministers’ Resolution No. 213 dated 23 Dhul Hijja 1418H (corresponding to 20 April 1998) that approved the Company’s by-laws. The Company was wholly-owned by the Government of the Kingdom of Saudi Arabia (the “Government”). Pursuant to the Council of Ministers’ Resolution No. 171 dated 2 Rajab 1423H (corresponding to 9 September 2002) the Government sold 30% of its shares.

The Company commenced its operation as the provider of telecommunications services throughout the Kingdom of Saudi Arabia (the “Kingdom”) on 6 Muharram 1419H (corresponding to 2 May 1998) and received its Commercial Registration No. 1010150269 as a Saudi Joint Stock Company on 4 Rabi Awal 1419H (corresponding to 29 June 1998). The Company’s head office is located in King Abdulaziz Complex, Imam Mohammed Bin Saud Street Al Mursalat Area, Riyadh, Kingdom of Saudi Arabia.

B) GROUP ACTIVITIES

The main activities of the Company and its subsidiaries (the “Group”) comprise the provision and introduction of telecommunications, information and media services, which include, among other things:

- a) Establish, manage, operate and maintain fixed and mobile telecommunication networks, systems and infrastructure.
- b) Deliver, provide, maintain and manage diverse telecommunication and information technology (IT) services to customers.
- c) Prepare the required plans and necessary studies to develop, implement and provide the telecom and IT services covering all technical, financial and administrative aspects. In addition, prepare and implement training plans in the field of telecommunications and IT, and provide consultancy services.
- d) Expand and develop telecommunication networks, systems, and infrastructure by utilizing the most current devices and equipment in telecom technology, especially in the fields of providing and managing services, applications and software.
- e) Provide integrated communication and information technology solutions for instance (telecom, IT services, managed services, and cloud services, etc.).
- f) Provide information-based systems and technologies to customers including preparing, printing and distributing phone and commercial directories, information bulletins, and provide the telecommunication means for the transfer of internet services.
- g) Wholesale and retail trade, import, export, purchase, own, lease, manufacture, promote, sell, develop, design, setup and maintain of devices, equipment, and components of different telecom networks including fixed, moving and private networks. Also, computer programs and the other intellectual properties, in addition to providing services and executing contracting works that are related to different telecom networks.
- h) Real estate investment and the resulting activities, such as selling, buying, leasing, managing, developing and maintenance.
- i) Acquire loans and own fixed and movable assets for intended use.
- j) Provide financial and managerial support and other services to subsidiaries.
- k) Provide development, training, assets management and other related services.
- l) Provide solutions for decision support, business intelligence and data investment.
- m) Provide supply chain and other related services.

1. GENERAL INFORMATION (CONTINUED)

B) GROUP ACTIVITIES (CONTINUED)

Moreover, the Company is entitled to set up individual limited liability companies or closed joint-stock as per Companies law. It may also own shares in or merged with other companies, and it has the right to establish with others joint stock and limited liability companies or any other entities inside or outside the Kingdom.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization of Certified Public Accountants (“SOCPA”).

The consolidated financial statements for the year ended 31 December 2017 are the first annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS 1 (*First-time Adoption of International Financial Reporting Standards*) endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by SOCPA. For all periods up to and including the year ended 31 December 2016, the Group prepared its financial statements in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia issued by SOCPA. Note (47) provides an explanation for the transition impact to IFRS.

These consolidated financial statements have been prepared on a historical cost basis unless otherwise stated as explained in the accounting policies below.

The consolidated financial statements are presented in Saudi Riyals (“SR”) which is the functional currency for the Group and all values are rounded to the nearest thousand Saudi Riyals, except when otherwise indicated.

2.2 Basis of consolidation

The consolidated financial statements of the Group comprises the financial information of the Company and its subsidiaries (refer to note 16). Control is achieved when the Group has:

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

In general, there is a presumption that a majority of voting rights result in control. In support of this assumption, when the Group has less than a majority of the voting rights or similar rights in the investee, the Group takes into consideration all relevant facts and circumstances when determining whether it exercises control over the investee, including:

- Arrangement(s) with other voting rights holders in the investee company.
- Rights arising from other contractual arrangements.
- Group voting rights and potential voting rights

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the equity holders of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of consolidation (Continued)

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, unrealised gains, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group shares in subsidiaries that do not lessen the control over subsidiaries are treated as equity transactions. The carrying amounts of the Group shares and non-controlling interests are adjusted to reflect changes in the relative shares of subsidiaries. Any difference between non-controlling interest amount and the fair value of the consideration paid or received will be directly recognized in equity rights.

When the Group loses control over a subsidiary, any gain or loss is recognized in the consolidated statement of profit or loss and is calculated as the difference between (1) the total fair value of the consideration received added to the fair value of any held interest; and (2) the total of carrying amount for those assets (including Goodwill), and the liabilities of the subsidiary and any non-controlling interests. All previously recognized amounts are recognized in other comprehensive income relating to that subsidiary as if the Group had disposed of the assets and liabilities of the subsidiary directly (reclassified to profit or loss or transferred to another category of equity as defined / permitted in the IFRS). The fair value of any investment held in the former subsidiary at the date of losing the control is considered to be the fair value at initial recognition of subsequent accounting under (IAS 39), if any, and is considered the initial recognition cost of the investment in an associate or a joint venture company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Business combinations

Acquisitions of businesses are accounted for using the acquisition method. That is when the control is being transferred to the Group, the considered amount then is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

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

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value with limited exceptions.

Goodwill is initially measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date fair values of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the Group previously held interest in the acquiree (if any), The Group then assesses whether all assets acquired, liabilities assumed and the procedures used are properly recognized at the date of acquisition. If the revaluation result continues to show an increase in the net assets acquired over the total transferred consideration, the excess shall be recognised immediately in profit or loss as resulted from the bargain purchase.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Business combinations (continued)

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

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

The share value to be paid is measured at its fair value at the date of acquisition and is classified either as equity or as a financial liability. The amounts classified as a financial liability are subsequently re-measured at fair value with changes in fair value recognized in the consolidated statement of profit or loss. The other amounts which classified as an equity are not to be re-measured but accounted for under equity.

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

If the initial accounting for the business combination is not completed by the end of the reporting period which constitutes the period in which the combination occurred, the Group reviews the items whose value calculation has not been completed in a temporary manner in the consolidated financial statements. During the measurement period, which is not more than one year from the acquisition date, the temporary value recognized on the acquisition date is retroactively adjusted to reflect the information obtained about the facts and circumstances that existed at the date of acquisition. If it is determined that this will affect the measurement of amounts recognized as of that date, the Group recognizes additional assets or liabilities accordingly. The measurement period ends once the group obtains those information or as soon as it becomes sure of the lack of access to more information.

3.2 Investments in associates and joint ventures

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

A joint venture is a joint arrangement whereby the Group have a control of the arrangement and also have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The considerations made in determining significant influence or joint control are retaining - directly or indirectly - a percentage of the right to vote for the investee company, representation on the board of directors or equivalent governing body of the investee; participation in policy-making processes, including participation in decisions about dividends or other distributions; material transactions between the Group and its investee; interchange of managerial personnel; or provision of essential technical information.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 *Investments in associates and joint ventures (continued)*

Investments in associates or joint ventures are accounted for in the Group's consolidated statements using the equity method. The Group initially recognises investment in associates or joint ventures at cost and adjusted thereafter to recognise the Group's share of the profit and loss and other comprehensive income of the associate or joint venture less any impairment in the value of net investments. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture). The Group discontinues recognising its share of further losses. Additional losses are recognised as a liability only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

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

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the year in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture (refer to note 3-17-6).

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

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

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

Revenue represents the fair value of the consideration received or receivable for telecommunication services and equipment sales, net of discounts. Revenue from rendering services and device sales is recognised when it is probable that the economic benefits associated with a transaction will flow to the Group and the amount of revenue and associated costs can be measured reliably.

Revenue from services provided to customers managed on behalf of content providers is accounted for net of the content providers' fees when the provider is responsible for the content and setting the prices payable by customers.

The Group principally earns revenue from airtime usage, messaging, data services, interconnect fees, connection fees and equipment sales. Products and services may be sold separately or packaged.

Arrangements involving multiple deliverables are separated into individual elements and revenue is recognised on the basis of the fair value (standalone selling prices) of the individual elements by allocating the total arrangement consideration among the individual elements based on their relative standalone selling prices. Elements are considered separable if the individual element has value to the customer on a standalone basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Revenue recognition

Revenue and related expenses associated with the sale of handsets is recognised when the handsets are delivered and accepted by the customers. Revenues from post-paid plans are recognised as the entitlement to the fees accrues with unbilled revenue resulting from services already provided accrued at the end of each reporting period. Revenue from pre-paid plans and use of services above the entitlements for post-paid plans are recognised based upon usage. Revenue from the sale of prepaid top up cards is deferred until such time the customer uses the credit, or the credit period expires whichever is earlier.

Revenues from linking voice services, roaming and data with local and international telecom operators is recognized at the time rendering services on the basis of actual registration and in accordance with the agreed tariff.

Revenue from interconnect fees is recognised at the time the service is performed. Connection fees are deferred and recognised over the period in which services are expected to be provided to the customer.

When an arrangement contains a lease, the lease is accounted for in accordance with the policy described in note 3.5 below.

Recognition of revenue from long-term service contracts is according to the policy described in note 3.4 below.

3.3.1 Dividend and finance income

Dividend income from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Finance income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life or shorter period, where appropriate, of the financial asset to that asset's net carrying amount on initial recognition.

3.3.2 Customer loyalty scheme

The Group has a customer loyalty program that offers various rewards to retain customers that grants participating customers with credit point balances at the time of post-paid invoice collection or prepaid recharge. The credit point balances are then exchanged for various rewards. The allocated amount of the credit point balances is estimated using the fair value of the right to exchange them on receiving a discount for the Group's products or for products and services provided by third parties. The fair value is estimated using the historical weighted average value of the points redeemed. The allocated amount is deferred and recognized as revenues when the credit points are redeemed or expired.

3.4 Long-term service contracts

When the outcome of a long-term service contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the financial year, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, Claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When the outcome of a long-term service contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Leasing

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

A lease is classified as a finance lease if it transfers substantially all the risks and rewards of ownership. If the contract does not transfer it substantially, the contract is classified as an operating lease.

Group as a lessee:

Finance leases are recognized at the commencement of the lease as assets and liabilities in the statement of financial position at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and then lease payments are apportioned between finance charges and a reduction in the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance cost in the consolidated statement of profit or loss.

At the beginning of the contract or when reviewed, the Group separates payments and other amounts required under the contract into lease payments and payments to other items based on the relative fair value.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. The benefits received and accrued are also allocated as an incentive to enter into an operating lease on a straight-line basis over the lease term. The total benefit from the incentive is recognized as a reduction of the lease expense on a straight-line basis unless another basis better represents the period during which the economic benefits of the leased asset are exhausted. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Group as a lessor:

Operating lease income is recognized in the consolidated statement of profit or loss on a straight-line basis over the lease term. The benefits granted as an incentive to enter into an operating lease are also distributed on a straight-line basis over the lease term. The aggregate benefit from the incentive is recognized as a reduction of rental income on a straight-line basis unless another basis better represents the period during which the economic benefits of the leased asset are exhausted.

Amounts due from finance leases are recognized as receivables in an amount equal to the Group's net investment in the lease. The rental payment receivable is treated as a payment of the original amount as financing income to compensate the Group for its investment and services. The incremental costs which are directly associated with the lease negotiation process are included in the amounts due and the amount of financing income recognized over the period of the contract is reduced.

In case the Group considers the lease as a manufacturer or a seller at the beginning of the contract, sales proceeds are recognized at the fair value of the asset or the present value of the outstanding lease payments and the cost of the sales is recognized and the gain or loss resulting from the sale is recognized directly. Additional costs directly associated with the negotiation of the lease contract incurred by the Group as a manufacturer or seller are recognized as an expense at the beginning of the lease term.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Foreign currencies

The information and disclosures of foreign currencies are presented in Saudi Riyals (the functional currency for Saudi Telecom, the mother company). For each subsidiary, the Group determines the functional currency, which is the currency of the primary economic environment in which the entity operates, and items included in the financial statements of each entity are measured using that functional currency.

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

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except in limited circumstances.

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

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

For partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

3.7 Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

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

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

3.8 Employee benefits

3.8.1 Retirement benefit costs and end of service benefits

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 *Employee benefits (continued)*

Provision for employees' end of service benefits is calculated annually by an actuarial expert in accordance with the projected unit cost method taking into consideration the labour law of the respective country in which the subsidiary operates. The provision is recognised based on the present value of the defined benefit obligations.

The present value of the defined benefit obligations is calculated using assumptions on the average annual rate of increase in salaries, average period of employment 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 Saudi Arabia interest rate swap curve or another basis, if applicable.

Re-measurement of net liabilities that includes actuarial gains and losses arising from changes in assumptions used in the calculation is recognized directly in other comprehensive income. Re-measurements are not reclassified to the income statement in subsequent periods.

The cost of past services (if any) is recognized in the statement of income before:

- Date of modification of the program or labour downsizing;
- The date on which the Group recognizes the related restructuring costs.

Net commission is calculated using the discount rate to net identifiable assets or liabilities. The Group recognizes the following changes in the net benefit obligation identified under "cost of income", "general and administrative expenses" and "selling and marketing expenses" in the consolidated statement of income (by function):

- Costs of services that include the costs of current services, past service costs, profits and losses resulting from labour downsizing and non-routine payments.
- Net financing cost/income.

3.8.2 *Short-term employee benefits*

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

3.9 *Zakat and Taxation*

3.9.1 *Zakat*

The Group calculates and records the zakat provision based on the zakat base in its consolidated financial statements in accordance with Zakat rules and principles in the Kingdom of Saudi Arabia. Adjustments arising from final zakat assessment are recorded in the reporting period in which such assessment is approved by the General Authority of Zakat and Tax ("GAZT").

3.9.2 *Current and deferred taxes*

Tax relating to investee companies outside the Kingdom of Saudi Arabia is calculated in accordance with tax laws applicable in those countries.

Deferred income tax provision for foreign entities is calculated using the liability method for the temporary differences at the end of the financial year between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities and assets are measured at the tax rates expected to be applied in the reporting period in which the obligation is settled or the assets is realized.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Zakat and Taxation (continued)

Deferred tax assets of foreign entities are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized. This involves a judgement relating to the future financial performance of the foreign entity in which the deferred tax assets have been recognised. Deferred tax liabilities are generally recognized for all temporary differences that are taxable.

The current income tax is recognized in the consolidated statement profit or loss.

3.10 Property, plant and equipment

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

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

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

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

When significant parts of property, plant and equipment are to be replaced (except land), the Group recognises such parts as individual assets with specific useful life. All other repairs and maintenance costs are charged to the consolidated statement of comprehensive income during the financial year in which they are incurred, except to the extent that they increase productivity or extend the useful life of an asset, in which cases they are capitalized.

Depreciation is charged so as to write off the cost of assets, other than land, using the straight-line method, over their estimated useful lives. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss within other operating income or expenses. The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

3.11 Intangible assets other than goodwill

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition.

The useful lives of intangible assets are assessed as either specific or indefinite. Intangible assets with finite lives are amortized over their economic useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

3.11.1 Software

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

3.11.2 Licence and spectrum fees

Amortisation periods for licence and spectrum fees are determined primarily by reference to the unexpired licence period, the conditions for licence renewal and whether licences are dependent on specific technologies. Amortisation is charged to the consolidated statement of profit or loss on a straight-line basis over the estimated useful lives from the commencement of related network services.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Intangible assets other than goodwill (continued)

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

3.11.3 Subscriber acquisition cost

The cost arising from the acquisition of a service subscriber is capitalized and amortized on a straight-line basis over the estimated useful lives of the estimated customer relationship from the date of commencement of service.

3.11.4 Indefeasible Rights of Use (“IRU”)

IRUs correspond to the right to use a portion of the capacity of a terrestrial or submarine transmission cable granted for a fixed period. IRUs are recognised at cost as an asset when the Group has the specific indefeasible right to use an identified portion of the underlying asset, generally optical fibres or dedicated wavelength bandwidth, and the duration of the right is for the major part of the underlying asset’s economic life. They are amortised on a straight-line basis over the shorter of the expected period of use and the life of the contract which ranges between 10 to 20 years.

3.11.5 De-recognition of intangible assets

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

3.12 Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

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 other assets (cash generating unit).

Recoverable amount is the higher of fair value less costs of disposal or the present value of the expected future cash flows from the use of the asset, whichever is higher. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of profit or loss.

Tangible and intangible assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

3.13 Inventories

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Provisions

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

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

3.15 Assets' Decommissioning Liabilities

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

The Group calculates the provision of future costs relating to the removal and decommissioning of network and other assets. Upon initial recognition of the obligation, the present value of the expected costs (using the cash flow discount rate) is added to the value of the network in question and other assets.

Changes in the timing and cost of removing and decommissioning assets are accounted prospectively by adjusting the carrying amount of network and other assets.

3.16 Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated statement of profit or loss.

3.17 Financial assets

Financial assets are classified into the following specified categories: (i) financial assets 'at fair value through profit or loss' ("FVTPL"), (ii) 'held-to-maturity' investments, (iii) 'available-for-sale' ("AFS") financial assets and, (iv) 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables are recognized initially on the date on which they arise. But other financial assets are recognized initially in the trading date as the Group becomes a party to the contractual terms of the instrument.

3.17.1 Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating finance income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Financial assets (continued)

3.17.2 Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading, or (ii) it is designated as at FVTPL upon initial recognition.

Financial assets at FVTPL are stated at fair value, any gain or loss arising from the re-measurement of changes in fair value is recognized in the consolidated statement of profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or finance income earned on the financial asset and is included in the 'Other gains and losses' line item.

3.17.3 Held-to-maturity investments

It's a non-derivative financial assets with fixed or determinable payments that have fixed maturities. Held to maturity assets are classified at initial recognition if the Group has the intention and ability to hold them to maturity. These assets are initially recognized at fair value plus any directly attributable transaction costs. After initial recognition, held to maturity assets are measured at amortized cost using the effective interest method less any impairment in value.

Finance income is recognised by applying the effective interest rate, except for short-term loans and receivables when the effect of discounting is immaterial.

3.17.4 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are initially recognized at fair value plus any directly attributable transaction costs. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment in value.

3.17.5 Available-for-sale financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity assets or (c) financial assets at fair value through profit or loss.

AFS financial assets are stated at fair value at the end of each reporting period. Fair value is determined in the manner described in note 41. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates (see below), finance income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Changes other than due to foreign currency, finance income and dividends in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated as part of other reserves. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in other reserves is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

3.17.6 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Financial assets (continued)

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to the consolidated statement of profit or loss.

For financial assets measured at amortised cost, 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, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss.

Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

3.17.7 Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers all the risks and rewards of ownership of the asset to another party or transferred control of such assets to a third party.

3.18 Financial liabilities and equity instruments

3.18.1 Classification as debt or equity

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

3.18.2 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in the consolidated statement of profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3.18.3 Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

3.18.3.1 Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when it is (i) held for trading, or (ii) it is designated as at FVTPL.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any finance cost paid on the financial liability and is included in the 'other gains and losses' line item.

3.18.3.2 Other financial liabilities

Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortised cost using the effective interest method.

3.18.3.3 Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3.18.3.4 Offsetting of financial instruments

Financial assets and financial 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.

3.19 Derivative financial instruments

The Group uses derivatives to hedge its profit rate risks. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. Any gains or losses arising from changes in the fair value of derivatives are taken directly to the consolidated statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

3.20 Hedge accounting

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

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 under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Hedge accounting (continued)

When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

3.21 Cash and cash equivalents

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

3.22 Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability,

The Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes is determined on such a basis, except for leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

The Group uses valuation techniques appropriate to current circumstances that provide sufficient data to measure fair value, providing a higher limit for the use of relevant inputs that are observable, and providing the minimum use of inputs that are not observable. In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable directly or indirectly.

3.23 Discontinued operations

It's a component of the Group's business whose operations and cash flows can be clearly distinguished from the rest of the Group:

- A separate main business line or geographical area for separate operations.
- Part of a single coordinated plan to exclude a separate main work line or geographic area of operations, or,
- A subsidiary acquired exclusively for the purpose of resale.

When an operation is classified as discontinued, the comparative figures for the consolidated statement of profit or loss or other comprehensive income are presented as if the transaction had been discontinued since the beginning of the year of the comparison.

3.24 Segmental information

The specific operational segments of the group are identified based on internal reports, which are regularly reviewed by the group's main decision makers (chief operating decision maker)

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the management of the Group are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities and the accompanying disclosures that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

4.1 Significant estimates when applying accounting policies

The significant estimates, except those involving uncertain estimates (see Note 4-2 below), which the management has adopted in applying the Group's accounting policies and which have the most significant effect on the amounts recognized in the consolidated financial statements are as follow:

4.1.1 Revenue recognition

Principal versus agent presentation

When the Group sells goods or services as a principal, income 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 assets, liabilities or cash flows.

4.1.2 Impairment of non-financial assets

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

4.2 Key sources of uncertainty estimates

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4.2.1 Arrangements with multiple deliverables

In revenue arrangements where more than one good or service is provided to the customer, customer consideration is allocated between the goods and services using relative fair value principles. The fair values determined for deliverables may impact the timing of the recognition of revenue. The Group generally determines the fair value of individual elements based on prices at which the deliverable is regularly sold on a stand-alone basis. Revision to the estimates of these fair values may significantly affect the allocation of total arrangement consideration among the individual elements.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

4.2 Key sources of uncertainty estimates (continued)

4.2.2 Customer activation service fees

Customer activation service fees are deferred and recognised over the estimated average customer retention period. The estimation of the expected average duration of the relationship is based on historical turnover. If the Group's estimates are revised, material differences may result in the amount of revenue and timing of revenue for any period.

4.2.3 Financial instruments designated at FVTPL

The Group has established a diversified investment portfolio which has been designated at FVTPL. In estimating the fair value of the investments, the Group uses market-observable data to the extent available.

4.2.4 Provisions

In respect of provisions including decommissioning provision, the Group provides for anticipated outflows of resources considered probable. Estimates are used in assessing the likely amount of the settlement. The ultimate liability may vary from the amounts provided and would be dependent on the eventual outcome (See note 24).

4.2.5 Useful lives for property, plant and equipment, software and other intangible assets

The annual depreciation and amortisation charge is sensitive to the estimated lives allocated to each type of asset. Assets lives are assessed annually and changed where necessary to reflect current circumstances in light of technological change, network investment plans and physical conditions of the assets concerned.

4.2.6 Allowance for doubtful debts

The Group maintains an allowance for doubtful receivables. When evaluating the adequacy of the allowance, the Group bases its estimate on the Group's past experience of collecting payments, an increase in the number of delayed payments in the receivables past the average credit period. If the financial condition of customers were to deteriorate actual write offs might be higher than expected.

4.2.7 Discount rate used to determine the carrying amount of the Group's defined benefit obligation

The Group's end of service benefit obligation is discounted at a rate set by reference to market yields at the end of the reporting period on Saudi Arabia profit rate swap curve for a similar maturity, as there is no deep bonds market with similar long term maturities.

5. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

International Financial Reporting Standards (IFRSs) and its interpretations and amendments which are in force as of 1 January 2017

The consolidated financial statements were prepared in accordance International Financial Reporting Standards (IFRSs) and its interpretations and amendments which are in force as of 1 January 2017.

New and revised IFRSs in issue but not yet effective

The Group has not applied any of the new and revised IFRSs that have been issued but are not yet effective.

The Group plans to adopt these standards when they become effective. Below are the key standards which are reasonably expected to have an impact on the Group:

IFRS 9	<i>Financial Instruments¹</i>
IFRS 15	<i>Revenue from Contracts with Customers¹</i>
IFRS 16	<i>Leases²</i>

¹Effective for annual periods beginning on or after 1 January 2018 with earlier application permitted.

²Effective for annual periods beginning on or after 1 January 2019 with earlier application permitted.

5. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)

IFRS 9 Financial Instruments

IFRS 9 (and the amended versions in 2010, 2013 and 2014), which supersedes IAS 39, addresses the requirements for classifying, measuring and derecognising financial assets and liabilities and introduces new rules on hedge accounting and impairment requirements for financial assets. The Group is in the final stage of evaluating and reviewing the impact of application of this standard on the consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 "Revenue from Contracts with Customers" issued in May 2014 sets out principles to provide users of financial statements with useful information on the nature, value, timing and uncertainties relating to the income and cash flows arising from the entity's contracts with customers. IFRS 15 replaces IAS 11 "Construction Contracts" and IAS 18 "Revenue" and related interpretations IFRIC 13, 15 and 18 and SIC No. 31.

The basic principle of IFRS 15 is that an entity must recognize revenue to reflect the transfer of goods or services provided to customers in an amount that reflects the consideration for which the entity expects to have a right in return for such goods or services.

The standard is based on a five-step revenue recognition approach and also provides specific principles for application when modifying a contract, accounting for contract costs and accounting for recoveries and guarantees. Disclosures are likely to increase when the Standard is applied. The Standard includes principles for disclosing the nature, value, timing and uncertainties of revenue and cash flows arising from contracts with customers by providing qualitative and quantitative information. The Group is in the final stage of evaluating and reviewing the impact of application of this standard on the consolidated financial statements.

IFRS 16 Leases

IFRS 16 defines the recognition, measurement, presentation and disclosure of leases. It introduces a single accounting model for the lessee where it requires the lessee to recognize the assets (right to use underlying leased assets) and liabilities (obligation to make lease payments) for all leases with a term of more than 12 months, unless the underlying is of low value.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group is currently assessing the impact of this standard on the consolidated financial statements of the Group.

6. SEGMENT INFORMATION

The Group is engaged mainly in providing telecommunication services and related products. Majority of the Group's revenues, profits and assets relate to its operations in the Kingdom (STC KSA and STC Channels). Outside of the Kingdom, the Group operates through its subsidiaries and associates in several countries.

Revenue is attributed to an operating segment based on the legal entity of the Group reporting the revenue. Sales between segments are calculated at normal business transaction prices.

The disclosed operating segments exceeded the 75% threshold and therefore all other operating segments are combined and disclosed as "Other segments".

Saudi Telecom Company
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2017 (continued)
(All amounts in Saudi Riyals thousands unless otherwise stated)

6. SEGMENT INFORMATION (CONTINUED)

The following is an analysis of revenues and group results by reportable segment for the year ended 31 December:

	<u>2017</u>	<u>2016</u>
<u>Revenues (1)</u>		
Saudi Telecom Company	41,456,673	46,198,023
STC Channels (formerly: Sale Advanced Co.)	3,055,095	3,028,657
Other operating segments (2)	8,418,027	8,206,062
Eliminations/adjustments	<u>(2,183,120)</u>	<u>(4,759,083)</u>
Total revenue	50,746,675	52,673,659
Cost of operations (excluding depreciation and amortisation)	(31,453,330)	(34,644,450)
Depreciation and amortisation	(8,208,360)	(8,078,118)
Cost of early retirement	(600,000)	(401,703)
Finance income	584,681	722,732
Finance cost	(354,199)	(379,062)
Other income/(expenses), net	85,075	(62,565)
Share of profit from investments in associates & joint ventures, net	308,384	116,246
Other losses, net	(18,091)	(70,110)
Zakat and income tax	(720,700)	(750,797)
Net profit	<u>10,370,135</u>	<u>9,125,832</u>

(1) Segment revenue reported above represents revenue generated from external and internal customers. There were SR 2,183 million for the year ended 31 December 2017 (31 December 2016: SR 4,759 million) inter-segment sales and adjustments in the current period eliminated at consolidation.

(2) Others include: Viva Kuwait, Viva Bahrain, Intigral, STC Specialized and STC Solutions, Sapphire and Aqalat.

Following is the gross profit analysis on a segmental basis for the year ended 31 December:

	<u>2017</u>	<u>2016</u>
Saudi Telecom Company	24,615,686	23,669,197
STC Channels	698,456	946,131
Other operating segments	4,410,749	4,150,826
Eliminations/adjustments	<u>(233,693)</u>	<u>(78,373)</u>
Gross profit	<u>29,491,198</u>	<u>28,687,781</u>

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6. SEGMENT INFORMATION (CONTINUED)

For the purpose of monitoring the performance of segments, assets/liabilities are allocated to segments and no assets and liabilities are used mutually between segments.

The following is an analysis of the assets and liabilities on a segment basis as at:

	<u>31 December</u> <u>2017</u>	<u>31 December</u> <u>2016</u>	<u>1 January</u> <u>2016</u>
<u>Assets</u>			
Saudi Telecom Company	115,459,581	108,468,698	102,021,056
STC Channels	2,595,865	2,192,516	2,273,889
Other operating segments	17,968,014	16,666,130	16,143,335
Eliminations/adjustments	(27,910,656)	(25,550,456)	(23,654,877)
Total Assets	108,112,804	101,776,888	96,783,403
<u>Liabilities</u>			
Saudi Telecom Company	41,288,221	35,885,233	30,085,267
STC Channels	1,544,043	926,047	1,022,660
Other operating segments	8,869,091	8,893,552	8,876,595
Eliminations/adjustments	(6,833,224)	(5,206,275)	(4,890,668)
Total Liabilities	44,868,131	40,498,557	35,093,854

Following are the additions to non-current assets on a segment basis for the year ended 31 December:

Other segment information

	<u>2017</u>	<u>2016</u>
<i>Additions to non-current assets</i>		
Saudi Telecom Company	7,487,442	8,385,931
STC Channels	59,715	48,793
Other operating segments	1,628,442	1,563,834
	9,175,599	9,998,558

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6. SEGMENT INFORMATION (CONTINUED)

The following is an analysis of the Group's revenue from operations from its major products and services for the year ended 31 December:

	<i>STC KSA</i>	<i>STC Channels</i>	<i>Other Op. Segments</i>	<i>Eliminations/ Adjustments</i>	<i>Total</i>
2017					
Mobile	25,495,506	-	3,047,830	(972,852)	27,570,484
Data	5,749,007	-	4,007,263	(1,210,268)	8,546,002
Landline	5,947,882	-	-	-	5,947,882
Managed services and others	4,264,280	3,055,095	1,362,932	-	8,682,307
	<u>41,456,675</u>	<u>3,055,095</u>	<u>8,418,025</u>	<u>(2,183,120)</u>	<u>50,746,675</u>
2016					
Mobile	28,784,490	-	3,244,500	(3,597,429)	28,431,561
Data	5,184,039	-	3,711,328	(1,161,654)	7,733,713
Landline	6,326,890	-	-	-	6,326,890
Managed services and others	5,902,604	3,028,657	1,250,234	-	10,181,495
	<u>46,198,023</u>	<u>3,028,657</u>	<u>8,206,062</u>	<u>(4,759,083)</u>	<u>52,673,659</u>

Information about major customers

Included in revenues arising from sales are revenues of approximately SR 5,355 million for the year ended 31 December 2017 (31 December 2016: SR 5,877 million) that arose from sales to the Government and Government entities (see note 18-2). No other single customers contributed 10% or more to the Group's revenue.

Information on a geographical basis

Geographical segmentation of revenues and non-current assets are as follows:

	<i>Revenues for the year ended</i>		<i>Non-current assets as at</i>		
	<i>31 December 2017</i>	<i>31 December 2016</i>	<i>31 December 2017</i>	<i>31 December 2016</i>	<i>1 January 2016</i>
Kingdom of Saudi Arabia	46,209,736	47,906,060	59,343,883	57,327,621	55,508,963
Others	4,536,939	4,767,599	3,955,697	3,885,212	3,994,751
	<u>50,746,675</u>	<u>52,673,659</u>	<u>63,299,580</u>	<u>61,212,833</u>	<u>59,503,714</u>

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7. PROPERTY, PLANT AND EQUIPMENT

	<i>Land and buildings</i>	<i>Telecommunication network and equipment</i>	<i>Other assets</i>	<i>Capital work in progress</i>	<i>Total</i>
Cost					
As at 1 January 2017	14,540,020	72,976,726	7,454,850	3,365,652	98,337,248
Additions	4,486	57,223	49,248	6,853,665	6,964,622
Disposals / transfers	137,094	4,560,753	368,818	(6,553,729)	(1,487,064)
Effect of foreign currency exchange differences	229	32,509	573	1,515	34,826
Balance as at 31 December 2017	<u>14,681,829</u>	<u>77,627,211</u>	<u>7,873,489</u>	<u>3,667,103</u>	<u>103,849,632</u>
Accumulated Depreciation					
Balance at 1 January 2017	8,112,372	45,856,742	4,949,580	-	58,918,694
Depreciation	354,885	5,152,426	376,586	-	5,883,897
Disposals / transfers	(86,079)	(735,316)	(113,282)	-	(934,677)
Effect of foreign currency exchange differences	299	41,638	(835)	-	41,102
Balance as at 31 December 2017	<u>8,381,477</u>	<u>50,315,490</u>	<u>5,212,049</u>	<u>-</u>	<u>63,909,016</u>
Net book value as at 31 December 2017	<u><u>6,300,352</u></u>	<u><u>27,311,721</u></u>	<u><u>2,661,440</u></u>	<u><u>3,667,103</u></u>	<u><u>39,940,616</u></u>

These financials were originally prepared in Arabic and the Arabic version should prevail.

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7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

<i>Cost</i>	<i>Land and buildings</i>	<i>Telecommunication network and equipment</i>	<i>Other assets</i>	<i>Capital work in progress</i>	<i>Total</i>
As at 1 January 2016	14,167,478	67,102,556	6,785,853	3,493,149	91,549,036
Additions	99,968	22,866	55,221	7,405,598	7,583,653
Disposals / transfers	272,499	5,868,699	614,802	(7,530,385)	(774,385)
Effect of foreign currency exchange differences	75	(17,395)	(1,026)	(2,710)	(21,056)
Balance as at 31 December 2016	14,540,020	72,976,726	7,454,850	3,365,652	98,337,248
<i>Accumulated Depreciation</i>					
Balance at 1 January 2016	7,710,678	41,217,253	4,660,585	-	53,588,516
Depreciation	450,116	5,115,492	385,661	-	5,951,269
Disposals / transfers	(48,498)	(466,402)	(96,383)	-	(611,283)
Effect of foreign currency exchange differences	76	(9,601)	(283)	-	(9,808)
Balance as at 31 December 2016	8,112,372	45,856,742	4,949,580	-	58,918,694
<i>Net book value as at 31 December 2016</i>	6,427,648	27,119,984	2,505,270	3,365,652	39,418,554
<i>Net book value as at 1 January 2016</i>	6,456,800	25,885,303	2,125,268	3,493,149	37,960,520

Property, plant and equipment are depreciated using the following estimated useful lives:

Buildings	20 - 50 years
Telecommunication network and equipment	3 - 25 years
Other assets	2 - 20 years

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7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

- Land and buildings include land of SR 2,177 million as at 31 December 2017 (31 December 2016: SR 2,173 million and 1 January 2016: SR 2,091 million).
- Pursuant to Royal Decree No. M/35 Dated 24 Dhu al-Hijjah 1418 (corresponding to April 21, 1998), referred to in Note 1-A, the ownership of the Contracting Assets was transferred on 2 May 1998, but the transfer of legal title for some lands are still ongoing. Legally transferred properties up to 31 December 2017 are amounted to SR 1,879 million (2016: SR 1,879 million), Ownership transfer of the remaining properties is ongoing with total value of SR 144 million (2016: SR 144 million).
- During the year, the Group disposed of assets with a net book value of SR 262 million (31 December 2016: SR 163 million) resulting in a loss on sale of property, plant and equipment amounting to SR 249 million for the year ended 31 December 2017 (31 December 2016: SR 127 million) (see note 39).
- Depreciation expense during the year ended 31 December 2017 amounted to SR 5,884 million (31 December 2016: SR 5,951 million).

Following is the allocation of depreciation expense based on operations costs items for the year ended 31 December:

	<u>2017</u>	<u>2016</u>
Cost of revenues	4,888,994	5,120,496
Selling and marketing expenses	35,250	41,110
General and administrative expenses	959,653	789,663
	<u>5,883,897</u>	<u>5,951,269</u>

7.1 Assets pledged as security

Property, plant and equipment include land and buildings owned by a subsidiary that are pledged against the subsidiary's murabaha borrowings amounting to SR 108 million as at 31 December 2017 (31 December 2016: SR 93 million and 1 January 2016: SR 96 million).

7.2 Capital work in progress

Capital work in progress includes fiber optics network expansion projects for one of the major customers amounting to SR 537 million as at 31 December 2017 (31 December 2016: SR 537 million and 1 January 2016: SR 537 million) (see note 44)

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8. INTANGIBLE ASSETS AND GOODWILL

	<i>Computer software</i>	<i>Subscriber acquisition costs</i>	<i>Telecommunication Licenses</i>	<i>Others (1)</i>	<i>Total</i>
Cost					
As at 1 January 2017	8,112,281	2,761,415	4,969,812	2,057,579	17,901,087
Additions	1,252,929	876,555	-	81,493	2,210,977
Disposals	(4,370)	(20,550)	-	(176,250)	(201,170)
Effect of foreign currency exchange differences/others	131,959	(121,418)	1,391	(26,564)	(14,632)
Balance at 31 December 2017	9,492,799	3,496,002	4,971,203	1,936,258	19,896,262
Accumulated amortisation and impairment					
As at 1 January 2017	5,333,222	2,180,120	1,697,346	849,956	10,060,644
Amortisation for the year	1,101,994	806,267	201,289	214,913	2,324,463
Disposals	(4,370)	(20,550)	-	(176,250)	(201,170)
Effect of foreign currency exchange differences/others	29,680	(69,099)	397	(22,492)	(61,514)
Balance at 31 December 2017	6,460,526	2,896,738	1,899,032	866,127	12,122,423
Net book value at 31 December 2017	3,032,273	599,264	3,072,171	1,070,131	7,773,839

These financials were originally prepared in Arabic and the Arabic version should prevail.

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8. INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

	<i>Computer software</i>	<i>Subscriber acquisition costs</i>	<i>Telecommunication Licenses</i>	<i>Others (1)</i>	<i>Total</i>
Cost					
As at 1 January 2016	6,614,563	2,088,123	4,969,342	1,882,404	15,554,432
Additions	1,377,718	741,722	-	295,465	2,414,905
Transfers	120,000	-	-	(120,000)	-
Effect of foreign currency exchange differences/others	-	(68,430)	470	(290)	(68,250)
Balance at 31 December 2016	8,112,281	2,761,415	4,969,812	2,057,579	17,901,087
Accumulated amortisation and impairment					
As at 1 January 2016	4,470,093	1,464,363	1,495,952	568,167	7,998,575
Amortisation for the year	863,129	780,371	201,278	282,071	2,126,849
Effect of foreign currency exchange differences/others	-	(64,614)	116	(282)	(64,780)
Balance at 31 December 2016	5,333,222	2,180,120	1,697,346	849,956	10,060,644
<i>Net book value at 31 December 2016</i>	<u>2,779,059</u>	<u>581,295</u>	<u>3,272,466</u>	<u>1,207,623</u>	<u>7,840,443</u>
<i>Net book value at 1 January 2016</i>	<u>2,144,470</u>	<u>623,760</u>	<u>3,473,390</u>	<u>1,314,237</u>	<u>7,555,857</u>

(1) Others relate to contractual-based intangible assets, for example under-sea cable network, franchise agreements and goodwill of SR 75.6 million as of 31 December 2017 (31 December 2016: 75.6 million and 1 January 2016: SR 75.6 million).

Intangible assets are amortized using the following estimated useful lives:

Computer software	5 years
Subscriber acquisition costs	1 – 1.5 years
Telecommunication licenses	20 – 30 years
Others	3-5 years

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8. INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

The net book value and expiry dates of the most significant mobile operating licences are as follows at:

<i>Country</i>	<i>End of amortisation period</i>	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Kuwait	October 2033	2,063,841	2,194,189	2,324,537
Bahrain	February 2038	691,127	723,386	747,964
Saudi Arabia	May 2026	317,203	354,891	400,889
		<u>3,072,171</u>	<u>3,272,466</u>	<u>3,473,390</u>

The below table shows the allocation of amortisation expense based operations costs for the year ended 31 December:

	<u>2017</u>	<u>2016</u>
Cost of revenues	1,325,570	1,202,806
Selling and marketing expenses	120,940	84,881
General and administrative expenses	877,953	839,162
	<u>2,324,463</u>	<u>2,126,849</u>

9. INVENTORIES

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Goods held for resale	883,743	793,460	1,173,030
Less: Allowance for write-down	(423,312)	(326,694)	(249,816)
	<u>460,431</u>	<u>466,766</u>	<u>923,214</u>

The movement analysis for allowance for write down is as follows for the year ended 31 December:

	<u>2017</u>	<u>2016</u>
Balance at beginning of the year	326,694	249,816
Reversal of write downs	(27,869)	(53,627)
Provision for the year	124,487	130,505
Balance at end of the year	<u>423,312</u>	<u>326,694</u>

10. TRADE AND OTHER RECEIVABLES

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Trade receivables	22,694,726	16,761,826	10,462,145
Less: Allowance for doubtful debts	(2,743,457)	(3,006,368)	(2,732,088)
	<u>19,951,269</u>	<u>13,755,458</u>	<u>7,730,057</u>
<i>Other receivables:</i>			
- Unbilled revenue	4,625,696	5,325,082	4,523,180
- Non trade receivables	972,459	687,609	487,508
	<u>25,549,424</u>	<u>19,768,149</u>	<u>12,740,745</u>

10. TRADE AND OTHER RECEIVABLES (CONTINUED)

10.1 Trade receivables

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated. The requirement for impairment in relation to key customers and related parties are analysed on an individual basis. Retail customers and other minor receivables are assessed for impairment on a collective basis.

The Group has recognised an allowance for doubtful debts of 100% against all trade receivables that are aged over 360 days, except related parties based on historical experience for the Group.

Since its inception, the Company has recognized the revenue of services rendered to certain customers upon collection when the Company has a high degree of uncertainty about the possibility of collection. The company is currently seeking to collect these revenues. The uncollected billed revenues for this category for 2017 amounted to SR 73 million (SR 2016: 84 million) with an annual average of SR 149 million for the 18 years prior to 2017.

Trade receivables disclosed include amounts that are past due at the end of the reporting period for which the Group has not recognised an allowance for impairment because there has not been a significant change in credit quality and the amounts are still considered recoverable.

Ageing analysis of trade receivables follows:

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Not past due	2,514,031	3,299,506	1,366,222
Past due:			
1 – 30 days	1,776,110	998,945	835,241
31 – 90 days	1,454,555	1,216,777	710,286
91 – 150 days	1,334,052	1,463,568	1,088,204
151 – 270 days	2,244,392	2,372,517	2,227,128
271 – 365 days	1,300,299	1,574,748	1,119,435
> 365	12,071,287	5,835,765	3,115,629
Total	<u>22,694,726</u>	<u>16,761,826</u>	<u>10,462,145</u>

Movements of doubtful debt allowance for the year ended 31 December are as follows:

	<u>2017</u>	<u>2016</u>
Balance at beginning of the year	3,006,368	2,732,088
Charged during the year (note 35)	870,614	775,050
Amounts written off during the year	(1,133,525)	(500,770)
Balance at end of the year	<u>2,743,457</u>	<u>3,006,368</u>

10.2 Government and government related entities

Trade receivables balance from government and government related entities amounted to SR 18,822 million as at 31 December 2017 (31 December 2016: SR 12,534 million and 1 January 2016: SR 6,546 million) (note 18-2).

No other customers represent more than 10% of the total balance of trade receivables.

10. TRADE AND OTHER RECEIVABLES (CONTINUED)

10.2 Government and government related entities (continued)

Aging for receivables from government entities and related parties are as follows:

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Less than a year	7,149,960	6,724,186	3,861,571
More than one year to two years	6,725,278	4,108,432	2,684,397
More than two years	4,946,675	1,701,086	-
	<u>18,821,913</u>	<u>12,533,704</u>	<u>6,545,968</u>

11. OTHER ASSETS

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Advances	1,266,482	495,202	1,080,052
Prepaid expenses	287,614	499,766	351,778
Deferred expenses	251,029	451,152	596,797
Others	189,421	5,154	3,573
	<u>1,994,546</u>	<u>1,451,274</u>	<u>2,032,200</u>
Current (note 14)	1,131,975	1,200,636	1,618,053
Non-current (note 12)	862,571	250,638	414,147
	<u>1,994,546</u>	<u>1,451,274</u>	<u>2,032,200</u>

12. OTHER NON-CURRENT ASSETS

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Financial assets (note 15)	7,795,251	7,401,557	7,319,729
Other assets (note 11)	862,571	250,638	414,147
	<u>8,657,822</u>	<u>7,652,195</u>	<u>7,733,876</u>

13. SHORT TERM MURABAHAS

The Group invests part of its excess cash in Murabahas that have maturity of 91 days or more with several local banks, with an annual profit rate ranging from (2% to 6%).

14. OTHER CURRENT ASSETS

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Financial assets (note 15)	638,986	492,812	706,429
Other Assets (note 11)	1,131,975	1,200,636	1,618,053
	<u>1,770,961</u>	<u>1,693,448</u>	<u>2,324,482</u>

15. OTHER FINANCIAL ASSETS

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
<i>Financial assets carried at fair value through profit or loss ("FVTPL") (i)</i>	4,148,368	3,986,104	3,987,662
<i>Loans and receivables carried at amortised cost</i>			
Sukuk (iv)	1,559,371	1,422,602	1,407,623
Murabahas (ii)	1,083,392	1,163,996	1,254,626
Loans to employees (iii)	597,772	625,390	651,674
Others loans and receivables (v)(vi)	509,700	281,272	552,685
	3,750,235	3,493,260	3,866,608
<i>Available for sale investments (vii)</i>	535,634	415,005	171,888
	8,434,237	7,894,369	8,026,158
Current (note 14)	638,986	492,812	706,429
Non-current (note 12)	7,795,251	7,401,557	7,319,729
	8,434,237	7,894,369	8,026,158

- (i) During 2014, The Company established a diversified investment portfolio with high credit rated local and international banks with an amount of SR 4 billion for a period that does not exceed five years and with full principal protection. The portfolio has been structured by a mix of murabaha's (fixed profit payable at maturity), Sukuk's (paying fixed coupons) and derivative financial instruments. The portfolio provides a minimum guaranteed return and additional upside return based on performance of the derivative financial instruments.
- (ii) During 2014, The Company has invested SR 1 billion in long term Murabahas with a local bank for a five-year term with an annual profit margin of 3%. The investment is not a past due nor impaired and its carrying value as at 31 December 2017 was SR 1,083 million (31 December 2016: 1,156 million 1 January 2016: SR 1,087 million).
- (iii) The Company has provided its employees interest-free loans to acquire residential housing and motor vehicles for a period of 25 years and 4 years, respectively. The repayment is made in equal instalments over the term of the loan duration while the employee remains in service, otherwise, they are required to be repaid in full upon the employee leaving the Company. Any new loans provided to an employee after June 2016 are being funded through a local commercial bank and are secured by a guarantee issued by the Company. The Company bears loans' finance costs in full.
- (iv) On 31 December 2007, STC Asia Holdings Limited (as subsidiary company) has invested Malaysian Ringgit ("MR") 1,508 million in Sukuk for 50 years (callable after 10 years) with an annual profit margin of 10.75% until 28 December 2017 then 9.25% for subsequent periods. The Sukuk investment was financed by a long term Murabaha financing with a variable commission for ten years denominated in MR, for an equivalent amount. The Murabaha financing was due on 28/12/2017 and was fully paid. On the same date, STC Asia Holding Limited acquired a variable commission Murabaha financing from several banks on a five year repayment period. These instruments are not past due or impaired and their carrying amount is SR 1,559 million as at 31 December 2017 (31 December 2016: SR 1,423 million and 1 January 2016: SR 1,408 million).

15. OTHER FINANCIAL ASSETS (CONTINUED)

- (v) A subsidiary of STC Channels (formerly: Sale Advanced Co.) has placed a bank deposit amounting to SR 2 million as at 31 December 2017 (31 December 2016: SR 2 million and 1 January 2016: 7.6 million) with a local commercial bank in Oman.
- (vi) A Group's subsidiary, Telecom Commercial Investment Company, has suppliers' retentions amounting to SR 80 million as at 31 December 2017 (31 December 2016: SR 80 million and 1 January 2016: SR 80 million).
- (vii) The available for sale investment primarily represents the Company's investment in units of STC Ventures Fund which is a fund investing in emerging, small and medium-sized companies operating in the field of Communications and Information Technology in Saudi and other global markets. Investment units owned by the Company were valued at SR 501 million as at 31 December 2017 (31 December 2016: SR 409.4 million and 1 January 2016: SR 166.3 million). Available for sale investments also include the Company's investment in Saudi Media Measurement Company, which started its operations in early 2014 and engaged in the business of providing Television Audience Measurement (TAM) in Saudi Arabia. The Company owns 10.42% of its SR 54 million share capital which is equivalent to approximately SR 5.6 million as at 31 December 2017 (31 December 2016: SR 5.6 million and 1 January 2016: SR 5.6 million).

During 2017, the Company established a venture capital investment fund for the purpose of investing in the digital and technology sectors with a total value of USD 500 million (equivalent to SR 1,875 million) to be injected in the future in five equal instalments of USD 100 million (equivalent to SR 375 million). USD 8 million (equivalent to SR 30 million) has been paid to cover the initial and establishment expenses of the fund (note 45).

16. SUBSIDIARIES

The Group's subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Country of incorporation	Effective shareholding percentage		
		31 December 2017	31 December 2016	1 January 2016
Arabian Internet and Communications Services Company Limited ("STC Solutions")	a Saudi Arabia	100%	100%	100%
Telecom Commercial Investment Company Limited ("TCIC")	b Saudi Arabia	100%	100%	100%
VIVA Bahrain ("Viva Bahrain")	c Bahrain	100%	100%	100%
Aqalat Company Limited ("Aqalat")	d Saudi Arabia	100%	100%	100%
STC Specialized (formerly: Public Telecommunication Company - BRAVO)	e Saudi Arabia	100%	100%	100%
Sapphire Company Limited ("Sapphire")	f Saudi Arabia	100%	100%	100%
STC Turkey Holdings Limited ("STC Turkey")	g British Virgin Islands	100%	100%	100%
STC Asia Holdings Limited ("STC Asia")	h British Virgin Islands	100%	100%	100%
STC Gulf Investment Holding S.P.C. ("STC Gulf")	i Bahrain	100%	100%	100%
STC Channels (formerly: Sale Advanced Company - SaleCo)	j Saudi Arabia	100%	60%	60%
Kuwait Telecom Company ("Viva Kuwait")	k Kuwait	51.8%	51.8%	26%

16. SUBSIDIARIES (CONTINUED)

- a. STC Advanced Solutions (“STCS”) was established in the Kingdom in April 2002 and is engaged in providing internet services, operation of communications projects and transmission and processing of information in the Saudi market. In December 2007, the Group acquired 100% of share capital of the Company. During the fourth quarter of 2017, STCS established a local subsidiary “Saudi Digital Payments Company Limited” to mainly provide and operate e-commerce and e-trading services.
- b. TCIC was established in the Kingdom in October 2007 and was established for the purpose of operation and maintenance of telecommunication networks, computer systems’ networks and internet networks, maintenance, operation and installation of telecommunication and information technology systems and programs.
- c. Viva Bahrain was established in the Kingdom of Bahrain in February 2009 and operates in the field of all mobile telecommunication services, international telecommunications, broadband and other related services in the Bahraini market, and commenced its commercial operation on 3 March 2010. During the first quarter of 2018, Viva Bahrain has fully acquired “MENA Telecom Company Limited” in the Kingdom of Bahrain (as a subsidiary). The main activity of the new subsidiary is to provide Internet services.
- d. Aqalat was established in the Kingdom of Saudi Arabia in March 2013 to operate in the fields of establishing, owning, investing, managing of real estate and contracting, and providing consulting services, and importing and exporting services to the benefit of the Company. Aqalat has not yet commenced commercial operations.
- e. STC Specialized (formerly: Public Telecommunications Company “BRAVO”) was established in February 2002 in the Kingdom. The Company acquired 100% of Bravo’s SR 200 million share capital in January 2014. Bravo operates in the electrical business and communication networks, wholesale and retail trade in fixed telecommunications equipment, electrical appliances, import, marketing, installation and maintenance of fixed and mobile telecommunications and information technology licensed devices.
- f. Sapphire was established in the Kingdom of Saudi Arabia in June 2014 and operates in the retail and wholesale trade of computer systems and devices, fixed and mobile telecommunication, internet equipment, advertising and publicity material, spare parts, electrical equipment, advance payment devices, points-of-sale devices, Telecom operator services, establish telecom sales and service centres. In November 2017, the Board of Directors of the Company decided to close down Sapphire and merge its business with the Company as of 1 January 2018 which resulted in writing off all its remaining intangible assets -amounting to SR 78 million. The legal proceedings are expected to be completed in 2018.
- g. STC Turkey is a special purpose company incorporated under the BVI Business Companies Act of the British Virgin Islands (“BVI”). The principal activity of STC Turkey is to provide services and support required in respect of investments activities on behalf of the Company.

In April 2008, STC Turkey acquired 35% of Oger Telecom Limited (“OTL”) share capital for USD 3.6 billion, equivalent to approximately SR 13.5 billion, at the exchange rate as at that date.
During 2016, the share of losses in OTL exceeded the Group’s interest in OTL and the Group discontinued recognising its share of further losses (see note 19-1). OTL is currently facing financial difficulties to settle its current borrowings dues and its ability to comply with the financial covenants agreed with lenders. This has casted doubt over OTL ability to continue as a going concern. The Group is currently studying the available options for this investment in line with the Group’s strategy.

16. SUBSIDIARIES (CONTINUED)

- h. STC Asia is a limited liability company was established under the Commercial Companies Law in the British Virgin Islands on 24 July 2007 and is a special purpose company that invests in companies operating primarily in the Malaysia. It holds an investment in STC Malaysia Holdings Limited (“STC Malaysia”), (a wholly owned subsidiary), which was incorporated under the Commercial Companies Law in the British Virgin Islands. STC Malaysia Holdings Limited in turn holds the Group’s 25% stake in Binariang GSM Holdings (“BGSM”). The principal activity of both STC Asia and STC Malaysia is to provide services and support required in respect of investment activities of the Company.
- i. STC Gulf was incorporated in the Kingdom of Bahrain on 12 March 2008. The primary objective is to provide services and support required in respect of investment activities on behalf of the Company. STC Gulf has the following wholly-owned subsidiaries in the Kingdom of Bahrain:
- 1- STC Gulf Investment Holding 1 S.P.C.
 - 2- STC Gulf Investment Holding 2 S.P.C.
 - 3- STC Gulf Investment Holding 3 S.P.C.

STC Gulf 3 holds the investment of 100% (2016: 71%) in Intigral Holding (See Note 16-2), a company was established in the Kingdom of Bahrain in June 2009 with a share capital amounting to BHD 28 million which is equivalent to approximately SR 281 million at the exchange rate as at that date. Intigral is a holding company which owns shares in companies operating in the field of content services and digital media in Gulf countries.

- j. STC Channels (“STCC”) (Formerly: Sale Advanced Company or ”SaleCo”) was established in Saudi Arabia in January 2008 and operates in the wholesale and retail trade of recharge card services, telecommunication equipment and devices, computer services, sale and re-sale of all fixed and mobile telecommunication services, and commercial centres’ maintenance and operation. It operates in Saudi Market with subsidiary companies in Bahrain and Oman whom are working in the same field. The Company acquired 60% of STCC SR 100 million share capital in December 2011. On 25 December 2016, the Company’s board of directors provided an offer to acquire Etihad Sale’s stake in STCC, which represent 40% of the STCC shares, for an amount of SR 400 million. On 17 January 2017 the necessary procedures for the purchase and transfer of ownership of the remaining shares in STCC was completed making it a wholly-owned subsidiary of the Company.
- k. In December 2007, the Company acquired 26% share capital of Viva Kuwait Company for amount of Kuwaiti Dinar (“KD”) 50 million, equivalent to approximately SR 687 million at the exchange rate as at that date. Viva Kuwait operates in the field of mobile services in the Kuwaiti market, and commenced its commercial operation on 4 December 2008 and was listed as a joint stock company on the Kuwait Stock Exchange on 14 December 2014.

The Group manages Viva Kuwait and treats its investment as a subsidiary due to its control over the Company’s majority representation in Viva Kuwait’s board of directors.

On November 2015, the Company has submitted a voluntary offer to acquire the issued shares of Viva Kuwait not already owned by the Company, which represented 74% of Viva Kuwait issued shares. The offer presented by the Company to Viva Kuwait’s shareholders amounted to KD 1 per share (equivalent to SR 12.37).

The offer ended on 31 January 2016 and the number of shares accepted under the offer amounted to 128,860,518 shares which representing 25.8% of total issued shares to Viva Kuwait. Saudi Telecom has thus become owning 51.8% of the total issued shares of Viva Kuwait.

16. SUBSIDIARIES (CONTINUED)

16.1 Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Proportion of ownership and voting rights acquired by non-controlling interests		Profit (loss) allocated to non-controlling interests	Accumulated non-controlling interests		
	2017	2016	For the year ended	31 Dec 2017	31 Dec 2016	1 Jan 2016
			31 December 2017			
VIVA Kuwait	48.2%	48.2%	239,746	1,002,234	786,318	850,172
STC Channels	-	40%	-	-	507,122	500,608
Individually immaterial subsidiaries with non-controlling interests			(2,835)	1,055	43,536	70,062
			<u>236,911</u>	<u>1,003,289</u>	<u>1,336,976</u>	<u>1,420,842</u>

16.2 Change in the Group's ownership interest in subsidiaries

In January 2017, the purchase and transfer of the remaining shares in STC Channels representing 40% of STC Channels' outstanding shares for SR 400 million was completed. As a result of this purchase, STC Channels became a wholly-owned subsidiary of the Company and the non-controlling interest decreased by SR 546.7 million and other reserves increased by SR 67.5 million.

In April 2017, the purchase and transfer of the remaining shares in Intigral holding company (Intigral) representing 29% of Intigral's outstanding shares for SR 37.5 million was completed. Starting from the date of completion, Intigral became a wholly-owned subsidiary of the Company.

17. CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016	1 January 2016
Short term murabaha (with 3 months maturity or less)	1,043,615	1,713,740	3,058,393
Cash at banks	1,325,836	1,823,630	1,372,851
Cash on hand	19,638	50,263	11,803
Cheques on hand	177,955	43,569	44,780
	<u>2,567,044</u>	<u>3,631,202</u>	<u>4,487,827</u>

The Group invests a part of its surplus cash in murabaha accounts with original maturity of three months or less with several local banks. The average rate of profit during the year was 1.6% - 3.57% (2016: 2.36%-3.8%)

18. RELATED PARTY TRANSACTIONS

18.1 Trading transactions and balances with related parties (Associates and Joint Ventures)

The Group entered into the following trading transactions with related parties during the year ended 31 December:

	<u>2017</u>	<u>2016</u>
<i>Telecommunication services provided</i>		
Associates	457,382	267,802
Joint Ventures	17,347	15,344
	<u>474,729</u>	<u>283,146</u>
	<u>2017</u>	<u>2016</u>
<i>Telecommunication services received</i>		
Associates	6,067	16,042
Joint Ventures	18,927	66,968
	<u>24,994</u>	<u>83,010</u>

The following balances were outstanding at the end of the reporting period:

	<i>Amounts owed by related parties</i>			<i>Amounts owed to related parties</i>		
	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Associates	325,069	158,902	44,568	29,283	32,702	12,449
Joint ventures	19,100	6,458	3,376	89,415	81,911	2,215
	<u>344,169</u>	<u>165,360</u>	<u>47,944</u>	<u>118,698</u>	<u>114,613</u>	<u>14,664</u>

18.2 Trade transactions and related parties' balances (government and government related entities)

Revenues related to transactions with government and government related entities for the year ended 31 December 2017 amounted to SR 5,355 million (31 December 2016 amounted SR 5,877 million) and expenses related to transactions with governmental parties for the year ended 31 December 2017 (including government charges) amounted to SR 3,973 million (31 December 2016: SR 4,477 million).

As at 31 December 2017, accounts receivable from government and government related entities totalled SR 18,822 million (31 December 2016: SR 12,534 million, 1 January 2016: SR 6,546 million), and as at 31 December 2017, accounts payable to government and government related entities totalled SR 6,872 million (31 December 2016: SR 3,784 million, 1 January 2016: SR 2,010 million). (See Note 10).

18.3 Loans to related parties

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Loans to key management personnel	2,093	9,903	2,241

18. RELATED PARTY TRANSACTIONS (CONTINUED)

18.4 Benefits, remuneration and compensation of board members and senior executives

The remuneration and compensation of board members and senior executives during the year ended 31 December was as follows:

	<u>2017</u>	<u>2016</u>
Short-term benefits and remunerations	103,948	92,691
Provision for leaves and end of service benefits	33,000	31,827

19. ASSOCIATES AND JOINT VENTURES

19.1 ASSOCIATES

19.1.1 Details of associates

Details of each of the Group's material associates at the end of the reporting period are as follows:

<i>Name of Associates</i>	<i>Country of incorporation</i>	<i>Proportion of ownership interest / voting rights</i>		
		<i>31 December 2017</i>	<i>31 December 2016</i>	<i>1 January 2016</i>
Arab Satellite Communications Organisation ("Arabsat")	1 Saudi Arabia	36.66%	36.66%	36.66%
Virgin Mobile Saudi Consortium ("VMSC")	2 Saudi Arabia	10%	10%	10%
Careem Company	3 Virgin Islands, Britain	9.68%	-	-
Oger Telecom Limited ("OTL")	4 United Arab Emirates	35%	35%	35%

- 1) Arab Satellite Communications Organisation ("Arabsat") was established on April 1976 by the members of the League of Arab States. Arabsat offers a number of services to these member states, as well as to all public and private sectors within its coverage area, and principally in the Middle East. Current services offered include: Regional telephony (voice, data, fax and telex), television broadcasting, regional radio broadcasting, restoration services and leasing of capacity on an annual or monthly basis. In April 1999, Saudi Telecom Company acquired 36.66% of Arabsat's US\$ 500 million share capital (equivalent to approximately SR 1,875 million at the exchange rate as of that date).
- 2) Virgin Mobile Saudi Consortium ("VMSC") was established during 2013 as a mobile virtual network operator and started its operations during the year of 2014. The Company owns 10% of VMSC's share capital. Although the Group holds less than 20% of ownership interest and voting control in VMSC, the Group has the ability to exercise significant influence through its membership in VMSC board of directors by virtue of the partners' agreement and the article of association of VMSC that were amended in 2015.
- 3) In January 2017, the Company completed the purchase of 10% of Careem shares for USD 100 million (SR 375 million). During the year 2017, the company's share decreased to 9.68% as a result of the capital increase of Careem Company. Careem was founded in July 2012 and it is offering innovative, fast and convenient transportation services through its website and smart phone applications.

19. ASSOCIATES AND JOINT VENTURES (CONTINUED)

19.1.1 Details of associates (continued)

- 4) Oger Telecom Limited (“OTL”) is a holding company registered in Dubai, the United Arab Emirates, having investments in companies operating primarily in the telecommunications sector in Turkey and South Africa. The Company acquired 35% of OTL’s share capital amounting to US\$ 3.6 billion, equivalent to approximately SR 13.5 billion in April 2008 at the exchange rate as at that date. On 1 January 2016, the share of losses in OTL exceeded the Group’s interest in OTL and the Group discontinued recognising its share of further losses. OTL is currently facing financial difficulties to settle its current borrowings dues and its ability to comply with agreed financial commitments with lenders. This has cast doubt over OTL ability to continue as a going concern. The Group is currently studying the available options for this investment in line with the Group’s strategy.

Details of unrecognised share of losses in associates is as follows for the year ended 31 December:

	<u>2017</u>	<u>2016</u>	
Unrecognised share of loss of an associate for the year	<u>541,591</u>	<u>1,092,967</u>	
	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Cumulative share of unrecognized loss of an associate	<u>1,818,218</u>	<u>1,276,590</u>	<u>183,623</u>

All of the above associates are accounted for using the equity method in these consolidated financial statements.

19.1.2 Details of material associates

Summarised financial information in respect of each of the Group’s material associates is set out below:

Arabsat	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
<i>Statement of financial position</i>			
Current assets	917,399	962,214	622,964
Non-current assets	6,697,343	6,935,708	6,250,418
Current liabilities	(849,855)	(1,221,185)	(666,936)
Non-current liabilities	(1,782,393)	(1,840,899)	(1,856,150)
<i>Statement of comprehensive income</i>			
		<u>For the year ended</u>	
		<u>2017</u>	<u>2016</u>
Revenues		855,437	1,211,324
Profit for the year		500,361	462,263
Other comprehensive income for the year		147,038	47,625
Total comprehensive income for the year		647,399	509,888

19. ASSOCIATES AND JOINT VENTURES (CONTINUED)

19.1.2 Details of material associates (continued)

Reconciliation of the above-summarised financial information to the carrying amount of the Group's interest in Arabsat recognised in the financial statements:

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Net assets of the associate	4,982,494	4,835,838	4,350,296
Proportion of the Group's ownership interest in Arabsat	36.66%	36.66%	36.66%
Carrying amount of the Group's interest in Arabsat	<u>1,826,348</u>	<u>1,772,591</u>	<u>1,594,614</u>

Aggregate information of associates that are not individually material for the year ended:

	<u>2017</u>	<u>2016</u>
The Group's share of loss from operations	43,484	1,606
Aggregate carrying amount of the Group's interests in these associates	331,798	866

19.2 Joint ventures

19.2.1 Details of joint ventures

A summary of the financials of the Group's significant associates is as follows:

Name of joint venture		Country of incorporation	Proportion of ownership interest/ voting rights		
			<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Arab Submarine Cables Company Limited ("Arab Submarine")	1	Saudi Arabia	50%	50%	50%
Contact Centres Company ("CCC")	2	Saudi Arabia	49%	49%	49%
Binariang GSM Holding ("BGSM")	3	Malaysia	25%	25%	25%

- 1) Arab Submarine was established on September 2002 for the purpose of constructing, leasing, managing and operating a submarine cable connecting the Kingdom of Saudi Arabia and the Republic of Sudan for the telecommunications between them and any other country. The operations of Arabsub started in the month of June 2003 and the Company acquired 50% of its SR 75 million share capital in September 2002. In November 2016, the company's capital was reduced to SR 25 million.
- 2) CCC was established to provide call centre services and answer directory queries with Aegis Company at the end of December 2010 in the Kingdom of Saudi Arabia, with a share capital of SR 4.5 million. The Company acquired 50% of its share capital. During the fourth quarter of 2015, the Company sold 1% of its stake in CCC to the other partners according to the terms of the partners' agreement. Thus making the Company's share 49%.
- 3) BGSM is an investment holding group registered in Malaysia which owns 65% of Maxis, a major telecom operator in Malaysia. BGSM also has indirect investments in India, Aircel Limited ("Aircel"). In September 2007, the Company acquired – through its subsidiaries - STC Asia and STC Malaysia- 25% of BGSM's share capital for MYR 20.7 billion, equivalent to approximately SR 23 billion at the exchange rate as at that date.

19. ASSOCIATES AND JOINT VENTURES (CONTINUED)

19.2 Joint ventures (continued)

19.2.1 Details of joint ventures (continued)

During 2013, the Company conducted a review of its foreign investment in BGSM, including the manner in which this investment is being managed and how joint control has been effectively exercised. As a result of the review, the Company signed an amendment to the shareholders' agreement with other shareholders of BGSM with respect to certain operational matters of Aircel. Consequently, it has been concluded that the Company shall cease to account for its investment in Aircel using the equity method effective from the second quarter 2013.

During the second quarter of 2017, a subsidiary of BGSM issued an additional share capital for its non-controlling interests. The Group share of the gain from this increase was SR 141 million recognized in other reserves.

19.2.2 Details of material joint ventures

Summarised financial information in respect of the Group's material joint venture is set out below:

<i>BGSM</i>	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
<i>Statement of financial position</i>			
Current assets	19,259,207	19,882,272	6,886,921
Non-current assets	26,254,447	24,002,773	42,610,788
Current liabilities	(21,790,611)	(21,832,696)	(11,347,007)
Non-current liabilities	(12,790,767)	(13,905,912)	(28,240,144)

The above amounts of assets and liabilities include the following:

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Cash and cash equivalents	1,399,929	1,024,317	3,313,130
Current financial liabilities (excluding trade and other payables and provisions)	(591,156)	(1,171,373)	(3,847,989)
Non-current financial liabilities (excluding trade and other payables and provisions)	(12,031,079)	(13,006,198)	(26,146,381)

	<i>For the year ended</i>	
	<i>31 December</i>	
	<u>2017</u>	<u>2016</u>
<i>Statement of comprehensive income</i>		
Revenues	8,057,279	7,315,647
Profit from continuing operations	1,281,250	1,095,220
Loss from discontinued operations	(1,630,885)	(2,402,661)
Loss for the year	(349,635)	(1,307,440)
Other comprehensive loss for the year	269,628	(183,167)
Total comprehensive loss for the year	(80,007)	(1,490,607)
Depreciation and amortisation	1,402,082	1,238,435
Finance income	(92,536)	(129,020)
Finance cost	1,094,206	982,059
Income tax expense	642,092	654,948

19. ASSOCIATES AND JOINT VENTURES (CONTINUED)

19.2 Joint ventures (continued)

19.2.2 Details of material joint ventures (continued)

Reconciliation of the above summarised financial information to the carrying amount of the Group's interest in Binariang GSM Holding ("BGSM"):

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Net assets of BGSM (excluding non-controlling interest share and share of other shareholders in Aircel)	<u>(149,502)</u>	<u>(397,010)</u>	<u>1,533,137</u>
Proportion of the Group's ownership interest in the joint venture	(37,375)	(99,253)	383,284
Add: Goodwill	1,253,114	1,253,114	1,253,114
Add: Fair value adjustments and Others	<u>3,491,698</u>	<u>3,288,309</u>	<u>2,929,742</u>
Carrying amount of the Group's interest in the joint venture	<u><u>4,707,437</u></u>	<u><u>4,442,170</u></u>	<u><u>4,566,140</u></u>

Aggregate information of joint ventures that are not individually material for the year ended 31 December:

	<u>2017</u>	<u>2016</u>
The Group's share of profit from operations	18,203	23,065
The Group's share of other comprehensive income	-	-
The Group's share of total comprehensive income	18,203	23,065
Aggregate carrying amount of the Group's interests in these joint ventures	61,720	86,014

20. ISSUED CAPITAL

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
<i>Issued and fully paid capital comprises</i>			
2 billion fully paid ordinary shares	20,000,000	20,000,000	20,000,000

21. STATUTORY RESERVE

In accordance with the regulations for companies in Saudi Arabia, the Company has established a statutory reserve by the appropriation of 10% of the net income until the statutory reserve equalled 50% of the share capital. Based on the approval of the Ordinary General Assembly of Shareholders at its meeting on 23 Rabi Thani 1432H corresponding to 28 March 2011 it was approved to cease the transfer to statutory. Following a recent change in the regulations for companies, appropriations can cease when the reserve equals 30% instead of 50% of the share capital although the Company continues to maintain this at 50%. This reserve is not available for distribution to the Company's shareholders.

22. OTHER RESERVES

Movement and breakdown of other reserves as follows:

	<i>Foreign currency translation</i>	<i>Cash flow hedge</i>	<i>AFS Investment revaluation</i>	<i>Others</i>	<i>Total</i>
As at 1 January 2017	(41,965)	(140,865)	221,874	(1,974,877)	(1,935,833)
Acquisition of non-controlling interests in a subsidiary (Note 16.2)	-	-	-	67,474	67,474
Fair value of AFS assets	-	-	90,557	-	90,557
Re-measurement of end of service obligation	-	-	-	(117,361)	(117,361)
Exchange difference on translation of foreign operations	(21,136)	-	-	-	(21,136)
Net losses on cash flow hedges	-	(2,595)	-	-	(2,595)
Others	-	-	-	149,866	149,866
As at 31 December 2017	(63,101)	(143,460)	312,431	(1,874,898)	(1,769,028)
	<i>Foreign currency translation</i>	<i>Cash flow hedge</i>	<i>AFS Investment revaluation</i>	<i>Others</i>	<i>Total</i>
As at 1 January 2016	-	(132,187)	25,633	(603,070)	(709,624)
Acquisition of non-controlling interest in a subsidiary	-	-	-	(1,312,848)	(1,312,848)
Fair value of AFS assets	-	-	196,241	-	196,241
Re-measurement of end of service benefit obligation	-	-	-	(64,011)	(64,011)
Exchange difference on translation of foreign operations	(41,965)	-	-	-	(41,965)
Net losses on cash flow hedges	-	(8,678)	-	-	(8,678)
Others	-	-	-	5,052	5,052
As at 31 December 2016	(41,965)	(140,865)	221,874	(1,974,877)	(1,935,833)

23. BORROWINGS

Total loans paid during the year ended 31 December 2017 amounted to SR 3,299 million (31 December 2016: SR 1,712 million). Total loans received during the year ended 31 December 2017 amounted to SR 1,924 million (31 December 2016: null). Borrowings summarized as follow:

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
<i>Unsecured – at amortised cost</i>			
Murabahas (i) (ii) (iii)	1,175,156	2,536,589	4,236,725
Sukuk (iv)	2,000,000	2,000,000	2,000,000
	3,175,156	4,536,589	6,236,725
<i>Secured – at amortised cost</i>			
Murabahas (v) (vi)	1,478,587	1,347,862	1,412,833
	4,653,743	5,884,451	7,649,558
Current	647,763	1,867,220	1,905,482
Non-current	4,005,980	4,017,231	5,744,076
	4,653,743	5,884,451	7,649,558

- (i) The Company has obtained financing facilities - in the form of murabaha - with a term of ten years and a floating rate of 3 months SAIBOR plus 25 basis points. Average finance cost of 2.38% was paid by the Company during the year. The murabahas are repayable in quarterly instalments with the final instalment due in April 2018. One of the murabahas has a covenant under which the ratio of total liabilities to tangible equity, should not exceed a maximum of two.

23. BORROWINGS (CONTINUED)

Tangible equity is defined as shareholders' equity minus intangible assets. As at 31 December 2017, the Company is in compliance with this covenant. The carrying value of these facilities amounted to SR 530 million as at 31 December 2017 (31 December 2016: SR 1,584 million and 1 January 2016: SR 2,638 million).

- (ii) Viva Bahrain has obtained unsecured financing facilities - in the form of murabaha - with a term of five years and a floating rate of 3 months LIBOR plus 1.6%. The carrying value of these facilities amounted to SR 532 million as at 31 December 2017 (31 December 2016: SR 373 million and 1 January 2016: SR 704 million).
- (iii) Viva Kuwait has obtained financing facilities - in the form of murabaha- with terms ranging from 3 to 5 years and profit rate margins of 2.7% and 3.5%. The carrying value of these facilities amounted to SR 112 million as at 31 December 2017 (31 December 2016: SR 579 million and 1 January 2016: SR 895 million)
- (iv) The Company has issued sukuk program up to a maximum of SR 5 billion. As of 31 December 2017, an amount of SR 2 billion was issued. sukuk certificates have a face value of SR 1 million each and were issued at face value with a term of ten years. The sukuk certificates are profit bearing and are calculated on the basis of three months SAIBOR plus 70 basis points payable every three months. The sukuk certificates mature on 9 June 2024. The carrying value of these sukuk amounted to SR 2,000 million as at 31 December 2017 (31 December 2016: 2,000 million and 1 January 2016: SR 2,000 million).
- (v) In December 2017, STC Malaysia acquired financing facilities - in the form of murabaha- with a term of five years and a floating rate of 6 months KLIBOR plus 65 basis points. The murabaha is secured against by a letter of guarantee provided by the Company. The carrying value of these facilities amounted to SR 1,398 million as at 31 December 2017 (31 December 2016: SR 1,261 million and 1 January 2016: SR 1,315 million).
- (vi) VIVA Bahrain has murabaha facilities secured by a land and a building with a profit margin rate of one month BIBOR plus 0.75%. A substantial portion of these murabaha facilities has been hedged for profit rate risk. Subject to certain exceptions, materiality tests and carve-outs, the significant covenants of these facilities are: 1) restriction of financial indebtedness 2) limitation on disposal of assets; and 3) limitations on granting of loans and guarantees. Additional undertakings under these loans relate to certain specific financial ratios and satisfaction of financial position tests. The carrying values of the murabaha facilities are not materially different from their fair values as the impact of discounting, credit risk and other market risk is not considered significant by management. The carrying value of these facilities amounted to SR 80.7 million as at 31 December 2017 (31 December 2016: SR 87 million and 1 January 2016: SR 97 million).

24. PROVISIONS

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Legal and regulatory provisions (i)	8,392,198	6,417,649	2,183,616
Decommissioning provisions (ii)	442,933	422,792	416,899
Other provisions (ii)	1,301	1,021	1,007
	8,836,432	6,841,462	2,601,522
Current	7,633,984	5,682,808	1,551,492
Non-current	1,202,448	1,158,654	1,050,030
	8,836,432	6,841,462	2,601,522

These financials were originally prepared in Arabic and the Arabic version should prevail.

24. PROVISIONS (CONTINUED)

	<i>Legal and regulatory provision (i)</i>	<i>Decommissioning and other provisions (ii)</i>
Balance as at 1 January 2017	6,417,649	423,813
Additions	2,460,427	28,573
Changes from re-measurement	7,412	(30,874)
Payment / settlements	(493,290)	22,722
Balance as at 31 December 2017	8,392,198	444,234

- (i) The Company is involved in a number of legal and regulatory claims. The management of the Company, after taking legal advice, has established provisions after taking into account the facts for each case. The timing of the cash outflows associated with the majority of the legal claims are typically more than one year, however, for some legal claims the timing of cash flows may be short term in nature.
- (ii) In the course of Company's operations, a number of sites and other assets are utilised which are expected to have decommissioning costs. The associated cash outflows are expected to occur primarily in ten years from the date when the assets are brought in use.

25. DEFERRED REVENUES

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Deferred revenues from services	3,454,988	3,438,754	2,672,400
Government grants (i)	984,082	661,888	639,140
Customer loyalty programme (ii)	140,800	137,849	200,287
Others	55,653	24,127	5,631
	<u>4,635,523</u>	<u>4,262,618</u>	<u>3,517,458</u>
Current	2,872,083	2,816,841	1,926,777
Non-current	1,763,440	1,445,777	1,590,681
	<u>4,635,523</u>	<u>4,262,618</u>	<u>3,517,458</u>

- (i) The government grants represent grants provided by Communication and Information Technology Commission ("CITC") to the Company to build telecommunication network in remote areas (see note 3.7).
- (ii) The deferred revenue arises in respect of the Group's Qitaf Scheme recognised in accordance with IFRIC 13 *Customer Loyalty Programmes*.

26. RETIREMENT BENEFIT PLANS

26.1 Defined contribution plans

The Group is participating in pension schemes for its employees which are managed by government institutions in the respective countries concerned. The amount recognised as an expense for defined contribution plans for the year ended 31 December 2017 is SR 411 million (31 December 2016: SR 377 million).

26.2 End of service benefit plans

The Group provides end of service benefits to its employees. The entitlement is based upon the employees' final salary and length of service, provided that a minimum period of service is completed. The entitlement is calculated according to the Labour Law of the respective country and is payable upon resignation or termination of the employee. The expected costs of these benefits are accrued over the years of employment.

26. RETIREMENT BENEFIT PLANS (CONTINUED)

26.2 End of service benefit plans (continued)

The Group's plan is exposed to actuarial risks such as: discount rate, salary risk and withdrawal risk.

Discount risk	A decrease in the discount rate will increase the plan liability.
Salary risk	The present value of the end of service benefit plan liability is calculated by reference to the estimated future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.
Withdrawal risk	Benefits are paid when an employee leaves employment either through resignation or retirement. The rate of withdrawal therefore affects the timing of the payment.

The most recent actuarial valuation of the present value of the end of service benefit obligation was carried out as at 31 December 2017. During the financial year, there were no material fluctuations or events affecting the actuarial assumptions used as at 31 December 2016.

The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

The significant actuarial assumptions used in determining the end of service benefit obligation represent the discount rates of (4% - 5%) and the expected increase in salary (2% - 5%) and employees turnover (0% - 5%) as at 31 December 2017 (2016: discount rate: 3.7%-5%, the expected increase: 3.2%-5% and employees turnover: 0%-5%).

The net expenses recognized in the consolidated statement of profit or loss are as follows:

	<u>2017</u>	<u>2016</u>
Cost of revenues	348,874	321,570
Finance cost	176,629	164,157
	<u>525,503</u>	<u>485,727</u>

Movements of end of service benefit provision for the year ended 31 December is as follows:

	<u>2017</u>	<u>2016</u>
Balance at beginning of the year	3,775,668	3,678,290
Costs recognized in the consolidated statement of profit or loss	525,503	485,727
Actuarial gains and losses recognized in other comprehensive income	117,361	64,011
Benefits paid	(499,614)	(452,120)
Exchange differences on foreign plans	3,851	(240)
Balance at end of the year	<u>3,922,769</u>	<u>3,775,668</u>

The sensitivity analysis below has been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate is 50 basis points higher (lower), the end of service benefit obligation would decrease by SR 180 million (increase by SR 180 million) (31 December 2016: decrease by SR 200 million, increase by SR 200 million).

27. RETIREMENT BENEFIT PLANS (CONTINUED)

26.2 End of service benefit plans (continued)

- If the expected salary growth increases (decreases) by 0.5%, the end of service benefit obligation would increase by SR 190 million (decrease by SR 190 million) (31 December 2016: increase by SR 190 million, decrease by SR 190 million).
- If the employee turnover increases (decreases) by 10%, the end of service benefit obligation would increase by SR 180 million (decrease by SR 180 million) (31 December 2016: increase by SR 210 million, decrease by SR 210 million).

The sensitivity analysis presented above may not be representative of the actual change in the end of service benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

27. OTHER NON-CURRENT LIABILITIES

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Financial liabilities (note 32)	56,602	201,643	358,344
Other liabilities (note 31)	88,941	90,887	59,697
	<u>145,543</u>	<u>292,530</u>	<u>418,041</u>

28. TRADE AND OTHER PAYABLES

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Accrued expenses	9,131,857	9,504,311	7,982,572
Trade payables	1,909,223	1,142,592	1,885,024
Employee accruals	1,535,454	1,508,368	1,496,516
Other trade payables	750,994	1,180,360	1,242,866
Suppliers retentions	330,784	418,279	517,495
Customer refundable deposits	169,494	131,651	75,803
	<u>13,827,806</u>	<u>13,885,561</u>	<u>13,200,276</u>

No interest is charged on the trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

29. TAX AND ZAKAT LIABILITIES

Tax and zakat liabilities in the consolidated statement of financial position comprise the following:

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Zakat (a)	1,488,001	1,361,590	1,573,496
Taxes (b)	135,422	98,539	105,642
	<u>1,623,423</u>	<u>1,460,129</u>	<u>1,679,138</u>

29. TAX AND ZAKAT LIABILITIES (CONTINUED)

a. Zakat

The Group calculates and records the zakat provision based on the zakat base in its consolidated statements in accordance with the zakat rules and principles in the Kingdom of Saudi Arabia:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Share capital – beginning of the year	20,000,000	20,000,000
<i>Additions:</i>		
Retained earnings, statutory reserve and provisions – beginning of the year	54,087,010	49,958,594
Borrowings and payables	4,911,130	5,715,473
Adjusted net income	13,412,664	14,205,053
Adjusted total shareholders' equity	92,410,804	89,879,120
<i>Deductions:</i>		
Net property (adjusted) and investments	56,061,670	53,917,279
Dividends paid	8,000,000	8,031,468
Deferred expenses and other balances	558,782	812,077
Total adjusted deductions	64,620,452	62,760,824
Zakat base	27,790,352	27,118,296
Zakat on fully owned subsidiaries	694,758	677,957
Add: Zakat on partially owned subsidiaries	6,011	54,295
Total zakat expense for the year	700,769	732,252
Zakat provision		
	<u>31 December 2017</u>	<u>31 December 2016</u>
Balance at beginning of the year	1,361,590	1,573,496
Charge for the year	700,769	732,252
Adjustment during the year	55,875	(263,538)
Amounts paid during the year	(630,233)	(680,620)
Balance at end of the year	1,488,001	1,361,590

Final zakat declarations were submitted for the years since inception through 2016. Effective from the year 2009, the Group started the submission of one zakat declaration for the Group and its wholly owned subsidiaries (whether directly or indirectly) in accordance with the Ministerial Decree No.1005 dated 28/4/1428H.

The Company calculates its zakat dues based on the zakat base. The Company received zakat assessments from inception until 2011. The Company has submitted objections for the years 2008 to 2011. The total zakat differences for these objections amounted to SR 1 billion. These objections remain with the General Authority for Zakat and Income Tax (GAZT) and the Appeals Committee until the date of preparation of these consolidated financial statements. On 28/2/1438H, the Appeals Committee passed its decision No. (1642)/1438H that supported the Company's appeal for the year 2007 by cancelling the comparison process between zakat base and the adjusted profit whichever is higher, reinforcing the position of the Company in the objections for subsequent years pending before to the Appeals Committee. Accordingly, during the fourth quarter 2016, the Company has settled the provision amounting to SR 294 million.

29. TAX AND ZAKAT LIABILITIES (CONTINUED)

a. Zakat

The differences resulting from comparison between the zakat base and the adjusted profit represent majority of the zakat differences objected to. The Group's management believes that the results of these objections will be in its favour and will not result in any additional provisions.

Zakat declarations for the years 2012 to 2016 are still pending with GAZT until the date of preparation of these consolidated financial statements.

b. Tax

The Group's share of income tax payable by subsidiaries is in accordance with the prevailing tax regulations in their countries. Income tax expense for the year ended 31 December 2017 amounts to SR 20 million (2016: SR 18.5 million).

30. OTHER CURRENT LIABILITIES

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Other liabilities (note 31)	7,165,619	4,044,680	2,245,850
Financial liabilities (note 32)	57,273	51,458	103,721
	<u>7,222,892</u>	<u>4,096,138</u>	<u>2,349,571</u>

31. OTHER LIABILITIES

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Government charges	6,871,643	3,784,284	2,015,872
Statutory dues and Other	382,917	351,283	289,675
	<u>7,254,560</u>	<u>4,135,567</u>	<u>2,305,547</u>
Current (note 30)	7,165,619	4,044,680	2,245,850
Non-current (note 27)	88,941	90,887	59,697
	<u>7,254,560</u>	<u>4,135,567</u>	<u>2,305,547</u>

32. FINANCIAL LIABILITIES

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Other financial liabilities	56,084	198,985	355,070
Dividends payable	48,570	37,662	69,130
Derivative liabilities (Profit rate swaps)	9,221	16,454	37,865
	<u>113,875</u>	<u>253,101</u>	<u>462,065</u>
Current (note 30)	57,273	51,458	103,721
Non-current (note 27)	56,602	201,643	358,344
	<u>113,875</u>	<u>253,101</u>	<u>462,065</u>

33. REVENUES

	<i>For the year ended</i>	
	<i>31 December</i>	
	<u>2017</u>	<u>2016</u>
Revenues from rendering of services	46,899,035	49,169,739
Revenues from sale of goods	3,573,559	2,962,182
Other revenues	274,081	541,738
	<u>50,746,675</u>	<u>52,673,659</u>

34. COST OF REVENUES

	<i>For the year ended</i>	
	<i>31 December</i>	
	<u>2017</u>	<u>2016</u>
Access charges	5,843,390	8,602,847
Government charges (1)	3,973,084	4,476,745
Repair and maintenance	2,637,255	2,723,091
Employees' costs	2,108,163	2,323,726
Cards recharge and printing cost	1,702,615	1,767,886
Cost of devices sold	1,746,755	982,605
Rents of equipment, property and vehicles	750,524	948,171
Others	2,493,691	2,160,807
	<u>21,255,477</u>	<u>23,985,878</u>

“Others” mainly comprise expenses related to telecommunication services, postage, courier, security and safety expenses, premises expenses, and consultancy.

(1) The details of government charges are as follows:

	<i>For the year ended</i>	
	<i>31 December</i>	
	<u>2017</u>	<u>2016</u>
Commercial service provisioning fees	3,381,036	3,842,326
License fees	295,573	327,694
Frequency spectrum fees	296,475	306,725
	<u>3,973,084</u>	<u>4,476,745</u>

35. SELLING AND MARKETING EXPENSES

	<i>For the year ended</i>	
	<i>31 December</i>	
	<u>2017</u>	<u>2016</u>
Employees' costs	2,357,039	2,451,962
Doubtful debts allowance(note 10-1)	870,614	775,050
Advertising and publicity	665,728	777,636
Sales commissions	634,851	883,606
Call centres' expenses	327,281	364,195
Repairs and maintenance	197,266	249,209
Sport activities sponsorship cost	117,480	126,171
Printing of telephone cards and office supplies	79,834	128,712
Consultancy, legal and professional fees	32,957	52,410
Postage and courier	20,780	79,905
Others	422,450	438,288
	<u>5,726,280</u>	<u>6,327,144</u>

“Others” comprises various items, the main ones are: rent of equipment, property and vehicles, security and safety, telephone and utility expenses.

36. GENERAL AND ADMINISTRATIVE EXPENSES

	<i>For the year ended</i>	
	<i>31 December</i>	
	<u>2017</u>	<u>2016</u>
Employees' costs	2,237,733	2,061,513
Repair and maintenance	857,232	953,071
Operating lease costs	279,488	343,960
Consultancy, legal and professional fees	223,510	307,538
Utilities expenses	133,998	111,893
Security and safety expenses	120,091	93,022
Others	619,521	460,431
	<u>4,471,573</u>	<u>4,331,428</u>

“Others” comprises various items, the main ones are: insurance premiums, office equipment, freight, handling, postage and courier expenses.

37. FINANCE INCOME

	<i>For the year ended</i>	
	<i>31 December</i>	
	<u>2017</u>	<u>2016</u>
Income from murabaha	421,528	576,754
Income from sukuk	145,545	145,978
Other income	17,608	-
	<u>584,681</u>	<u>722,732</u>

38. FINANCE COST

	<i>For the year ended</i>	
	<i>31 December</i>	
	<u>2017</u>	<u>2016</u>
Financing costs relating to murabaha	96,245	144,519
Financing costs relating to sukuk	50,774	53,241
Other finance cost	5,489	4,757
Unwinding of discounts on provisions and financial liabilities	201,691	176,545
	<u>354,199</u>	<u>379,062</u>

39. OTHER GAINS AND LOSSES, NET

	<i>For the year ended</i>	
	<i>31 December</i>	
	<u>2017</u>	<u>2016</u>
Net gain from financial assets designated as FVTPL	216,923	52,780
Loss on disposal of property, plant and equipment	(248,756)	(126,966)
Net foreign exchange gain	10,064	4,180
Net gain (loss) on derivatives	3,678	(104)
	<u>(18,091)</u>	<u>(70,110)</u>

40. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net income attributable to equity holders of the Company by the weighted average number of shares for the year ended 31 December as follows:

	<u>2017</u>	<u>2016</u>
Profit for the year attributable to equity holders of the parent	10,133,224	8,893,957
Weighted average number of ordinary shares for the purposes of basic earnings per share	2,000,000	2,000,000
Basic and Diluted earnings per share (in Saudi Riyal)	<u>5.07</u>	<u>4.45</u>

The Group does not have potentially dilutive shares and accordingly, diluted earnings per share equals basic earnings per share.

41. FINANCIAL INSTRUMENTS

41.2 Capital management

The Group manages its capital to ensure that:

- It will be able to operate as a going concern
- It efficiently finances its working capital and strategic investment requirements at optimal terms
- It provides a long-term dividend policy and maintains a stable dividend pay-out
- It maximises the total return to its shareholders
- It maintains an appropriate mix of debt and equity capital

41. FINANCIAL INSTRUMENTS (CONTINUED)

41.1 Capital management (continued)

The Group reviews its capital structure in light of strategic investment decisions, changing economic environment, and assesses the impact of these changes on cost of capital and risk associated to capital of the Group.

The Group is not subject to any externally imposed capital requirements. The Group did not introduce any amendments to the capital management objectives and procedures during the year ended 31 December 2017.

The Group's Capital Management Department reviews the capital structure of the Group on annual basis to evaluate the cost of capital and the risks associated with capital.

The Group has the following target ratios:

- i. Debt to EBITDA level of 2 or below
- ii. Debt to (Debt + Equity) level of 50% or below

The ratios at the end of the reporting year were as follows:

	<i>For the year ended</i> <i>31 December</i>	
	<u>2017</u>	<u>2016</u>
Debt (i)	4,653,743	5,884,451
Adjusted EBITDA (ii)	19,293,345	18,029,209
Debt to EBITDA	<u>0.24</u>	<u>0.33</u>
Debt	4,653,743	5,884,451
Debt + Equity (iii)	67,898,416	67,162,782
Debt to (Debt + Equity)	<u>6.85%</u>	<u>8.76%</u>

- i. Debt is defined as current and non-current borrowings as described in note 23
- ii. Adjusted EBITDA is defined as net income for the year adjusted for depreciation, amortization.
- iii. Equity is defined as total equity including issued capital, reserves, non-controlling interest and retained earnings

41. FINANCIAL INSTRUMENTS (CONTINUED)

41.1 Capital management (continued)

Categories of financial instruments

	<u>31 December</u> <u>2017</u>	<u>31 December</u> <u>2016</u>	<u>1 January</u> <u>2016</u>
<u>Financial assets</u>			
<i>Loans and receivables</i>			
Trade and other receivables	25,549,424	19,768,149	12,740,745
Short term murabahas (maturity greater than 90 days)	14,465,364	15,004,490	16,803,421
Cash and cash equivalents	2,567,044	3,631,202	4,487,827
Other loans and receivables	3,750,235	3,493,260	3,866,608
	<hr/>	<hr/>	<hr/>
Total loans and receivables	46,332,067	41,897,101	37,898,601
<i>Financial assets at fair value through profit or loss</i>			
Financial asset	4,148,369	3,986,104	3,987,662
<i>Financial assets at fair value through OCI</i>			
Available for sale financial assets	535,634	415,005	171,888
	<hr/>	<hr/>	<hr/>
	51,016,070	46,298,210	42,058,151
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<u>Financial liabilities</u>			
Trade and other payables	2,660,217	2,322,952	3,127,890
Borrowings	4,653,743	5,884,451	7,649,558
Dividends payable	48,570	37,662	69,130
Other financial liabilities	56,084	198,985	355,070
Derivative financial liabilities	9,221	16,454	37,865
	<hr/>	<hr/>	<hr/>
	7,427,835	8,460,504	11,239,513
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Loans and receivables are non-derivative financial assets carried at amortised cost which generate a fixed or variable finance income for the Group. The carrying value may be affected by changes in the credit risk of the counterparties. The Group's financial risk management department manages financial risks relating to Group's activities in accordance with the adopted policies and affecting its financial position, cash flows and expected core transactions including profit rate risk, credit risk and liquidity risk.

The Group aims to minimize the impact and exposure to these risks using internal and external hedging strategies, including the use of derivative and non-derivative financing strategies and financial instruments. The use of derivatives is subject to the Group's adopted policies, which provide documented policies on foreign exchange risk, profit rate risk, credit risk, use of derivative and non-derivative financial instruments, and investment of excess liquidity. The Group does not enter into financial instruments or derivatives for trading or speculative purposes.

The financial risk department reports to finance management and financial risk management committee to monitor the risks and policies applied to minimize exposure to risks.

41. FINANCIAL INSTRUMENTS (CONTINUED)

41. 2 Profit rate risk

The Group's main profit rate risk arises from borrowings and financial assets with variable profit margin rates. The Group through the use of profit swap contracts manages the profit rate risk. There has been no change to the Group's exposure to profit risks or the manner in which these risks are managed and measured.

The sensitivity analysis below has been determined based on the exposure to profit rates for non-derivative instruments at the end of the reporting period. It shows the effects of changes in market profit rates on profit and loss. For floating rate asset and liabilities, the analysis is prepared assuming the amounts outstanding at the end of the reporting period were outstanding for the whole year. A 20-basis point increase or decrease represents management's assessment of the reasonably possible change in profit rates.

If profit rates had been 20 basis points higher (lower) and all other variables were held constant, the impact on profit of the Group would have been lower (higher) by SR 5 million. This hypothetical effect on profit of the Group primarily arises from the potential effect of variable profit financial liabilities.

41. 3 Foreign currency risk management

Saudi Riyal, the functional currency of the Group, is pegged against the United States Dollar (USD). Therefore, the Group is only exposed to exchange rate fluctuations from transactions denominated in foreign currencies other than USD. Thus, the impact of foreign currency risk is considered immaterial to the Group.

41. 4 Credit risk management

The Group has approved guidelines from its board of directors that allows it to only deal with creditworthy counter parties and limits counter party exposure. The board's guidelines allow the Group to invest only with those counterparties that have high investment grade credit rating issued by international credit rating agencies and limits the exposure to a single counter party by stipulation that the exposure should not exceed 30% of the counterparty's shareholders' equity. Further, the Group exposure to an investment/issue should not exceed 20% of the total outstanding investment issued by that counter party. The Group's credit risk is monitored on a quarterly basis.

Other than the concentration of credit risk disclosed in note 10, concentration of credit risk with respect to trade receivables are limited given that the Group's customer consists of a large number of unrelated customers. Payment terms and credit limits are set in accordance with industry norms. On-going evaluation is performed on the financial condition of trade receivable and management believes there is no further credit risk provision required in excess of the normal provision for bad and doubtful receivables (see note 10).

In addition, the Group is exposed to credit risk in relation to financial guarantees given to some subsidiaries. The Group's maximum exposure in this respect is the maximum amount the Group may have to pay if the guarantee is called on. There is no indication and instance that the Group will incur any loss with respect to its financial guarantees as on reporting date.

41. 5 Liquidity risk management

The Group has established a comprehensive liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity requirements under the guidelines approved.

The Group ensures its liquidity by maintaining cash reserves, short-term investments and committed undrawn credit facilities with high credit rated local and international banks.

41. FINANCIAL INSTRUMENTS (CONTINUED)

41.5 Liquidity risk management (continued)

The Group determines its liquidity requirements by continuously monitoring short and long term cash forecasts in comparison to actual cash flows.

Liquidity is reviewed on a monthly basis for the Group and stress tested using various assumptions relating to capital expenditure, dividends, trade receivable collections and repayment of loans without refinancing.

In addition, the Group's unused facilities are reducing the liquidity risks that described below.

The following tables detail the Group's remaining contractual maturity for financial liabilities with agreed repayment periods. The tables have been prepared based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	<i>Carrying amount</i>	<i>1 year or less</i>	<i>Above 1 – 5 years</i>	<i>Above 5 years</i>
<u>31 December 2017</u>				
Trade and other payables (note 28)	2,660,217	2,660,217	-	-
Borrowings (note 23)	4,653,743	647,763	2,249,509	1,756,471
Dividends payable (note 32)	48,570	48,570	-	-
Other financial liabilities	56,084	-	56,084	-
Derivative liabilities (note 32)	9,221	6,265	2,956	-
	<u>7,427,835</u>	<u>3,362,815</u>	<u>2,308,549</u>	<u>1,756,471</u>
<u>31 December 2016</u>				
Trade and other payables (note 28)	2,322,952	2,322,952	-	-
Borrowings (note 23)	5,884,451	1,867,220	1,804,523	2,212,708
Dividends payable (note 32)	37,662	37,662	-	-
Other financial liabilities	198,985	-	198,985	-
Derivative liabilities (note 32)	16,454	12,924	3,530	-
	<u>8,460,504</u>	<u>4,240,758</u>	<u>2,007,038</u>	<u>2,212,708</u>
<u>1 January 2016</u>				
Trade and other payables (note 28)	3,127,890	3,127,890	-	-
Borrowings (note 23)	7,649,558	1,905,482	4,076,515	1,667,561
Dividends payable (note 32)	69,130	69,130	-	-
Other financial liabilities	355,070	-	355,070	-
Derivative liabilities (note 32)	37,865	32,671	5,194	-
	<u>11,239,513</u>	<u>5,135,173</u>	<u>4,436,779</u>	<u>1,667,561</u>

The Group has financing facilities amounting to SR 1,470 million, of which SR 1,387 million has been utilized for letter of guarantees. The Group expects to meet its other obligations from operating cash flows, cash and cash equivalents and proceeds of maturing financial assets.

The Group has also secured a 75% LTV (loan to value) readily available borrowing facility against its diversified investment portfolio of SR 4 billion.

41. FINANCIAL INSTRUMENTS (CONTINUED)

41.5.1 Fair value measurement

Management assessed that the fair values of trade and other receivables, short term murabahas, cash and cash equivalents, other loans and receivables, trade and other payables, dividends payable, and other liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments. The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The fair value of financial assets has been determined based on quoted prices for sukuk and the future cash flows estimated based on contracted rates and forward rates of commodities from observable forward curves at the end of the reporting period for other assets in the portfolio which have been discounted at a rate that reflects the credit risk of various counterparties. The fair value is within level 2 of the fair value hierarchy. There were no transfers between Level 1 and 2 in the year. The Group's policy is to recognise transfers into and transfers out of the fair value hierarchy levels as at the end of the reporting period.

The available for sale investments fair values are obtained from the Net Asset Value ("NAV") reports received from the fund manager. The fair value is within level 3 of the fair value hierarchy.

The movement of available for sale investments during the year ended 31 December is as follows:

	<i>For the year ended</i>	
	<i>31 December</i>	
	<u>2017</u>	<u>2016</u>
Balance at beginning of the year	415,005	171,888
Additions	30,072	46,876
Re-measurement recognised in other comprehensive income	90,557	196,241
	<hr/>	<hr/>
Balance at end of the year	<u>535,634</u>	<u>415,005</u>

The management believe that the carrying amounts of other financial assets and financial liabilities recognised in the financial statements approximate their fair values.

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset as of:

41. FINANCIAL INSTRUMENTS (CONTINUED)

41.5.1 Fair value measurement (Continued)

	<i>Effect of offsetting in the statement of financial position</i>		
	<i>Gross amounts</i>	<i>Amounts set off</i>	<i>Net amounts</i>
<i>At 31 December 2017</i>			
<i>Financial assets</i>			
Trade and other receivables	<u>27,278,544</u>	<u>(1,729,120)</u>	<u>25,549,424</u>
<i>Financial liabilities</i>			
Trade and other payables	<u>15,556,926</u>	<u>(1,729,120)</u>	<u>13,827,806</u>
<i>At 31 December 2016</i>			
<i>Financial assets</i>			
Trade and other receivables	<u>21,311,690</u>	<u>(1,543,541)</u>	<u>19,768,149</u>
<i>Financial liabilities</i>			
Trade and other payables	<u>15,429,102</u>	<u>(1,543,541)</u>	<u>13,885,561</u>
<i>At 1 January 2016</i>			
<i>Financial assets</i>			
Trade and other receivables	<u>13,807,368</u>	<u>(1,066,623)</u>	<u>12,740,745</u>
<i>Financial liabilities</i>			
Trade and other payables	<u>12,266,899</u>	<u>(1,066,623)</u>	<u>13,200,276</u>

Under the terms of the operator agreements, trade receivables and payables in relation to call routing and roaming fees are offset and only the net amounts are settled. The relevant amounts have been presented net in the consolidated statement of financial position.

41.6 Changes in liabilities arising from financial activities

Changes in liabilities arising from financial activities are as follows:

	<i>1 January 2017</i>	<i>Cash flows</i>	<i>Others</i>	<i>31 December 2017</i>
Borrowings – current portion	1,867,220	(1,852,033)	632,576	647,763
Borrowings–non-current portion	4,017,231	328,467	(339,718)	4,005,980
Total	<u>5,884,451</u>	<u>(1,523,566)</u>	<u>292,858</u>	<u>4,653,743</u>

42. OPERATING LEASE ARRANGEMENTS

42.1.1 Leasing arrangements

Operating leases includes leases of land with lease terms of between 5 and 10 years. All operating lease contracts that exceeds 5 years are reviewed with market rentals. The Group does not have an option to purchase the leased land at the end of the lease period.

42. OPERATING LEASE ARRANGEMENTS

42.1.2 Payments recognised as an expense for the year ended 31 December:

	<u>2017</u>	<u>2016</u>
Minimum lease payments	<u>455,876</u>	<u>1,211,099</u>

42.1.3 Non-cancellable operating lease

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Less than a year	574,398	523,303	588,107
1 to 5 years	1,146,870	1,087,329	1,157,259
Later than 5 years	309,493	381,254	454,996
	<u>2,030,761</u>	<u>1,990,886</u>	<u>2,200,362</u>

43. CAPITAL COMMITMENT

- (a) The Group enters into commitments in the ordinary course of business for major capital expenditures, primarily in connection with its network expansion programs. Outstanding capital expenditure commitments amounted to SR 3,802 million as at 31 December 2017 (31 December 2016: SR 4,424 million and 1 January 2016: SR 3,501 million).
- (b) One of the subsidiaries has an agreement to invest in a fund aiming to improve the telecommunication and internet environment for US \$300 million (equivalent to SR 1,125 million).
- (c) On 12 Ramadan 1438 H (corresponding to 7 June 2017), the Company received a letter from the Communications and Information Technology Commission (CITC) notifying the Company of its winning in the frequency auction organised and supervised by the CTIC. The license for the radio frequencies in the bands range of (700) and (1800) MHz covers a period of (15 years) starting 1 January 2018, for a total value of SR 2,507 million of which 30% (approximately SR 752 million) was paid during the third quarter of 2017 and the remaining to be paid in 10 equal annual instalments starting from 2019.

44. CONTINGENT LIABILITIES

- (a) The Group has outstanding letters of guarantee amounting to SR 3,712 million (31 December 2016: SR 3,224 million and 1 January 2016: SR 3,159 million).
- (b) On 18 January 2017, the Company received a confirmation request letter from the CITC for an amount of SR 8,987 million. This amount includes government charges required to be paid by the Company on a regular basis in addition to other material amounts that are under dispute between the Company and CITC in relation to the calculation method of government charges. The dispute relates to the telecommunications sector as a whole in the Kingdom and does not pertain to the Company only. Based on independent legal opinions and similar judicial rulings in the telecommunications sector in the Kingdom, the Company's management believes that the CITC claim will not be sustained upon judicial examination. Furthermore, the Company is currently claiming to refund of material government fees paid for previous years to CITC that is also related to the same method of calculation of government charges. Accordingly, the Company's management does not believe that this dispute will result in any additional material outflow in the future.

44. CONTINGENT LIABILITIES (CONTINUED)

- (c) The Company received a letter on 16/05/1437H (corresponding to 25 February 2016) from the GAZT with respect to a withholding tax assessment on international operators networks rentals outside Saudi Arabia for the years from 2004 to 2015 for an amount of SR 3.1 billion. As the Saudi tax regulations do not cover withholding tax on the rental of international operators' networks as well as recognition of source of income outside Saudi Arabia, management believes that this service should not be subject to withholding tax. Accordingly, the Company has submitted its objection to the withholding tax assessment. Based on the opinions of tax specialists, the nature of the services and existing provisions of the Saudi tax regulations, the Company's management believes that this assessment will not result in an outflow on examination based on technical merits of the tax position.
- (d) One of the subsidiaries of the Group has an agreement with one of its key customers to construct a fibre optic network for which capital work completed amounted to SR 537 million (31 December 2016: SR 537 million) and amounts received from the key customer amounted to SR 742 million and recorded as 'deferred revenues' in the Group's statement of financial position (31 December 2016: SR 742 million). On 21 December 2016, the Company received a letter from the customer requesting a refund for all paid balances. Based on the independent legal opinions obtained, the management believes that the customer's claims have no merit and therefore this dispute has no material impact on the financial results of the Group.
- (e) The Group has outstanding letter of credits amounted to SR 420 million as at 31 December 2017 (31 December 2016: SR 505 million and 1 January 2016: SR 536 million).
- (f) The Company, in its ordinary course of business, is subject to proceedings, lawsuits and other claims. However, these matters are not expected to have any material impact neither on the Company's financial position nor on the results of its operations as reflected in these consolidated financial statements.

45. EVENTS AFTER THE REPORTING PERIOD

- A) During the first quarter of 2018, the Company signed a memorandum of understanding with the Saudi Football Federation and the General Sport Authority to obtain the exclusive rights of sponsorship and broadcast of the local football competitions in Saudi Arabia which are owned by the Saudi Football Federation. The duration of the contract is ten years, and the value of the rights is six hundred and sixty million Saudi riyals (SR 660 million) paid annually for a period of ten years with a total value of six billion six hundred million Saudi riyals (SR 6,600 million).
The two parties agreed that the duration of the memorandum of understanding will be two calendar months starting from the date of signing the memorandum. The parties will discuss and agree on the detailed terms and conditions of the basic contract during this period.
- B) During the first quarter of 2018, the Company acquired frequencies in "700 and 1800 MHz" bands by winning the CITC auction for a period of 15 years starting in 2018 for a total amount of SR 1,560 million, paid in equal instalments over 14 years starting in 2019.
- C) During the first quarter of 2018, the Company established a fully owned limited liability company, Communication Towers Co. Ltd, with a share capital of SR 200 million. Communication Towers Co. Ltd will be responsible for owning, constructing, operating, leasing and commercializing telecom towers. Communication Towers Co. Ltd has not started commercial activities until obtaining the necessary licenses from the relevant authorities.
- D) During first quarter of 2018, the Company increased the share capital of Intigral Holding Company by US \$65 million (equivalent to SR 244 million).
- E) During the first quarter of 2018, the Company has paid the first instalment tranche of the new venture investment fund with a total value of US \$ 100 million equivalent to SR 375 million (see Note 15).

46. DIVIDENDS

In line with the dividend policy for the three-years period which started from the fourth quarter of 2015, which has been approved by the Company's Board of Directors on 28 Muharram 1437H (corresponding to 10 November 2015), and endorsed by the General Assembly on 4 April 2016, the dividend policy is maintaining a minimum dividend of SR 1 per share on a quarterly basis. The Company will distribute cash dividends to the shareholders for the fourth quarter of year 2017 amounting to SR 2,000 million representing SR 1 per share. During the year, the Company distributed cash dividends to its shareholders for the first, second and third quarter of 2017 amounting to SR 2,000 million for each quarter of SR1 per share. Thus, the total dividends distributed for the year 2017 amount to SR4 per share (2016: SAR 4 per share).

47. TRANSITION TO IFRS

A. Basis of preparation of IFRS financial information

The Group has prepared and issued its audited consolidated financial statements for all prior periods, including the year ended 31 December 2016 in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and International Financial Reporting Standard IFRS 1 "Adoption of International Financial Reporting Standards for the First Time" which has been adopted in Saudi Arabia (see note 2 *Basis of Preparation*)

Upon the transition to the International Financial Reporting Standards adopted in Saudi Arabia and other standards and issuances approved by the Saudi Organization of Certified Public Accountants, the Group has made adjustments to the opening balances as of 1 January 2016 and comparative year figures as at 31 December 2016, which was previously presented in the financial statements Standard.

B. IFRS 1 exemptions

In accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia. The following paragraphs contain an explanation of the impact of this transformation. IFRS 1 provides some exemptions from retrospective application of certain IFRS requirements. Based on that, the Group has applied the following exemptions:

Goodwill

The Group elected not to apply IFRS 3 *Business combinations* to business combinations that were recognised on or before 1 January 2016. As a result, the carrying amount of goodwill recognised as an asset under SOCPA was used in the consolidated opening statement of financial position. In accordance with IFRS 1, the Group has tested goodwill for impairment at the date of transition to IFRS. No goodwill impairment was deemed necessary at 1 January 2016.

Property, plant and equipment

On transition to IFRS, the Group elected to apply the optional exemption to use the fair value of property, plant and equipment received free of cost recorded in accordance with SOCPA standards amounting to SR 128 million as at 1 January 2016 as the deemed cost of these assets.

Prior to 2 May 1998, the operations of the Company were part of the telegraphs and telephones division of MoPTT. Accordingly, all property, plant and equipment were transferred and recorded at their fair values (assumed deemed cost) at that date. On transition to IFRS, the Group elected to apply the optional exemption to use event-driven fair value as deemed cost under IFRS. The aggregate fair value of property, plant and equipment at 2 May 1998 was SR 15,137 million. This exemption had no impact on the opening consolidated statement of financial position and the comparative statement of profit or loss for the year ended 31 December 2016.

47. TRANSITION TO IFRS (CONTINUED)

B. IFRS 1 exemptions

Leases

The Group has assessed all arrangements within the scope of IFRIC 4 *Determining whether an Arrangement Contains a Lease* based upon the conditions in place as at 1 January 2016. The Group further assessed whether the agreements should be classified as finance lease or operating lease in accordance with IAS 17 *Leases*.

Cumulative translation differences

Upon the transition to IFRS, the Group has elected to apply the voluntary exemption on the cumulative translation differences of all foreign operations amounting to SAR 2,565 million, settled in retained earnings on the date of transition to IFRS.

Designation of previously recognised financial instruments

Upon the transition to IFRS, the Group has elected to classify investments in the Group's diversified investment portfolio at fair value through the profit or loss statement, which are classified at amortized cost in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia.

Decommissioning liabilities included in the cost of property, plant and equipment

The Group elected not to apply retrospectively the requirements of IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* for changes in decommissioning, restoration and similar liabilities that occurred before the date of transition to IFRSs.

The following is a summary of the effects of the differences between IFRS and SOCPA on the Group's total equity shareholders' funds and profit for the financial year for the years previously reported under SOCPA following the date of transition to IFRS.

	<i>For the year ended 31 Dec 2016</i>
Net income before non-controlling interest under SOCPA	8,757,805
<i>Adjustments</i>	
- Defined benefit plans, net	1 92,860
- Settlement of investment balance in an associate	2 315,920
- Free of cost assets	3 28,346
- Decommissioning liability	4 (33,505)
- Revenue-related adjustments	5 (18,707)
- Other adjustments	6 (16,887)
Net income for the year under IFRS	9,125,832
<i>Adjustments for measurement, recognition differences</i>	
- Re-measurement of end of service benefit obligation	1 (64,011)
- Reversal equity accounting share – OTL	2 170,736
<i>Differences in the presentation of OCI</i>	
- Exchange differences arising during the year on translating foreign operations	(169,422)
- Fair value changes on available-for-sale financial assets	196,241
- Fair value changes due to cash flow hedges	(56,307)
Total comprehensive income for the year under IFRS	9,203,069

47. TRANSITION TO IFRS (CONTINUED)

C. Impact of transition to IFRS

Property rights in accordance with SOCPA		<u>31 December 2016</u>	<u>1 January 2016</u>
Total equity under SOCPA		61,076,395	61,962,243
<i>Adjustments</i>			
- Defined benefit plans, net	1	426,184	397,335
- Settlement of investment balance in an associate	2	-	(486,656)
- Free of cost assets	3	156,142	127,796
- Decommissioning liability	4	(173,193)	(139,688)
- Revenue-related adjustments	5	(139,982)	(121,275)
- Other adjustments	6	(67,215)	(50,206)
Total equity under IFRS		<u>61,278,331</u>	<u>61,689,549</u>

There are no material differences between IFRS and the previously recognized accounting standards in the Kingdom of Saudi Arabia SOCPA regarding the Group's cash flow statement for the year ended 31 December 2016.

1. Defined benefit plans

Under SOCPA (the previously recognized accounting standards in Saudi Arabia), the Group recognised the cost related to its defined benefit plans based upon the undiscounted amount of the benefit expected to be paid. Under IFRS, defined benefits plans are recognised on an actuarial basis.

The impact arising from this change is a decrease in EOS provision and an increase in equity amounting to SR 426 million as at 31 December 2016 (1 January 2016: SR 397 million). A decrease in expense of SR 93 million has been recognised in the consolidated statement of profit or loss for the year ended 31 December 2016 and a decrease in OCI for the same period by SR 64 million.

2. Settlement of investment balance in an associate

Upon the transition to IFRS, the Group re-calculated its share in OTL net assets taking into account its share in the service concession agreement, resulting in a total write-down of OTL investment of SAR 487 million with a corresponding reduction in equity as of 1 January 2016. As the share of losses in OTL exceeded the Group's interest in OTL, the Group discontinued accounting for its investment using the equity method this resulted in an increase in the consolidated statement of profit or loss by SR 316 million and OCI by SR 171 million for the year ended 31 December 2016.

3. Free of cost assets

The Group receives certain items of property, plant and equipment free of cost from vendors. Under SOCPA (the previously recognized accounting standards in Saudi Arabia), the Group recorded such items of property, plant and equipment at fair value with a credit to deferred income.

From the date of transition to IFRS, the Group adopted an accounting policy to recognise such assets received free of cost at a nominal value of one Saudi Riyal. As a result of adoption of this policy, equity increased by SR 128 million and SR 156 million respectively as at 1 January 2016 and 31 December 2016. This also resulted in an increase in the consolidated statement of profit or loss by SR 28 million.

4. Decommissioning liability

The Group has an obligation to restore certain sites used by its network operations. Under SOCPA (the previously recognized accounting standards in Saudi Arabia) the cost of restoring the sites was expensed as incurred. In accordance with IFRSs, a provision for site restoration in respect of the sites used by the Group's network operations has been recognised when the obligation arises, which is generally when the installation on the site occurs.

47. TRANSITION TO IFRS (CONTINUED)

C. Impact of transition to IFRS (Continued)

The impact arising from this change is a decrease in equity of SR 173 million as of 31 December 2016 (1 January 2016: SR 139,6 million) and a decrease of SR 33.5 million in the consolidated statement of profit or loss for the year ended 31 December 2016 resulted from the impact of increased depreciation and unwinding of the discount related to the decommission liability.

5. Revenue recognition

Bundled arrangements sold by the Group consist of multiple performance obligations. Under SOCPA (the previously recognized accounting standards in Saudi Arabia) revenue from bundled arrangements was allocated to each performance obligation based on the contracted price with the customer for each performance obligation. Under IFRS the contracted price from the bundled arrangements has been allocated to each performance obligation identified in the contract on a relative fair value basis, which has been determined based upon the estimated stand-alone selling price for each performance obligation.

The impact arising from this change is a decrease in equity of SR 140 million as of 31 December 2016 (1 January 2016: SR 121 million). Reduction in revenue from services of SR 19 million has been recognised in the consolidated statement of profit or loss for the year ended 31 December 2016.

6. Other adjustments

Other adjustments pertain to items that are neither individually or collectively material and primarily include the impact of discounting of long term assets and financial liabilities and fair value change of financial assets designated at FVTPL.

7. Reclassification

Certain assets relating to computer software and networks have been reclassified from property, plant and equipment to intangible assets to conform with the presentation and disclosure requirements of IAS 38 *Intangible assets* (31 December 2016: SR 3,423 million, 1 January 2016: SR 2,776 million).

48. ENDORSEMENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

At its meeting held on 4 Rajab 1439H (corresponding to 21 March 2018), the Board of Directors approved the consolidated financial statements for the year 2017.