



**Saudi Telecom Company
(A Saudi Joint Stock Company)**

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

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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 2019, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of 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 2019, 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 endorsed 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 endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with 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 of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter 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 Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Revenue recognition</p> <p>The Group’s revenue consists primarily of subscription fees for telecommunication, data packages and use of the network totalling SR 54 billion for the year ended 31 December 2019.</p> <p>We considered this a key audit matter as the application of accounting standard for revenue recognition in the telecommunication sector includes number of key judgments and estimates.</p> <p>Additionally, there are inherent risks about the accuracy of revenues recorded due to the complexity associated with the network environment, dependency on IT applications, large volumes of data, changes caused by price updates and promotional offers affecting the various products and services offered during the accounting period, as well as the materiality of the amounts involved.</p> <p><i>Refer to note 4.3 for the accounting policy related to revenue recognition and note 34 for the related disclosures.</i></p>	<p>Our audit procedures included, among others, the following:</p> <ul style="list-style-type: none"> • Involved our IT specialists in testing the design, implementation and operating effectiveness of system internal controls related to revenue recognition. • Evaluated the appropriateness of revenue recognition policies. • Reviewed a sample of revenue reconciliations prepared by management between the primary billing system and the general ledger. • Tested the accuracy of customer invoice generation on a sample basis and tested a sample of the credits and discounts applied to customer invoice. • Tested cash receipts for a sample of customers back to the invoice. • Performed analytical procedures by comparing expectations of revenue with actual revenue and analysing variances. • Assessed the relevant disclosures in the consolidated financial statement.
<p>Allowance for impairment of trade receivable</p> <p>As at 31 December 2019, the Group’s trade receivables amounted to SR 22.4 billion against which an impairment allowance of SR 2.8 billion is maintained.</p> <p>The Group uses the expected credit loss model (ECL) as required by International Financial Reporting Standard 9 (Financial Instrument) (IFRS 9) to calculate allowance for impairment in trade receivable.</p> <p>We considered this as a key audit matter as ECL model involves complex calculations and use of assumptions by management in addition to the materiality of the amounts involved.</p> <p><i>Refer to notes 4.15.3 and 5.2.5 for the accounting and critical judgements policies related to allowance for impairment of trade receivable and note 11 for the related disclosures.</i></p>	<p>Our audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> • Assessed the design, implementation, and operating effectiveness of the key controls over the following: <ul style="list-style-type: none"> - Recording of trade receivables and settlements. - Trade receivables aging reports. • Tested a sample of trade receivables to assess whether ECL has been recorded on a timely manner. • Assessed significant assumptions, including collection rates, recovery rates, impairment ratios and those relating to future economic events that are used to calculate the expected credit loss. • Tested the mathematical accuracy of the ECL model. • Assessed the disclosures included in the consolidated financial statements of the Group.



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Independent auditor’s report

To the Shareholders of Saudi Telecom Company (continued)
 (A Saudi Joint Stock Company)

Key Audit Matters (continued)

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>As at 31 December 2019, the Group received following claims from GAZT, relating to Zakat and withholding tax:</p> <p>Zakat: The Group received zakat assessments for the years ended 31 December 2008, 2009 and 2018 with additional zakat claimed by GAZT which was challenged by the Group.</p> <p>Withholding Tax: The Group received withholding tax assessments from GAZT for the service of renting international operators’ networks 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 objected against such assessments which are still underway before the relevant committee.</p> <p>We considered this as a key audit matter as accounting for zakat and withholding tax involves management estimates in addition to the materiality of the additional amounts claimed.</p> <p><i>Refer to note 4.8 for the accounting policy related to zakat and withholding taxes and notes 33 and 44-E for the related disclosures.</i></p>	<p>Our audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> • Reviewed correspondences between the Group and GAZT to determine the amount of the additional assessments made by GAZT. • Attended meetings with those charged with governance and the Group’s management to obtain an update on the zakat and withholding tax matters and the results of their interactions with the relevant committees. • Involved our specialist to assess the appropriateness of the exposures disclosed for both zakat and withholding tax for the years assessed by GAZT and judgements made by management in this matter. • Reviewed prior year’s decisions from the relevant committee on zakat assessment. • Assessed the related disclosures included in the consolidated financial statements of the Group.



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Independent auditor’s report

To the Shareholders of Saudi Telecom Company (continued)
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Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Capitalization and useful lives of property, plant and equipment (PPE)	
<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 in 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 assumptions.</p> <p>Further, there are a number of areas where management, judgments impacts the carrying values and depreciation of PPE which include:</p> <ul style="list-style-type: none"> - Decision to capitalize or expense costs; - Review of the useful lives of PPE including the impact of changes in the Group’s strategy; and - The timing of commencement of depreciation based on when they are ready for their intended use. <p>We considered this as a key audit matter since it involves management's assumptions and estimates as well as the materiality of the amounts involved.</p> <p><i>Refer to note 4.9 for the accounting policy related to property, plant and equipment 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"> • Tested the effectiveness of the key controls in place over the capitalization and depreciation of PPE and assessed the Group’s policies. • Performed analytical procedures on depreciation of PPE by comparing actual depreciation rates with expected rates and analysed variances. • Tested, on a sample basis, the reasonableness of useful lives estimation performed by the management. <p>In addition to the above, we also performed the following procedures on the capitalized cost:</p> <ul style="list-style-type: none"> • Assessed the Group's capitalisation policy for compliance with relevant accounting standards; • Tested, on a sample basis, the implementation of expenditure policy during the year, including the review of minutes of meetings where capital expenditure plan was approved. • Tested, on a sample basis, capitalisation of project expenses in compliance with the Group’s capitalisation policy including instances where actual costs differed from the expenditure plan. • Assessed the disclosures included in the consolidated financial statements of the Group.



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To the Shareholders of Saudi Telecom Company (continued)
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Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of property, plant and equipment and intangible assets	
<p>As at 31 December 2019, the Group’s consolidated financial position included property, plant and equipment amounting to SR 45.1 billion and intangible assets amounting to SR 9.9 billion.</p> <p>At each reporting date, the Group perform an assessment of the recoverable value of these assets, or relevant cash-generating units ('CGUs') for any indication of impairment.</p> <p>This involves significant judgment in respect of factors such as technological changes, challenging economic conditions, changing regulatory environment and restrictions, operating or capital costs and other economic assumptions used by the Group.</p> <p>We considered this as a key audit matter as it involves management's assumptions and estimates as well as the materiality of the amounts involved.</p> <p><i>Refer to notes 4.11 and 5.1.2 for the accounting and critical judgements policies related to valuation of property, plant and equipment and intangible assets.</i></p>	<p>Our audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> • Reviewed management’s impairment indicator testing. • Assessed management’s assumptions and estimates used to determine the recoverable value of the assets based on our knowledge of the Group and the industry it operates in. • Assessed management’s methods of identifying individual CGUs. • Assessed mathematical accuracy of cash flow models. • Assessed the disclosures included in the consolidated financial statements of the Group.



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Independent auditor’s report

To the Shareholders of Saudi Telecom Company (continued)
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Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Adoption of International Financial Reporting Standard 16 (Leases) (IFRS 16)	
<p>As at 1 January 2019, the Group’s adopted IFRS 16 which supersedes the requirement of IAS 17 (Leases).</p> <p>The Group adopted IFRS 16 “Leases” during the year using the modified retrospective approach; hence, the comparative information was not restated. The Group recorded right of use assets amounting to SR 2,556 million, with corresponding lease liability amounting to SR 2,367, adjusted for any prepaid or accrued lease payments as of 1 January 2019.</p> <p>We considered this as a key audit matter due to the nature and the significance on the Group’s consolidated financial statement. In addition to the judgments required by management in the adoption of the standard and the materiality of the amounts involved.</p> <p><i>Refer to note 4.4 for the accounting policy related to lease contracts, note 3-1 for the impact of adopting IFRS 16 and notes 9 and 29 for the related disclosures.</i></p>	<p>Our audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> • Assessed management’s procedures in adopting IFRS 16 as endorsed in the Kingdom of Saudi Arabia. • Assessed management’s estimates used to calculate the impact of adoption of IFRS 16 as at 1 January 2019 (e.g., discount rate and lease terms used to determine the ROU assets and lease liability for lease contracts). • Analysed the completeness of the population of lease contracts by reviewing the reconciliation of the Group’s operating lease commitments as of 31 December 2018 to lease liability recognized as at 1 January 2019 and assessed, on sample basis, the contracts for the appropriateness of inclusion or exclusion from the calculation of ROU assets and lease liabilities. • Tested, on a sample basis, the accuracy of the lease data by agreeing them with the signed contract and checked mathematical accuracy of the calculation of the ROU assets and lease liabilities. • Assessed the disclosures included in the consolidated financial statements of the Group.



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Independent auditor's report

To the Shareholders of Saudi Telecom Company (continued)
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Other Information Included in the Group's 2019 Annual Report

Other information consists of the information included in the Group's 2019 annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2019 annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and 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 2019 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 endorsed by the Saudi Organization for Certified Public Accountants and the provisions of Companies' Law and Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance 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.

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.



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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 (continued)

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current 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: 24 Rajab 1441H
(19 March 2020)



Saudi Telecom Company
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019
(All Amounts in Saudi Riyals thousands unless otherwise stated)

	<u>Notes</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	7	45,085,342	41,920,409
Intangible assets and goodwill	8	9,906,688	9,560,119
Right of use assets	9	2,887,933	-
Investments in associates and joint ventures	21	6,618,526	6,581,733
Contract assets	16	648,069	504,042
Contract costs	15	922,922	1,030,129
Other financial assets	17	7,323,433	3,373,016
Other non-current assets	13	91,851	371,621
TOTAL NON-CURRENT ASSETS		73,484,764	63,341,069
CURRENT ASSETS			
Inventories	10	1,721,530	787,456
Trade and other receivables	11	21,372,368	14,493,149
Short term murabahas	12	2,181,416	9,685,491
Contract assets	16	6,793,755	5,468,441
Other financial assets	17	376,589	5,488,245
Other current assets	13	4,097,096	1,952,878
Cash and cash equivalents	19	8,031,010	8,153,865
		44,573,764	46,029,525
Assets held for sale	14	267,728	-
TOTAL CURRENT ASSETS		44,841,492	46,029,525
TOTAL ASSETS		118,326,256	109,370,594
EQUITY AND LIABILITIES			
EQUITY			
Issued capital	22	20,000,000	20,000,000
Statutory reserves	23	10,000,000	10,000,000
Other reserves	24	(2,745,608)	(1,903,878)
Retained earnings		34,508,202	37,417,562
Equity attributable to the equity holders of the Parent Company		61,762,594	65,513,684
Non-controlling interests	18	1,292,452	1,147,914
TOTAL EQUITY		63,055,046	66,661,598
LIABILITIES			
NON-CURRENT LIABILITIES			
Long term borrowings	25	8,923,476	3,965,479
End of service benefits provision	27	4,812,805	3,919,362
Lease liabilities	29	1,580,935	-
Provisions	26	891,210	891,910
Contract liabilities	28	771,915	771,915
Other financial liabilities	30	1,591,911	1,526,259
Other non-current liabilities	31	3,508,706	2,177,016
TOTAL NON-CURRENT LIABILITIES		22,080,958	13,251,941
CURRENT LIABILITIES			
Trade and other payables	32	18,694,412	14,092,907
Provisions	26	5,157,110	6,829,451
Contract liabilities	28	2,465,735	2,538,940
Zakat and income tax	33	1,482,278	1,465,775
Lease liabilities	29	1,300,242	-
Short term borrowings	25	389,339	320,533
Other financial liabilities	30	2,145,276	90,731
Other current liabilities	31	1,555,860	4,118,718
TOTAL CURRENT LIABILITIES		33,190,252	29,457,055
TOTAL LIABILITIES		55,271,210	42,708,996
TOTAL EQUITY AND LIABILITIES		118,326,256	109,370,594



Chief Financial
Officer



Chief Executive
Officer



Authorized Board
Member



Chairman

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 PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2019
(All Amounts in Saudi Riyals thousands unless otherwise stated)

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Revenues	34	54,367,531	51,963,243
Cost of revenues	35	(21,976,306)	(21,490,161)
GROSS PROFIT		<u>32,391,225</u>	<u>30,473,082</u>
OPERATING EXPENSES			
Selling and marketing	36	(5,581,969)	(5,480,288)
General and administration	37	(5,544,276)	(5,157,039)
Depreciation and amortisation	7, 8,9	(8,784,587)	(7,590,530)
TOTAL OPERATING EXPENSES		(19,910,832)	(18,227,857)
OPERATING PROFIT		<u>12,480,393</u>	<u>12,245,225</u>
OTHER INCOME AND EXPENSES			
Cost of early retirement program		(600,000)	(450,000)
Finance income	38	639,161	551,535
Finance cost	39	(765,154)	(395,440)
Net other (expenses) income		(76,062)	102,943
Net share in results of investments in associates and joint ventures	21	49,597	(10,605)
Net other losses	40	(40,960)	(215,493)
TOTAL OTHER INCOME (EXPENSES)		(793,418)	(417,060)
NET PROFIT BEFORE ZAKAT AND INCOME TAX		11,686,975	11,828,165
Zakat and income tax	33	(762,144)	(747,667)
NET PROFIT		<u>10,924,831</u>	<u>11,080,498</u>
<i>Net profit attributable to:</i>			
Equity holders of the Parent Company		10,664,666	10,779,771
Non-controlling interests		260,165	300,727
		<u>10,924,831</u>	<u>11,080,498</u>
Basic and diluted earnings per share (In Saudi Riyals)	41	<u>5.33</u>	<u>5.39</u>



**Chief Financial
Officer**



**Chief Executive
Officer**



**Authorized Board
Member**




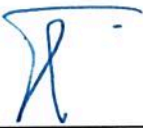


Chairman

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 2019
(All Amounts in Saudi Riyals thousands unless otherwise stated)**

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
NET PROFIT		10,924,831	11,080,498
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Items that will not be reclassified subsequently to consolidated statement of profit or loss:</i>			
Re-measurement of end of service benefit provision	27	(710,054)	13,414
Fair value changes on equity instruments measured at fair value through other comprehensive income (FVOCI)		-	113,543
Total items that will not be reclassified subsequently to consolidated statement of profit or loss		(710,054)	126,957
<i>Items that may be reclassified subsequently to consolidated statement of profit or loss:</i>			
Foreign currency translation differences		(1,479)	(10,739)
Fair value changes from cash flow hedges		(484)	736
Share of other comprehensive income/(loss) of associates and joint ventures, net		214,013	(247,317)
Total items that may be reclassified subsequently to consolidated statement of profit or loss		212,050	(257,320)
TOTAL OTHER COMPREHENSIVE LOSS		(498,004)	(130,363)
TOTAL COMPREHENSIVE INCOME		10,426,827	10,950,135
<i>Total comprehensive income attributable to:</i>			
Equity holders of the Parent Company		10,163,477	10,651,283
Non-controlling interests		263,350	298,852
		10,426,827	10,950,135

			
Chief Financial Officer	Chief Executive Officer	Authorized Board Member	Chairman

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

Saudi Telecom Company
(A Saudi Joint Stock Company)

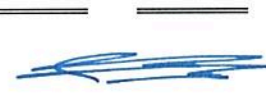
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019
(All Amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit before zakat and income tax		11,686,975	11,828,165
<i>Adjustments :</i>			
Depreciation and amortisation	7,8,9	8,784,587	7,590,530
Impairment loss and amortisation of contract costs and contract assets		506,951	657,784
Impairment loss on trade receivables	11	662,043	706,935
Allowance for slow moving inventories	10	57,086	31,863
Finance income	38	(639,161)	(551,535)
Finance cost	39	765,154	395,440
Provision for end of service benefits and other provisions		935,304	1,293,581
Share in results of investments in associates and joint ventures, net		(49,597)	10,605
Net other losses	40	40,960	215,493
Movements in :			
Trade receivables and others		(7,574,857)	5,239,857
Inventories		(988,430)	(337,038)
Contract costs		(296,936)	(477,758)
Contract assets		(1,573,106)	(727,257)
Other assets		(2,317,470)	(1,210,921)
Trade payables and others		4,714,301	729,809
Contract liabilities		(130,160)	(724,005)
Other liabilities		(3,469,086)	(4,326,337)
Cash generated from operations		11,114,558	20,345,211
Less: Zakat and income tax paid	33	(742,882)	(690,934)
Less: Provision for end of service benefits paid	27	(451,050)	(521,861)
Net cash generated from operating activities		9,920,626	19,132,416
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment		(9,426,711)	(8,406,935)
Additions to intangible assets		(1,941,453)	(1,350,151)
Proceeds from sale of property and equipment		140,307	5,094
Dividends from associates		37,931	-
Acquisition of a new subsidiary	18	(232,669)	-
Proceeds from finance income		642,431	595,731
Proceeds related to financial assets		23,731,986	26,988,671
Payments related to financial assets		(14,928,948)	(22,859,438)
Net cash used in investing activities		(1,977,126)	(5,027,028)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(12,105,714)	(8,054,671)
Repayment of lease liabilities		(712,467)	-
Repayment of borrowings	25	(350,948)	(635,710)
Proceeds from borrowings	25	5,381,417	303,936
Finance cost paid		(279,933)	(130,517)
Net cash used in financing activities		(8,067,645)	(8,516,962)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(124,145)	5,588,426
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		8,153,865	2,567,044
Net foreign exchange difference		1,290	(1,605)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	19	8,031,010	8,153,865


Chief Financial
Officer


Chief Executive
Officer


Authorized Board
Member


Chairman

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 2019

(All Amounts in Saudi Riyals thousands unless otherwise stated)

Total equity attributable to the equity holders of the Parent Company								
	Notes	Issued capital	Statutory reserves	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance as at 1 January 2018 (as restated)		20,000,000	10,000,000	(1,775,390)	34,637,791	62,862,401	939,180	63,801,581
Net profit		-	-	-	10,779,771	10,779,771	300,727	11,080,498
Other comprehensive loss		-	-	(128,488)	-	(128,488)	(1,875)	(130,363)
Total comprehensive income		-	-	(128,488)	10,779,771	10,651,283	298,852	10,950,135
Dividends to the equity holders of the Parent Company	46	-	-	-	(8,000,000)	(8,000,000)	-	(8,000,000)
Dividends paid to non-controlling interests		-	-	-	-	-	(90,118)	(90,118)
Balance as at 31 December 2018		20,000,000	10,000,000	(1,903,878)	37,417,562	65,513,684	1,147,914	66,661,598
Balance as at 1 January 2019		20,000,000	10,000,000	(1,903,878)	37,417,562	65,513,684	1,147,914	66,661,598
Net profit		-	-	-	10,664,666	10,664,666	260,165	10,924,831
Other comprehensive loss		-	-	(501,189)	-	(501,189)	3,185	(498,004)
Total comprehensive income		-	-	(501,189)	10,664,666	10,163,477	263,350	10,426,827
Dividends to the equity holders of the Parent Company	46	-	-	-	(14,000,000)	(14,000,000)	-	(14,000,000)
Dividends to non-controlling interests		-	-	-	-	-	(118,812)	(118,812)
Share of changes in other reserves of a joint venture equity	21.2	-	-	85,433	-	85,433	-	85,433
Transfers	17	-	-	(425,974)	425,974	-	-	-
Balance as at 31 December 2019		20,000,000	10,000,000	(2,745,608)	34,508,202	61,762,594	1,292,452	63,055,046



Chief Financial Officer



Chief Executive Officer



Authorized Board Member



Chairman

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

**Saudi Telecom Company
(A Saudi Joint Stock Company)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(All Amounts in Saudi Riyals thousands unless otherwise stated)**

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 ("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, media services and digital payments, which include, among other things:

- 1) Establish, manage, operate and maintain fixed and mobile telecommunication networks, systems and infrastructure.
- 2) Deliver, provide, maintain and manage diverse telecommunication and information technology (IT) services to customers.
- 3) 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.
- 4) 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.
- 5) Provide integrated communication and information technology solutions which include among other things (telecom, IT services, managed services, and cloud services, etc.).
- 6) Provide information-based systems and technologies to customers including providing telecommunication means for the transfer of internet services.
- 7) 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.
- 8) Real estate investment and the resulting activities, such as selling, buying, leasing, managing, developing and maintenance.
- 9) Acquire loans and own fixed and movable assets for intended use.
- 10) Provide financial and managerial support and other services to subsidiaries.
- 11) Provide development, training, assets management and other related services.
- 12) Provide solutions for decision support, business intelligence and data investment.
- 13) Provide supply chain and other related services.
- 14) Provide digital payment services.
- 15) Construction, maintenance and repair of telecommunication and radar stations and towers.

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



**Chief Financial
Officer**



**Chief Executive
Officer**



**Authorized Board
Member**



Chairman

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019
(All Amounts in Saudi Riyals thousands unless otherwise stated)**

2. BASIS OF PREPARATION AND CONSOLIDATION

2.1 Basis of preparation

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

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

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.

The preparation of the consolidated financial statements in accordance with IFRS as endorsed by SOCPA requires the use of certain significant accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

The significant accounting policies (See Note 4) applied in preparing these consolidated financial statements are consistent with those applied in comparative periods presented, with the exception of IFRS 16 (Leases) that was applied for the first time (See Note 3.1)

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 18).

Subsidiaries are companies controlled by the Group, control is achieved when the Group has:

- Power over the investee (i.e. existing rights that give the Group 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's 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 elements of control mentioned above.

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 (or derecognised) 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 equity holders 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019
(All Amounts in Saudi Riyals thousands unless otherwise stated)

2. BASIS OF PREPARATION AND CONSOLIDATION (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, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in the consolidated statement of profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets and liabilities of the subsidiary (i.e. reclassified to the consolidated statement of profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP

3.1 IFRS 16 "LEASES"

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases.

IFRS 16 supersedes the following Standards and Interpretations:

- (a) IAS 17 Leases;
- (b) IFRIC 4 Determining whether an Arrangement contains a Lease;
- (c) SIC-15 Operating Leases—Incentives; and
- (d) SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all major leases; which represents a significant change from IAS 17.

Lessor accounting under IFRS 16 is substantially unchanged from previous accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

Impact of transition to IFRS 16

The Group has adopted IFRS 16 using the modified retrospective approach with the cumulative effect of applying this standard recognised at the date of initial application (1 January 2019) and accordingly the information presented for 2018 has not been restated. It remains as previously reported under IAS 17 and related interpretations.

On initial application, the Group has elected to record right-of-use assets (amounting to SR 2,556 million) based on the corresponding lease liability (amounting to SR 2,367 million) adjusted for any prepaid or accrued lease payments as of 1 January 2019, with no impact on retained earnings.

Lease liabilities are recognized on the date of initial application of the lease contracts previously classified as operating leases (in accordance with IAS 17). Lease liabilities were measured at the present value of the remaining lease payments discounted using the Group's incremental borrowing rate as of 1 January 2019. The weighted average rate of incremental borrowing rate at the initial implementation date was 3.9%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019
(All Amounts in Saudi Riyals thousands unless otherwise stated)

3. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP (CONTINUED)
3.1 IFRS 16 "LEASES" (CONTINUED)

The following is the reconciliation of lease liabilities on 1 January 2019 with operating lease commitments on 31 December 2018:

Operating lease commitments as at 31 December 2018	2,501,822
Weighted average incremental borrowing rate as at 1 January 2019	3.9%
Discounted operating lease commitments as at 1 January 2019	2,216,484
Less:	
Commitments relating to short-term leases	(1,192)
Commitments relating to leases of low-value assets	(7,358)
Add:	
Extension and termination options not recognized at 31 December 2018	159,414
Lease liabilities as at 1 January 2019	<u>2,367,348</u>

The Group has elected to apply the following:

- 1- apply one discount rate on a portfolio of leases with reasonably similar characteristics.
- 2- account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases.
- 3- exclude direct costs from measuring the right of use assets at the date of initial application.
- 4- use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

As a practical expedient, the Group has elected not to reassess whether a contract is, or contains, a lease at the date of initial application, and continue as previously assessed under IAS 17 and IFRIC 4. The Group applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after 1 January 2019.

3.2 NEW IFRS STANDARDS, ISSUED AND ADOPTED

Few other amendments to IFRS and IFRIC that were applied by the Group with effective date on 1 January 2019 and had no material impact:

Amendments and interpretations
Amendments to IFRS 9 'Financial Instruments' - Prepayments features with negative compensation
Amendments to IAS 19 'Employee Benefits' - Plan Amendment, Curtailment or Settlement
Amendments to IAS 28 'Investments in Associates and Joint Ventures' – Long-term interests in Associates and Joint Ventures
IFRIC 23 'Uncertainty over Income Tax Treatments'
Annual Improvements to IFRS Standards 2015 – 2017 Cycle

3.3 Other Amendments of relevant IFRS's issued but not yet effective

Amendments and interpretations
Amendments to the Conceptual Framework for Financial Reporting
Definition of a Business - Amendments to IFRS (3)
Definition of Material- Amendments to IAS (1) and IAS (8)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019
(All Amounts in Saudi Riyals thousands unless otherwise stated)**

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Business combinations

Business combinations are accounted for using the acquisition method upon transfer of control to the Group. The consideration transferred is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in the consolidated statement of 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 at the acquisition-date of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date fair values of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts recognised at the acquisition date.

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

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

If goodwill is not allocated to designated cash-generating units because of an incomplete initial calculation, the initial impairment loss will not be tested unless impairment indicators are available to enable the Group to distribute the carrying amount of the goodwill 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 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.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019
(All Amounts in Saudi Riyals thousands unless otherwise stated)**

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.1 Business combinations (continued)

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 the consolidated statement of 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 the consolidated statement of profit or loss where such treatment would be appropriate if that interest were disposed off.

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 present the items whose value calculation has not been completed in a temporary manner in the consolidated financial statements. During the measurement period, which is not more than one year from the acquisition date, the temporary value recognized on the acquisition date is retroactively adjusted to reflect the information obtained about the facts and circumstances that existed at the date of acquisition and if it is determined that this will affect the measurement of amounts recognized as of that date. The Group recognizes additional assets or liabilities during the measurement period if new information about facts or circumstances existed at the date of the acquisition and if it will result in recognition of assets or liabilities from that date. The measurement period ends once the group obtains those information existed at the acquisition date or as soon as it becomes sure of the lack of access to more information.

4.2 Investments in associates and joint ventures

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

A joint venture is a joint arrangement whereby the Group has joint control of the arrangement and has rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The considerations made in determining significant influence are holding—directly or indirectly – voting rights in the investee, representation on the board of directors or equivalent governing body of the investee, participation in policy-making, 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.

The investment in associates or joint ventures are accounted for in the consolidated financial statement of the Group using the equity method of accounting. The investment in associates or joint ventures in the consolidated statement of financial position is initially recognized 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 adjusted for any impairment in the value of net investment. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses.

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019
(All Amounts in Saudi Riyals thousands unless otherwise stated)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.2 Investments in associates and joint ventures (continued)

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

The requirements of IFRSs 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. The carrying amount of the investment in an associate or a joint venture is tested for impairment in accordance with the policy described in Note (5.1.2).

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

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

When any entity within the Group transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are 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.

4.3 Revenue recognition

Revenue is recognized based on the consideration specified in a contract with a customer and excludes amount collected on behalf of third parties. The Group recognizes revenue when it transfers control over a product or services to a customer.

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

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

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

Product and services	Nature and timing of satisfaction of performance obligation
Telecommunication services	Telecommunication services include voice, data and text services. The Group recognizes revenues as and when these services are provided (i.e. actual usage by the customer).
Bundled packages	Arrangements involving multiple products and services are separated into individual items and revenues is recognized on the basis of fair value (standalone selling prices) of the individual items by allocating the total arrangement consideration to the individual items on the basis of the relative value of the selling prices of the individual items. Items are separable if they are of separate value to the customer.
Devices	The Group recognizes revenues when the control of the device is transferred to the customer. This usually occurs at the contract inception when the customer takes the possession of the device.

Dividend income from investments in equity instruments is recognized when the Group'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).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019
(All Amounts in Saudi Riyals thousands unless otherwise stated)**

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.4 Lease contracts (policy applied from 1 January 2019) (See Note 3.1)

The Group as a lessee

At the commencement date, the Group recognizes a right of use asset representing the Group's right to use the underlying asset and a lease liability representing the Group's obligation to make lease payments.

At commencement date, the right of use asset is initially measured at cost (based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date less any lease incentives received, initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, as per lease terms).

After the commencement date, the right of use asset is measured using the cost model (cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the related lease liability).

At commencement date, the lease liability is measured at the present value of the lease payments that are not paid at that date, discounted using the interest rate implicit in the lease, if that rate can be readily determined; otherwise the Group's incremental borrowing rate is used instead.

After the commencement date, the lease liability is measured by:

- (a) increasing the carrying value to reflect interest on the lease liability.
- (b) reducing the carrying value to reflect the lease payments made.
- (c) remeasuring the carrying value to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

The amount of the remeasurement of the lease liability is recorded as an adjustment to the right of use asset. However, if the carrying amount of the right of use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, then any remaining amount of the remeasurement is recognized in the consolidated statement of profit or loss.

The Group has elected to apply the practical expedient not to recognize right of use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases is recognized as an expense on a straight-line basis over the lease term.

The Group as a lessor

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. The group as a Lessor will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 does not have an impact for leases where the Group is the lessor.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Operating lease income is recognized in the consolidated statement of profit or loss on a straight-line basis over the lease term. Any benefits granted as an incentive to enter into an operating lease, are distributed in a straight-line basis over the lease term. Total benefits from incentives are recognized as a reduction in rental income on a straight-line basis, unless there is another basis that better represents the period of time in which the economic benefits of the leased asset are exhausted.

The amounts due from the finance leases are recorded as lease receivables at an amount equal to the net investment of the Group in the lease. The lease payments to be received are distributed into two components: (1) a reimbursement of the original amount (2) a financing income to compensate the Group for its investment and services. The additional costs directly attributable to negotiating the lease contract are included in the amounts due, which in return, will reduce the finance income portion from the contract.

4.5 Foreign currencies

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

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.5 Foreign currencies (continued)

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 translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. 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 for limited circumstances.

For the purposes of presenting the consolidated financial statement, the assets and liabilities of the Group's foreign operations are translated into Saudi Riyals using exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the reporting period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are 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 venture or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the Company's shareholders are reclassified to the consolidated statement of profit or loss.

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

4.6 Government grants

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

Government grants are recognised in the consolidated statement of 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 the consolidated statement of profit or loss on a systematic and rational basis over the useful lives of the related assets.

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

4.7 Employee benefits

4.7.1 Retirement benefit costs and end of service benefits

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

Employee's end of service benefits provision is calculated annually by actuaries in accordance with the projected unit credit method as per (IAS 19) Employee Benefits, taking into consideration the labour law of the respective country in which the subsidiary operates. The provision is recognised based on the present value of the defined benefit obligations.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.7 Employee benefits (continued)

4.7.1 Retirement benefit costs and end of service benefits (continued)

The present value of the defined benefit obligations is calculated using assumptions on the average salary incremental rate, average employees years of service and an appropriate discount rate. The assumptions used are calculated on a consistent basis for each period and reflect management's best estimate.

Due to the fact that the Kingdom does not have a deep market in high quality corporate bonds, the discount rate is determined based on available information of Saudi Arabia sovereign bond yields with a term consistent with the estimated term of the defined benefit obligation as at the reporting date.

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

The cost of past services (if any) is recognized in the consolidated statement of profit or loss before:

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

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

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

4.7.2 Other short and long -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 in which 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.

4.8 Zakat and Taxation

4.8.1 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").

4.8.2 Current and deferred taxes

Tax related to subsidiaries located outside the Kingdom is calculated in accordance with tax laws applicable in those countries.

Deferred income tax provision for foreign entities is calculated using the liability method, and it is used for the temporary differences at the end of the financial year between the tax base of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax liabilities and deferred tax 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.

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 of profit or loss.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.9 Property and equipment

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

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

Assets under 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 and equipment have different useful lives, they are accounted for as separate items.

When significant parts of property 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 profit or loss during the reporting period in which they are incurred, except to the extent that they increase productivity or extend the useful life of an asset, in which cases they are capitalized.

Depreciation is charged and reduces the cost of assets, other than land, using the straight-line method, over their estimated useful lives. An item of property 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 and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of profit or loss within other operating income or expenses.

The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

4.10 Intangible assets other than goodwill

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

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

4.10.1 Software

Computer software licenses are capitalised based on the cost incurred to acquire the specific software and bring it into use. 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.

4.10.2 Licence and frequency spectrum fees

Amortisation periods for licence and frequency 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 when the related network services are available for use.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.10 Intangible assets other than goodwill (continued)

4.10.3 Indefeasible Rights of Use ("IRU")

IRUs correspond to the right to use a portion of the capacity of a terrestrial or submarine transmission cable granted for a fixed period. IRUs are recognised at cost as an 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.

4.10.4 Derecognition 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 derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in the consolidated statement of profit or loss.

4.11 Impairment of tangible and intangible assets other than goodwill

At the end of each financial year, 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 and the present value of the estimated future cash flows expected to be derived from the asset (value in use). 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 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 financial year.

4.12 Inventories

Inventories are stated at the lower of cost or 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.

4.13 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 the obligation can be measured reliably.

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

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

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.14 Assets' decommissioning liabilities (continued)

The Group recognizes obligations on decommissioning of assets 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 and if the obligation can be reliably measured.

The Group calculates a provision with the value of future costs related to the removal and decommissioning of the network and other assets. Upon initial recognition of the obligation, the present value of the expected costs (using a discount rate for future cash flows) is added to the value of the concerned network and other assets. Changes in the discount rate, timing and cost of removing and decommissioning assets are accounted prospectively by adjusting the carrying amount of the provision and the carrying amount of the network and other assets.

4.15 Financial instruments

4.15.1 Classification, recognition, and presentation

Financial instruments are recognised in the consolidated financial position when and only when the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial instruments at initial recognition.

The Group classifies its financial assets within the following categories:

- a) at fair value (either through other comprehensive income, or through profit or loss)
- b) at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. The Group has classified all non-derivative financial liabilities at amortised cost.

Derivatives embedded in host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in the consolidated statement of profit or loss.

4.15.2 Measurement

4.15.2.1 Initial measurement

Financial assets and financial liabilities are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of financial assets and issue of financial liabilities or, where appropriate, deducted from them. (Except for financial assets and financial liabilities classified at fair value where transaction costs directly attributable to the acquisition of financial assets or financial liabilities are recognized directly in the consolidated statement of profit or loss).

4.15.2.2 Subsequent measurement of financial assets

The subsequent measurement of the non-derivative financial assets depends on their classification as follows:

a. Financial assets measured at amortised cost:

Assets that are held to collect contractual cash flows are measured at amortised cost using the effective interest rate ('EIR') method where those cash flows represent solely payments of principal and interest. Interest income from these financial assets is included in finance income.

b. Financial assets measured at fair value through profit or loss

The financial assets measured at fair value through profit or loss ("FVTPL") are measured at each reporting date at fair value without the deduction of transaction costs that the Group may incur on sale or disposal of the financial asset in the future.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.15 Financial instruments (Continued)

4.15.2 Measurement (Continued)

4.15.2.2 Subsequent measurement of financial assets (continued)

c. Financial assets measured at fair value through other comprehensive income

The financial assets measured at fair value through other comprehensive income ("FVOCI") are measured at each reporting date at fair value without the deduction of transaction costs that the Group may incur on sale or disposal of the financial asset in the future.

When the financial asset is derecognised, the accumulated gain or loss recognised previously in the consolidated statement of comprehensive income are reclassified to the consolidated statement of profit and loss. However, there is no subsequent reclassification of fair value gains and losses to consolidated statement of profit and loss in case of equity instruments.

The recognition and presentation of gains and losses for each measurement category are as follows:

Measurement category	Recognition and presentation of gains and losses
At amortised cost	<p>The following items are recognised in the consolidated statement of profit or loss:</p> <ul style="list-style-type: none"> • finance income using the effective interest method • expected credit losses (or reversals of such losses) • foreign exchange gains and losses. <p>When the financial asset is derecognised, the gain or loss is recognised in consolidated statement of profit or loss.</p>
At FVOCI	<p>Gains and losses are recognised in the consolidated statement of comprehensive income, except for the following items, which are recognised in consolidated statement of profit or loss in the same manner as for financial assets measured at amortised cost:</p> <ul style="list-style-type: none"> • finance income using the average effective interest method • expected credit losses (or reversals of such losses) • foreign exchange gains and losses.
Equity instruments – gain or loss – presented in consolidated statement of comprehensive income	<p>Gains and losses are recognised in the consolidated statement of comprehensive income. Dividends are recognised in consolidated statement of profit or loss unless they clearly represent a repayment of part of the cost of the investment. The amounts recognised in the consolidated statement of comprehensive income are not reclassified to consolidated statement of profit or loss under any circumstances.</p>
At FVTPL	<p>Gains and losses, both on subsequent measurement and derecognition, are recognised in consolidated statement of profit or loss.</p>

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.15 Financial instruments (Continued)

4.15.2 Measurement (Continued)

4.15.2.3 Subsequent measurement of financial liabilities

a. Amortised cost

The Group should classify all financial liabilities at amortised cost and remeasured subsequently as such, except for:

- 1- financial liabilities at FVTPL
- 2- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or is accounted for using the continuing involvement approach
- 3- commitments to provide a loan at a below-market interest rate and not measured at fair value though profit or loss
- 4- financial guarantee contracts
- 5- contingent consideration recognised at fair value by the Group in a business combination to which IFRS 3 applies (shall subsequently be measured at fair value with changes recognised in the consolidated statement of profit or loss).

Financial liabilities classified at amortized cost are measured using the effective interest rate method. When the financial liabilities are derecognised, the gain or loss is recognised in consolidated statement of profit or loss.

b. Liabilities at fair value through profit or loss

Financial liabilities falling under this category include:

- 1- liabilities held for trading
- 2- derivative liabilities not designated as hedging instruments
- 3- those designated as at FVTPL

After initial recognition, the Group measures financial liabilities at fair value with changes recognised in the consolidated statement of profit or loss.

Gains or losses on a financial liability designated as at FVTPL are generally split and presented as follows:

- 1- the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that financial liability is presented in the consolidated statement of comprehensive income
- 2- the remaining amount of change in the fair value of the financial liability is presented in the consolidated statement of profit or loss

4.15.3 Impairment of financial instruments

With respect to impairment of financial assets, IFRS 9 requires the use of the expected credit loss (ECL) model instead of the incurred credit loss model under IAS 39, whereby, the Group assesses the expected credit losses associated with its assets carried at amortised cost and debt instrument carried at FVOCI. The impairment methodology applied depends on whether there has been a significant increase in the credit risk of the financial instrument since initial recognition. Accordingly, the provision for impairment of financial instruments is measured by the amount of the expected credit losses over the life of the financial instrument. If credit risk of the financial instrument has not increased significantly since initial recognition, then 12 month ECL is used to provide for impairment loss. For trade receivables and contract assets, the Group applies a simplified approach to measure the provision for impairment loss in an amount equal to the expected credit loss over the life of the financial instrument.

4.15.4 Derecognition of financial assets

The financial assets are derecognised from the consolidated statement of financial position when the rights to receive cash flows from the financial assets have expired, or when the financial assets or all its risks and rewards of ownership have been transferred to another party. The difference between the financial asset's book value and its transferred proceeds will be recorded in the consolidated statement of profit or loss.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.15 Financial instruments (continued)

4.15.5 Derecognition of financial liabilities

The financial liabilities are derecognised when and only when the underlying obligations are extinguished, cancelled or expires.

4.15.6 Offsetting between financial assets and financial liabilities

A financial asset and a financial liability are offsetted and presented as a net amount in the consolidated statement of financial position when, and only when, both of the following conditions are satisfied:

- 1- The Group currently has a legal enforceable right to offset the recognised amounts of the asset and liability; and
- 2- The Group intends to settle on a net basis exists, or to realise the asset and settle the liability simultaneously.

4.16 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 period or less, which are subject to an insignificant risk of changes in value.

4.17 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 in the consolidated financial statements purposes is determined on such a basis, except for leasing transactions that are within the scope of IFRS 16, 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 the maximum limit for the use of relevant inputs that are observable and the minimum use of inputs that can be 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:

- a- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- b- 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
- c- Level 3 inputs are unobservable inputs for valuing the asset or liability, either directly or indirectly.

4.18 Non Current Asset held for Sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification. When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale. When the Group is committed to a sale plan involving disposal of an investment in an associate or, a portion of an investment in an associate, the investment, or the portion of the investment in the associate, that will be disposed of is classified as held for sale when the criteria described above are met. The Group then ceases to apply the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate that has not been classified as held for sale continues to be accounted for using the equity method.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.19 Segmental Information

The specific operating segments of the Group are identified based on internal reports, which are regularly reviewed by the Group's main decision makers (chief operating decision maker) for the purpose of resource allocation among segments and performance assessment.

5. SIGNIFICANT ACCOUNTING ESTIMATES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the management of the Group are required to make judgements about the carrying amounts of assets and liabilities and the accompanying disclosures that are not readily apparent from other sources. The estimates and assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates 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 future periods.

5.1 Significant estimates in applying accounting policies

The following are the significant estimates, apart from those involving uncertain estimations (See Note 5.2 below), that the management have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statement.

5.1.1 Revenue recognition

Gross versus net presentation

When the Group sells goods or services as a principal, revenue 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.

5.1.2 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 discounted cash flow (DCF) model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset'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.

5.2 Key sources of estimation uncertainty

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.

5.2.1 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 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.

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5. SIGNIFICANT ACCOUNTING ESTIMATES AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

5.2 Key sources of estimation uncertainty (continued)

5.2.2 Customer activation service fees

Customer activation service fees are deferred and recognised over the average of customer retention period (period of contract or anticipated contract). 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.

5.2.3 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 26 for details.

5.2.4 Useful lives for property 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.

5.2.5 Provision for impairment losses on trade receivables and contract assets

The Group uses a provision matrix to calculate expected credit loss on trade receivables and contract assets. The provision matrix is initially based on Group's historical observed defaults rates. The Group calibrates the matrix to adjust the historical loss experience with forward looking information. At the end of each reporting date, the Group updates its historical default rates and reflects that on future estimates.

The Group recognizes an allowance for impairment loss of 100% against all trade receivables that are aged over 365 days, except for balances with related parties and balances of which credit quality did not deteriorate based on historical experience of the Group.

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6. SEGMENT INFORMATION

The Group is engaged mainly in providing telecommunication services and related products. Majority of the Group's revenues, income and assets relate to its operations within the Kingdom (Saudi Telecom Company and Channels by stc). Outside of the Kingdom, the Group operates through its subsidiaries, associates and joint ventures in several countries.

Revenue is distributed to an operating segment based on the 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".

The following is an analysis of the Group's revenues and results based on segments for the year ended 31 December:

	<i>2019</i>	<i>2018</i>
Revenues ⁽¹⁾		
Saudi Telecom Company	40,259,106	39,356,283
Channels by stc	17,409,802	16,882,726
Other operating segments ⁽²⁾	12,628,185	9,502,560
Eliminations / adjustments	(15,929,562)	(13,778,326)
Total revenues	54,367,531	51,963,243
Cost of operations (excluding depreciation and amortisation)	(33,102,551)	(32,127,488)
Depreciation and amortisation	(8,784,587)	(7,590,530)
Cost of early retirement	(600,000)	(450,000)
Finance income	639,161	551,535
Finance cost	(765,154)	(395,440)
Net other (expenses) income	(76,062)	102,943
Net share in results of investments in associates and joint ventures	49,597	(10,605)
Net other losses	(40,960)	(215,493)
Zakat and income tax	(762,144)	(747,667)
Net profit	10,924,831	11,080,498
Net profit attributable to:		
Equity holders	10,664,666	10,779,771
Non-controlling interests	260,165	300,727
	10,924,831	11,080,498

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

	<i>2019</i>	<i>2018</i>
Saudi Telecom Company	26,299,935	25,408,542
Channels by stc	1,418,463	1,314,706
Other operating segments ⁽²⁾	4,910,725	3,795,174
Eliminations / adjustments	(237,898)	(45,340)
Gross profit	32,391,225	30,473,082

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6. SEGMENT INFORMATION (CONTINUED)

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

	<i>31 December 2019</i>	<i>31 December 2018</i>
Assets		
Saudi Telecom Company	125,104,941	116,882,397
Channels by stc	4,560,238	3,333,662
Other operating segments ⁽²⁾	34,355,695	19,539,165
Eliminations / Adjustments	(45,694,618)	(30,384,630)
Total Assets	118,326,256	109,370,594
Liabilities		
Saudi Telecom Company	49,484,795	38,998,013
Channels by stc	3,122,999	2,068,819
Other operating segments ⁽²⁾	22,438,203	10,512,261
Eliminations / Adjustments	(19,774,787)	(8,870,097)
Total Liabilities	55,271,210	42,708,996

Following are the additions to non-current assets (See Notes 7 and 8) based on the segments for the year ended 31 December:

	<i>2019</i>	<i>2018</i>
Additions to non-current assets		
Saudi Telecom Company	9,109,544	11,373,307
Channels by stc	116,352	56,427
Other operating segments ⁽²⁾	2,535,992	1,118,474
	11,761,888	12,548,208

(1) Segment revenue reported above represents revenue generated from external and internal customers. There were SR 15,930 million for the year ended 31 December 2019 (2018: SR 13,778 million,) inter-segment sales and adjustments (between the Group's Companies) which were eliminated at consolidation.

(2) Other operating segments include: Kuwait Telecommunications Company (stc Kuwait), stc Bahrain, Solutions by stc, Specialized by stc, stc Gulf, Sapphire, Aqalat, Telecommunications Towers Company, and Saudi Digital Payments Company (See Note 18).

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.

Information about major customers

Included in revenues arising from sales are revenues of approximately SR 6,873 million for the year ended 31 December 2019 (31 December 2018: SR 6,335 million) that arose from sales to the Government and Government entities (See Note 20.2). No other single customers contributed 10% or more to the Group's revenue.

Information about geographical segmentation

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

	Revenues for the year ended		Non-current assets as at	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Kingdom of Saudi				
Arabia	49,970,303	47,323,610	62,160,408	53,862,288
Others	4,397,228	4,639,633	11,324,356	9,478,781
	54,367,531	51,963,243	73,484,764	63,341,069

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7. PROPERTY 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 2019	14,892,365	83,769,469	8,461,774	3,672,535	110,796,143
Additions	82,187	192,850	72,192	8,921,089	9,268,318
Additions related to the acquisition of a new subsidiary (See Note 18)	-	127,979	17,593	7,589	153,161
Disposals / transfers	349,868	6,385,512	342,993	(7,811,160)	(732,787)
Effect of foreign currency exchange differences	(366)	4,685	(28)	439	4,730
As at 31 December 2019	15,324,054	90,480,495	8,894,524	4,790,492	119,489,565
Accumulated depreciation					
As at 1 January 2019	8,524,319	54,880,178	5,471,237	-	68,875,734
Additions related to the acquisition of a new subsidiary (See Note 18)	-	119,262	3,739	-	123,001
Depreciation for the year	373,337	5,363,373	340,838	-	6,077,548
Disposals / transfers	(84,075)	(449,106)	(141,437)	-	(674,618)
Effect of foreign currency exchange differences	(60)	2,624	(6)	-	2,558
As at 31 December 2019	8,813,521	59,916,331	5,674,371	-	74,404,223
Net book value as at 31 December 2019	6,510,533	30,564,164	3,220,153	4,790,492	45,085,342

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7. PROPERTY AND EQUIPMENT (CONTINUED)

	<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 2018	14,681,829	77,627,211	7,873,489	3,667,103	103,849,632
Additions	23,258	29,749	62,020	8,205,042	8,320,069
Additions related to the acquisition of a new subsidiary	-	90,830	2,531	1,480	94,841
Disposals / transfers	187,278	6,035,287	523,934	(8,200,628)	(1,454,129)
Effect of foreign currency exchange differences	-	(13,608)	(200)	(462)	(14,270)
As at 31 December 2018	<u>14,892,365</u>	<u>83,769,469</u>	<u>8,461,774</u>	<u>3,672,535</u>	<u>110,796,143</u>
Accumulated depreciation					
As at 1 January 2018	8,381,477	50,315,490	5,212,049	-	63,909,016
Depreciation for the year	367,828	5,154,889	382,275	-	5,904,992
Disposals / transfers	(224,986)	(597,738)	(123,272)	-	(945,996)
Effect of foreign currency exchange differences	-	7,537	185	-	7,722
As at 31 December 2018	<u>8,524,319</u>	<u>54,880,178</u>	<u>5,471,237</u>	<u>-</u>	<u>68,875,734</u>
Net book value as at 31 December 2018	<u><u>6,368,046</u></u>	<u><u>28,889,291</u></u>	<u><u>2,990,537</u></u>	<u><u>3,672,535</u></u>	<u><u>41,920,409</u></u>

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

Buildings	10 - 50 years
Telecommunication network and equipment	3 - 30 years
Other assets	3 - 20 years

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7. PROPERTY AND EQUIPMENT (CONTINUED)

- a- Land and buildings include land of SR 2,203 million as at 31 December 2019 (31 December 2018: SR 2,200 million). Including lands with ongoing ownership transfer to the Company with a value of SR 200 million (2018: SR 200 million).
- b- Pursuant to Royal Decree No. M/35 Dated 24 Dhu al-Hijjah 1418 (corresponding to 21 April 1998), referred to in Note 1-A, the ownership of the Assets was transferred to the Company on 2 May 1998, but the transfer of legal title for some lands are still ongoing. The value of lands with legal titles transferred to the Company up to 31 December 2019 amounted to SR 1,879 million (2018: SR 1,879 million). Ownership transfer of the remaining lands with total value of SR 144 million (2018: SR 144 million) is ongoing, which constitutes part of the amount referred to in paragraph (a) above.
- c- Other assets include furniture, fixtures, motor vehicles, computers and tools.
- d- During the year, the Group disposed of assets with a net book value of SR 465 million (31 December 2018: SR 414 million) resulting in a loss amounting to SR 325 million (31 December 2018: SR 291 million) (See Note 40).
- e- The following table shows the breakdown of depreciation expense if allocated to operating costs items for the year ended 31 December:

	<i>2019</i>	<i>2018</i>
Cost of revenues	4,931,664	4,859,647
Selling and marketing expenses	16,239	31,472
General and administrative expenses	1,129,645	1,013,873
	<u>6,077,548</u>	<u>5,904,992</u>

- f- Property and equipment include land and building owned by a subsidiary that are pledged against murabaha borrowings amounting to SR 54 million (31 December 2018: SR 108 million).

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8. INTANGIBLE ASSETS AND GOODWILL

	<i>Computer software</i>	<i>Telecommunication Licenses</i>	<i>Goodwill (1)</i>	<i>Others (2)</i>	<i>Total</i>
Cost					
As at 1 January 2019	10,410,881	7,695,620	75,613	1,994,841	20,176,955
Additions	103,182	43,705	-	1,859,295	2,006,182
Additions related to the acquisition of a new subsidiary (1)	-	238,141	67,425	28,661	334,227
Disposals/Transfers	1,134,674	-	-	(1,109,051)	25,623
Effect of foreign currency exchange differences	-	(1,892)	-	37	(1,855)
As at 31 December 2019	<u>11,648,737</u>	<u>7,975,574</u>	<u>143,038</u>	<u>2,773,783</u>	<u>22,541,132</u>
Accumulated amortisation and impairment					
As at 1 January 2019	7,497,478	2,277,146	-	842,212	10,616,836
Amortisation for the year	1,309,535	392,398	-	249,138	1,951,071
Disposals/Transfers	25,137	-	-	42,021	67,158
Effect of foreign currency exchange differences	-	(690)	-	69	(621)
As at 31 December 2019	<u>8,832,150</u>	<u>2,668,854</u>	<u>-</u>	<u>1,133,440</u>	<u>12,634,444</u>
Net book value as at 31 December 2019	<u><u>2,816,587</u></u>	<u><u>5,306,720</u></u>	<u><u>143,038</u></u>	<u><u>1,640,343</u></u>	<u><u>9,906,688</u></u>

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8. INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

	<i>Computer software</i>	<i>Telecommunication Licenses</i>	<i>Goodwill (1)</i>	<i>Others (2)</i>	<i>Total</i>
Cost					
As at 1 January 2018	9,492,799	4,971,203	75,613	1,860,645	16,400,260
Additions	1,052,228	2,646,280	-	346,917	4,045,425
Additions related to the acquisition of a new subsidiary	-	78,137	-	9,736	87,873
Disposals/Transfers	(134,146)	-	-	(222,266)	(356,412)
Effect of foreign currency exchange differences	-	-	-	(191)	(191)
As at 31 December 2018	10,410,881	7,695,620	75,613	1,994,841	20,176,955
Accumulated amortisation and impairment					
As at 1 January 2018	6,460,526	1,899,032	-	866,127	9,225,685
Amortisation for the year	1,166,098	378,114	-	141,326	1,685,538
Disposals/Transfers	(129,146)	-	-	(164,476)	(293,622)
Effect of foreign currency exchange differences	-	-	-	(765)	(765)
As at 31 December 2018	7,497,478	2,277,146	-	842,212	10,616,836
<i>Net book value as at 31 December 2018</i>	2,913,403	5,418,474	75,613	1,152,629	9,560,119

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8. INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

- 1) During the year 2019, one of the subsidiaries (Kuwait Telecommunications Company (stc Kuwait)) completed the acquisition of Qualitynet General Trading and Contracting Company W.L.L. (QualityNet), resulting into a goodwill of KD 5.45 million (equivalent to SR 67.5 million) (See Note 18).
- 2) Others includes contract intangible assets such as under-sea cable network, franchise agreements and computer software under development.

Intangible assets are amortized using the following estimated useful lives:

Computer software	5 – 7 years
Telecommunication licenses	15 – 25 years
Others	3-5 years

The following is the net book value and expiry dates of the mobile operating licenses and frequency spectrum as at:

Country	End of amortisation period	31 December 2019	31 December 2018
Kuwait	2021 / 2031 / 2039	2,033,350	1,933,493
Bahrain	2038	732,780	730,375
Kingdom of Saudi Arabia	2026 / 2032 / 2033	2,540,590	2,754,606
		<u>5,306,720</u>	<u>5,418,474</u>

The following table shows the breakdown of amortisation expense if allocated to operating costs items for the year ended 31 December:

	2019	2018
Cost of revenues	641,036	550,947
Selling and marketing expenses	3,493	23,282
General and administrative expenses	1,306,542	1,111,309
	<u>1,951,071</u>	<u>1,685,538</u>

9. RIGHT OF USE ASSETS

	Land and Buildings	Motor Vehicles	Others*	Total
At 1 January 2019	2,375,639	8,281	171,604	2,555,524
Additions	1,012,209	212,075	-	1,224,284
Depreciation	(700,786)	(17,409)	(37,773)	(755,968)
Disposal and others	(135,907)	-	-	(135,907)
At 31 December 2019	<u>2,551,155</u>	<u>202,947</u>	<u>133,831</u>	<u>2,887,933</u>

* Others include rental of towers sites

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9. RIGHT OF USE ASSETS (CONTINUED)

Right of use assets are depreciated using the following estimated useful lives:

Buildings	2 – 31 years
Motor Vehicles	2 – 4 years
Others	2-10 years

The following table shows the breakdown of depreciation expense if allocated to operating costs items for the year ended 31 December:

	<i>2019</i>
Cost of revenues	<u>562,514</u>
Selling and marketing expenses	<u>7,539</u>
General and administrative expenses	<u>185,915</u>
	<u>755,968</u>

10. INVENTORIES

	<i>31 December 2019</i>	<i>31 December 2018</i>
Goods held for resale	2,113,405	1,128,454
Less: Allowance for slow moving inventories	(391,875)	(340,998)
	<u>1,721,530</u>	<u>787,456</u>

The following is an analysis of the allowance for slow moving inventories for the year ended 31 December:

	<i>2019</i>	<i>2018</i>
Balance at beginning of the year	340,998	423,312
Reversal/adjustment during the year	(6,209)	(114,177)
Charged during the year	57,086	31,863
	<u>391,875</u>	<u>340,998</u>

11. TRADE AND OTHER RECEIVABLES

	<i>31 December 2019</i>	<i>31 December 2018</i>
Trade receivables	22,375,635	15,516,973
Less: allowance for impairment loss	(2,818,056)	(2,475,741)
	<u>19,557,579</u>	<u>13,041,232</u>
- Non trade receivables	<u>1,814,789</u>	<u>1,451,917</u>
	<u>21,372,368</u>	<u>14,493,149</u>

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11. TRADE AND OTHER RECEIVABLES (CONTINUED)

11.1 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 financial year. 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.

Ageing analysis of trade receivables as follows:

	<i>31 December 2019</i>	<i>31 December 2018</i>
Not past due	3,249,052	2,045,083
<i>Past due:</i>		
1 – 30 days	1,437,935	458,259
31 – 90 days	1,473,426	1,268,921
91 – 150 days	1,194,900	1,563,952
151 – 270 days	3,129,379	2,761,160
271 – 365 days	1,102,958	731,356
>365 days	10,787,985	6,688,242
	22,375,635	15,516,973

Movement of trade receivables' allowance for impairment loss for the year ended 31 December as follows:

	<i>2019</i>	<i>2018</i>
Balance at beginning of the year	2,475,741	2,473,211
Charged for the year (Note 36)	662,043	706,935
Amounts written off during the year	(319,728)	(704,405)
Balance at end of the year	2,818,056	2,475,741

11.2 Government and government related entities

Trade receivables balance from Government and Government related entities amounted to SR 18,508 million as at 31 December 2019 (31 December 2018: SR 12,343 million) (See Note 20.2). No other clients represent more than 10% of the total balance of trade receivables.

Receivable aging from government entities and government related entities is as follows:

	<i>31 December 2019</i>	<i>31 December 2018</i>
Less than a year	7,903,051	6,936,884
More than one year to two years	6,393,629	5,367,424
More than two years	4,211,395	38,416
	18,508,075	12,342,724

12. 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 5% (31 December 2018: 2% to 5%).

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13. OTHER ASSETS

	<i>31 December 2019</i>	<i>31 December 2018</i>
Advances	3,062,320	1,425,088
Prepaid expenses	508,362	628,119
Deferred expenses	95,494	99,355
Others	522,771	171,937
	4,188,947	2,324,499
Current	4,097,096	1,952,878
Non-current	91,851	371,621
	4,188,947	2,324,499

14. ASSETS HELD FOR SALE

On 26 March 2019 Uber Technologies (Uber) signed an assets purchase agreement with Careem (the Group holds a direct shares of 8.88%) to acquire the net assets of Careem for about USD 3.1 billion (equivalent up to SR 11.6 billion) subject to modifications. The total financial return of the agreement consists of the following:

- About USD 1.7 billion (equivalent up to SR 6.4 billion) of convertible bonds, unsecured and without interest.
- About USD 1.4 billion (equivalent up to SR 5.2 billion) in cash.

The acquisition was completed by Uber on 2 January 2020 after obtaining the approval of most of the regulatory authorities in the relevant countries with retention of the equivalent of 25% of the deal value for a period of two years (See Note 45 - subsequent events).

15. CONTRACT COSTS

Contract costs consist of the following:

	<i>31 December 2019</i>	<i>31 December 2018</i>
<i>Costs to obtain the contracts ⁽¹⁾</i>	299,118	174,357
<i>Costs to fulfil the contracts ⁽²⁾</i>	623,804	855,772
	922,922	1,030,129

(1) Costs to obtain contracts relate to incremental commission fees and additional incentives paid to intermediaries, dealers and employees as a result of obtaining contracts with customers. These costs are amortised on a straight line basis over the period of contract/anticipated contract.

(2) Costs to fulfil contracts are installation costs and are amortised on a straight line basis over the period of contract/anticipated contact.

The following table shows the allocation of contract costs amortization and impairment losses among operating costs items for the year ended 31 December::

	<i>2019</i>	<i>2018</i>
Cost of revenues (See Note 35)	315,797	373,644
Selling and marketing expenses (See Note 36)	88,346	42,989
	404,143	416,633

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16. CONTRACT ASSETS

	<i>31 December 2019</i>	<i>31 December 2018</i>
Unbilled revenue	7,596,729	6,060,202
Less: Allowance for impairment losses	(154,905)	(87,719)
	7,441,824	5,972,483
Current	6,793,755	5,468,441
Non-current	648,069	504,042
	7,441,824	5,972,483

Contract assets are initially recognized for revenue earned from rendering of telecom services, sale of devices, and construction contracts unbilled yet. Upon completion of billing cycle, the amounts recognized as contract assets are reclassified to trade receivables.

17. FINANCIAL ASSETS

	<i>31 December 2019</i>	<i>31 December 2018</i>
Financial assets measured at FVTPL (1)	1,550,869	3,115,185
<i>Financial assets at amortised cost</i>		
Sukuk (2) (3)	5,600,543	1,490,137
Murabahas (4)	-	2,250,746
Loans to employees (5)	438,481	524,417
Others (6)	110,129	86,174
	6,149,153	4,351,474
<i>Financial assets designated at FVTOCI (1)</i>	-	1,394,602
	7,700,022	8,861,261
Current	376,589	5,488,245
Non-current	7,323,433	3,373,016
	7,700,022	8,861,261

- 1) During 2019, the Group reclassified its investment in the units of stc Ventures Fund and STV LP fund from financial assets measured at fair value through OCI (FVOCI) to financial assets measured at fair value through profit or loss (FVTPL).
- stc ventures fund 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 were valued at SR 724 million as at 31 December 2019 (31 December 2018: SR 614 million).
 - STV LP Fund is a fund investing in internationally in high-growth pioneer private technology companies with total value of USD 500 million (equivalent to SR 1,875 million) financed in five equal instalments of USD 100 million each (equivalent to SR 375 million). During 2018, the first and second instalments were paid by the Company in total of USD 200 million (equivalent to SR 750 million). Investment units were valued at SR 846 million as at 31 December 2019 (31 December 2018: SR 781 million).

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17. FINANCIAL ASSETS (CONTINUED)

- 2) The Group invested in Sukuk that issued by the Ministry of Finance during the first quarter of 2019 as the following:

	<i>Tranche I</i>	<i>Tranche II</i>
Nominal Investment value	1,762,000	2,140,000
Investment duration	5 years	10 years
Yield	3.17%	3.9%
Investment amount at maturity	1,771,755	2,227,188

- 3) On 31 December 2007, stc Asia Holding Company Limited (a subsidiary) invested in Sukuk issued by Binariang GSM Holding ("BGSM") in the amount of RM 1,508 million (equivalent to SR 1,383 million) for a period of 50 years (callable after 10 years) with an annual profit margin of 10.75% upto 28 December 2017 and then a profit margin of 9.25% for subsequent periods. These sukuk are not past due or low in value with a book value of SR 1,587 million as of 31 December 2019 (31 December 2018: SR 1,490 million).
- 4) During 2019, most of the company's investments in the diversified investment portfolio and murabaha investments were liquidated mainly and reinvested in the Ministry of Finance Sukuk (See Note 17.2).
- 5) 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 housing loans provided to an employee after June 2016 are being funded through a local commercial bank and are guaranteed by the Company. The Company bears loans' finance cost.
- 6) Mainly represent a Group subsidiary suppliers retentions amounting to SR 80 million as at 31 December 2019 (31 December 2018: SR 80 million).

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18. SUBSIDIARIES

Subsidiaries owned directly by the Company are as follows:

<u>Name of subsidiary</u>	<u>Country of incorporation</u>	<u>Effective shareholding percentage</u>	
		<u>31 December 2019</u>	<u>31 December 2018</u>
Arabian Internet and Communications Services Company Limited ("Solutions by stc")	(1) Kingdom of Saudi Arabia	100%	100%
Telecom Commercial Investment Company Limited ("TCIC")	(2) Kingdom of Saudi Arabia	100%	100%
stc Bahrain BSC (C) ("stc Bahrain) (formerly: "VIVA Bahrain")	(3) Kingdom of Bahrain	100%	100%
Aqalat Company Limited ("Aqalat")	(4) Kingdom of Saudi Arabia	100%	100%
Saudi Telecom Specialized Company ("Specialized by stc")	(5) Kingdom of Saudi Arabia	100%	100%
Sapphire Company Limited ("Sapphire")	(6) Kingdom of Saudi Arabia	100%	100%
stc Turkey Holdings Ltd ("stc Turkey")	(7) British Virgin Islands	100%	100%
stc Asia Telecom Holdings Ltd ("stc Asia")	(8) British Virgin Islands	100%	100%
stc Gulf Investment Holding S.P.C. ("stc Gulf")	(9) Kingdom of Bahrain	100%	100%
Saudi Telecom Channels Company (Channels by stc)	(10) Kingdom of Saudi Arabia	100%	100%
Kuwait Telecommunications Company ("stc Kuwait") (formerly: "VIVA Kuwait")	(11) Kuwait	51.8%	51.8%
Telecommunications Towers Company Ltd. ("TAWAL")	(12) Kingdom of Saudi Arabia	100%	100%
Saudi Digital Payments Company ("stc Pay")	(13) Kingdom of Saudi Arabia	100%	-
Smart Zone Real Estate Company	(14) Kingdom of Saudi Arabia	100%	-

- (1) Arabian Internet and Communications Services Company Limited ("Solutions by stc") 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 Arabian Internet and Communications Services Company Limited, amounting to SR 100 million.

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18. SUBSIDIARIES (CONTINUED)

- (2) Telecom Commercial Investment Company (TCIC) was established in the Kingdom in October 2007 with a capital of SR 1 million with the purpose of operating and maintaining of telecommunication networks, organizing computer systems' networks and internet networks, maintenance, operation and installation of telecommunication and information technology systems and programs in the Saudi market.
- (3) stc Bahrain was established in the Kingdom of Bahrain in February 2009 with a capital of BD 75 million equivalent to about SR 746 million at the exchange rate as of that date. stc Bahrain provides 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, stc Bahrain has fully acquired "MENA Telecom Company Limited" in the Kingdom of Bahrain (as a subsidiary). The main activity is to provide Internet services.
- (4) Aqalat was established in the Kingdom in March 2013 with a capital of SR 70 million fully owned by the Company with the purpose 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.
- (5) Saudi Telecom Specialized Company (Specialized by stc) was established in February 2002 in the Kingdom. The Company acquired 100% of the SR 252 million share capital in January 2014. Specialized by stc 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.
- (6) Sapphire was established in the Kingdom in June 2014 with a capital of SR 100 million fully owned by the Company to operate 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 Group's Board of Directors has decided to wind up Sapphire and integrating its business with Saudi Telecom Company starting from 1 January 2018. The legal procedures for the liquidation of the company is expected to be completed during 2020.
- (7) stc Turkey is a limited liability company which was established under the Commercial Companies Law in the British Virgin Islands on 8 April 2007. It is a special purpose vehicle established to provide services and support required in respect of investment activities of the Group.
- In April 2008, stc Turkey acquired 35% of Oger Telecom Limited's ("OTL") USD 3.6 billion share capital, equivalent to approximately SR 13.5 billion, at the exchange rate as at that date.
- During 2016, and due to the continuing losses and the depletion of the Group's entire investment balance in OTL, the Group has stopped recognizing its share in OTL additional losses. (See Note 21.1)
- (8) stc Asia is a limited liability company which was established under the Commercial Companies Law in the British Virgin Islands on 24 July 2007 and is a special purpose vehicle that invests in companies operating primarily in the Malaysia. It holds an investment in stc Malaysia Holdings Ltd ("stc Malaysia"), (a wholly owned subsidiary by stc Asia), which was incorporated under the Commercial Companies Law in the British Virgin Islands.
- stc Malaysia Holdings Ltd in turn holds the Group's 25% stake in Binariang GSM Holdings ("BGSM") (See Note 21.2). The principal activity of both stc Asia and its subsidiary is to provide services and support required in respect of investment activities of the Group.
- (9) stc Gulf was incorporated in the Kingdom of Bahrain on 12 March 2008 and has wholly-owned subsidiaries in the Kingdom of Bahrain, as listed below. The primary objective of this company and its following subsidiaries is to provide services and support required in respect of investment activities of the Group:
- 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.

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18. SUBSIDIARIES (CONTINUED)

stc Gulf Investment Holding 3 S.P.C. and stc Gulf Investment Holding 2 S.P.C. holds 100% (2018: 100%) in Intigral Holding BSC (C) ("Intigral Holding"). Intigral Holding was established in the Kingdom of Bahrain in June 2009 with a share capital amounting to BD 28 million which is equivalent to approximately SR 281 million at the exchange rate as at that date. Intigral Holding is a holding company which owns shares in companies operating in the field of content services and digital media in Gulf countries. During 2018, the company increased its capital to reach BD 101 million equivalent to SR 1.008 million at the exchange rate as at 31 December 2018.

- (10) Saudi Telecom Channels Company ("Channels by stc") was established in the Kingdom 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. The Company operates in Saudi Market with subsidiaries in Bahrain and Oman whom are working in the same field. Saudi Telecom Company acquired 60% of Channels SR 100 million share capital in December 2011. On January 2017, the Company acquired the remaining shares in Channels by stc by SR 400 million. Accordingly, Channels by stc became a wholly-owned subsidiary of Saudi Telecom Company.
- (11) In December 2007, the Company acquired 26% share capital of Kuwait Telecommunication Company (stc Kuwait) for an amount of Kuwaiti Dinar ("KD") 50 million, equivalent to approximately SR 687 million at the exchange rate as at that date. Kuwait Telecommunication Company 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.

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

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 stc Kuwait. Saudi Telecom Company has thus become owning 51.8% of the total issued shares of stc Kuwait.

During 2018, stc Kuwait entered into a binding contract to acquire 100% of the total issued shares of Qualitynet General Trading and Contracting Company W.L.L. (QualityNet), which operates in Kuwait in the field of providing internet services. On 6 May 2019, stc Kuwait completed the acquisition procedures and acquired QualityNet's net assets amounting to KD 23.96 million (equivalent to SR 296.6 million) with a purchase consideration amounting to KD 29.41 million (equivalent to SR 364.1 million) resulting into a goodwill of KD 5.45 million (equivalent to SR 67.5 million) based on the most updated price purchase allocation reports on acquired net assets. Cash and cash equivalent in the purchased Company amounted to KD 10.61 million (equivalent to SR 131.35 million) and therefore the net cash flows resulting from the business combination amounted to KD 18.79 million (equivalent to SR 232.66 million).

- (12) During the first quarter of 2018, the Company established Telecommunications Towers Company Ltd. (TAWAL), a limited liability company and 100% owned by stc, with a share capital of SR 200 million. TAWAL is responsible for owning, constructing, operating, leasing and commercializing telecom towers in the Kingdom. During the first quarter of 2019, TAWAL obtained the nessacery operating license from the Communications and Information Technology Commission (CITC). During the fourth quarter of 2019, the Company increased the capital of TAWAL with an amount of SR 2,300 million, for a total capital to reach SR 2,500 million.
- (13) During the fourth quarter of 2017, Solutions by stc established Saudi Digital Payments Company (stc Pay) in the Kingdom with a capital of SR 100 million and its main activity is to provide digital payments services. During the third quarter of 2019, stc Pay ownership was transferred from stc Solutions to the Company with no financial impact at the group level. During the fourth quarter of 2019, the Company increased the capital of the stc Pay with an amount of SR 300 million, stc Pay for a total capital to reach SR 400 million. In January 2020, the Saudi Arabian Monetary Authority (SAMA) licensed stc Pay as an electronic wallet company.
- (14) During the fourth quarter of 2019, the Company established a special purpose vehicle subsidiary (Smart Zone Real Estate Company) in the kingdom with a share capital of approximately SR 107 million and its main activity is the development, financing and management of real estate projects, the establishment of facilities, complexes, commercial, office and residential buildings.

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18. SUBSIDIARIES (CONTINUED)

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 as at:

Name of Subsidiary	Proportion of ownership and voting rights acquired by non-controlling interests		Profit allocated to non-controlling interests	Accumulated non-controlling interests	
	2019	2018	For the year ended 31 December 2019	31 December 2019	31 December 2018
Kuwait Telecommunications Company (stc Kuwait)	48.2%	48.2%	259,545	1,285,155	1,143,582
Individually immaterial subsidiaries			620	7,297	4,332
			<u>260,165</u>	<u>1,292,452</u>	<u>1,147,914</u>

The following is a summary of the financial statements of Kuwait Telecom Company (stc Kuwait) which is non-wholly owned by the Group and have material non-controlling interests:

	31 December 2019	31 December 2018
<u>Statement of financial position</u>		
Current assets	2,345,244	1,907,726
Non-current assets	2,749,547	1,867,401
Current liabilities	(2,114,100)	(1,337,219)
Non-current liabilities	(314,393)	(65,331)
Net assets	<u>2,666,298</u>	<u>2,372,577</u>
Group's share of net assets	1,381,143	1,228,995
Non-controlling interests	1,285,155	1,143,582
<u>For the year ended in 31 December</u>		
	2019	2018
<u>Statement of income and other comprehensive income</u>		
Revenues	3,629,941	3,554,372
Profit for the year	538,898	622,630
Other comprehensive loss for the year	(3,053)	(3,893)
Total comprehensive income for the year	<u>535,845</u>	<u>618,737</u>
Group's share of comprehensive income	277,567	320,506
Non-controlling interests of comprehensive income	258,278	298,231

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18. SUBSIDIARIES (CONTINUED)

Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)

	<i>For the year ended in 31 December</i>	
	<i>2019</i>	<i>2018</i>
<i>Statement of cash flows</i>		
Operating activities	1,168,667	1,069,548
Investing activities	(1,254,811)	(385,062)
Financing activities	(74,581)	(269,674)
Net (decrease) increase in cash and cash equivalents	(160,725)	414,812

19. CASH AND CASH EQUIVALENTS

	<i>31 December 2019</i>	<i>31 December 2018</i>
Short term murabaha (with 3 months maturity or less)	6,476,407	6,316,162
Cash at banks	1,494,694	1,640,738
Cash on hand	12,365	5,848
Cheques under collection	47,544	191,117
	8,031,010	8,153,865

The Company invests a part of its surplus cash in murabahas three months or less with several local banks with a profit rate ranging between 1% -3.7% (2018: 1%-3.7%)

20. RELATED PARTY TRANSACTIONS

20.1 Trading transactions and balances with related parties (Associates and Joint Ventures – See Note 21)

The Group trading transactions with related parties during the year ended 31 December were as the following:

	<i>2019</i>	<i>2018</i>
<i>Telecommunication services provided</i>	430,682	503,008
<i>Telecommunication services received</i>	29,050	17,188

The sale and purchase transactions are carried out by the relevant parties in accordance with the normal terms of dealing. The outstanding balances are unguaranteed, without commission and no guarantees have been provided or received in relation to the balances due or from the related parties.

The following balances were outstanding as at the end of the financial year:

	<i>Amounts due from related parties</i>		<i>Amounts due to related parties</i>	
	<i>31 December 2019</i>	<i>31 December 2018</i>	<i>31 December 2019</i>	<i>31 December 2018</i>
Associates	292,020	338,652	38,910	23,184
Joint ventures	12,215	5,444	168,173	112,801
	304,235	344,096	207,083	135,985

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20. RELATED PARTY TRANSACTIONS (CONTINUED)

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

Revenues related to transactions with governmental entities for the year ended 31 December 2019 amounted to SR 6,873 million (31 December 2018: SR 6,335 million) and expenses related to transactions with governmental entities for the year ended 31 December 2019 (including government charges) amounted to SR 2,748 million (31 December 2018: SR 3,214 million).

It is worth mentioning that based on the Council of Ministers' resolution No. (196) dated 4 Rabi Thani 1440H (corresponding to 11 December 2018), the percentages of government charges collected by the government for providing telecommunications services commercially has been amended to become a uniform annual fee of 10% of net telecommunications revenues effective 1 January 2018 instead of the previous percentages which were 15% of net mobile service revenues, 10% of net fixed line revenues and 8% of net revenues from data services. Furthermore, the Company's services licenses have been combined into a unified license.

As at 31 December 2019, accounts receivable from Government entities totalled SR 18,508 million (31 December 2018: SR 12,343 million) (See Note 11.2) and as at 31 December 2019, accounts payable to government entities totalled SR 953 million (31 December 2018: SR 3,706 million). Among the commercial transactions with government entities, the Group invested to SR 3,902 million in the Sukuk issued by the Ministry of Finance during the first quarter of 2019. (See Note 17.2).

20.3 Loans to related parties

	<i>31 December 2019</i>	<i>31 December 2018</i>
Loans to senior executives	<u>5,358</u>	<u>2,360</u>

20.4 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 were as follows:

	<i>2019</i>	<i>2018</i>
Short-term benefits and remunerations	<u>280,381</u>	206,224
Provision for leave and end of service benefits	<u>60,061</u>	55,368

21. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

21.1 Investments in associates

Investments in all associates are accounted below in the Group's consolidated financial statements in accordance with the equity method.

21.1.1 Details of associates

Details of each of the Group's associates at the end of the year are as follows:

<i>Name of Associates</i>		<i>Country of incorporation</i>	<i>Proportion of ownership interest / voting rights</i>	
			<i>31 December 2019</i>	<i>31 December 2018</i>
Arab Satellite Communications Organisation ("Arabsat")	1	Kingdom of Saudi Arabia	36.66%	36.66%
Virgin Mobile Saudi Consortium ("VMSC")	2	Kingdom of Saudi Arabia	10%	10%
Oger Telecom Limited ("OTL")	3	United Arab Emirates	35%	35%

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21. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

21.1 Investments in associates (continued)

21.1.1 Details of associates (continued)

- 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 USD 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. The Group's ability to exercise significant influence is evidenced by the material transactions between VMSC and the Company through the reliance of VMSC's on the Company's technical network.

At its meeting held on 4 Jumada Al-Awal 1440H (corresponding to 10 January 2019), the Board of Directors approved to buy an additional 39% stake in Virgin Mobile Saudi Arabia for SR 151 million. Due to the non-completion of the legal and regulatory procedures during 2019, the Company decided not to complete the acquisition procedures of the additional stake. Therefore, the Company's shareholding in Virgin Mobile Saudi Arabia remains at (10%) as of 31 December 2019.
- 3) Oger Telecom Limited ("OTL") is a holding company registered in Dubai, the United Arab Emirates. In April 2008, Saudi Telecom Company through one of its subsidiaries (stc Turkey Holding Ltd) acquired 35% of OTL's share capital amounting to approximately USD 3.6 billion, equivalent to approximately SR 13.5 billion at the exchange rate as at that date. On 1 January 2016, the Group's investment in OTL was completely extinguished and the Group discontinued recognising its share of further losses. OTL was facing financial difficulties to settle its borrowings dues and its ability to comply with the financial covenants agreed with lenders. During 2018, OTL has completed necessary procedures to liquidate its main subsidiaries and restructure its investments in Turkey and South Africa in order to meet the financial obligations of the lenders. Liquidation of OTAS (subsidiary of OTL in Turkey) commenced in 2019. In addition, after the liquidation of OTAS is completed, OTL is expected to commence its liquidation process in the foreseeable future.

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21. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

21.1 Investments in associates (continued)

21.1.2 Details of material associates

Summarised financial information of the Group's material associate is set out below:

Arabsat

	<u>31 December 2019</u>	<u>31 December 2018</u>
<i>Statement of financial position</i>		
Current assets	1,605,861	1,110,572
Non-current assets	5,665,128	6,096,520
Current liabilities	(441,864)	(490,799)
Non-current liabilities	(1,833,238)	(1,633,181)

	<u>For the year ended 31 December</u>	
	<u>2019</u>	<u>2018</u>
<i>Statement of income and other comprehensive income</i>		
Revenue	945,228	997,308
Profit for the year	182,622	316,028
Other comprehensive (loss) for the year	(28,294)	(55,358)
Total comprehensive income for the year	154,328	260,670

The following is the reconciliation of the above-summarised financial information to the carrying amount of the Group's interest in Arabsat:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Net assets of the associate	4,995,887	5,083,112
Proportion of the Group's ownership interest in Arabsat	36.66%	36.66%
Carrying amount of the Group's interest in Arabsat	<u>1,831,492</u>	<u>1,863,469</u>

The following is the aggregate information of associates that are not individually material for the year ended:

	<u>2019</u>	<u>2018</u>
The Group's share of gain from continued operations	<u>1,301</u>	<u>61,988</u>
Aggregate carrying amount of the Group's interests in these associates (*)	3,382	269,809
Total carrying amount of the Group's interest in associates	<u>1,834,874</u>	<u>2,133,278</u>

(*) the comparative figures include the investment in Careem which was reclassified as held for sale as at 31 December 2019 (See Note 14)

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21. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

21.2 Investments in joint ventures

Investments in all joint ventures mentioned below are accounted for in the Group's consolidated financial statements in accordance with the equity method

21.2.1 Details of joint ventures

Below is the detail of joint ventures as at:

<i>Name of joint venture</i>	<i>Country of incorporation</i>	<i>Proportion of ownership interest/ voting rights</i>	
		<i>31 December 2019</i>	<i>31 December 2018</i>
Arab Submarine Cables Company Limited	1 Kingdom of Saudi Arabia	50%	50%
Contact Centres Company ("CCC")	2 Kingdom of Saudi Arabia	49%	49%
Binariang GSM Holding ("BGSM")	3 Malaysia	25%	25%

- 1) Arab Submarine Cables Company Limited was established on September 2002 for the purpose of constructing, leasing, managing and operating a submarine cable connecting the Kingdom and the Republic of Sudan for the telecommunications between them and any other country.

The operations of the Company started in June 2003 and Saudi Telecom 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) Contact Centres Company was established to provide call centre services and answer directory queries with Aegis Company at the end of December 2010 in the Kingdom, 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) Binariang group GSM is an investment holding group registered in Malaysia which owns 62% of Maxis Malaysian Holding Group ("Maxis"), a major telecom operator in Malaysia. BGSM also had indirect investments in India, Aircel Limited ("Aircel") which were eliminated in 2018.

In September 2007, the Company acquired (through its subsidiaries stc Asia holding and stc Malaysia holding) 25% of Binariang group GSM MYR 20.7 billion share capital, equivalent to approximately SR 23 billion at the exchange rate as at that date.

During 2013, the Company conducted a review of its foreign investment in Binariang group holding GSM (joint venture), including the manner in which this investment is being managed and how joint control has been effectively exercised. As a result, the Company signed an amendment to the shareholders' agreement with other shareholders of Binariang group GSM with respect to certain operational matters of Aircel (one of Binariang group subsidiaries). Consequently, the group ceased to account for its investment in Aircel using the equity method effective from the second quarter 2013.

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21 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

21.2 Investments in joint ventures (continued)

21.2.2 Details of material joint ventures

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

<i>Binariang group Holding GSM</i>	<u>31 December 2019</u>	<u>31 December 2018</u>
<i>Statement of financial position</i>		
Current assets	3,794,720	3,273,483
Non-current assets	27,175,812	25,851,745
Current liabilities	(5,769,520)	(4,547,699)
Non-current liabilities	(13,671,417)	(12,946,453)

The above amounts of assets and liabilities include the following:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Cash and cash equivalents	1,342,939	1,374,852
Current financial liabilities (excluding trade and other payables and provisions)	(1,057,839)	(1,164,892)
Non-current financial liabilities (excluding trade and other payables and provisions)	(13,067,091)	(12,339,736)
	For the year ended 31 December	
	2019	2018
<i>Statement of income and other comprehensive income</i>		
Revenues	8,338,076	8,087,147
Profit from continuing operations	426,750	1,192,434
Profit from discontinued operations	-	600,723
Profit for the year	426,750	1,793,157
Other comprehensive (loss) / income for the year	(5,306)	167,949
Total comprehensive income for the year	421,444	1,961,106
Depreciation and amortisation	(1,292,642)	(1,032,504)
Finance income	85,337	48,264
Finance cost	(945,861)	(884,317)
Income tax expense	(451,076)	(556,003)

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

	<u>31 December 2019</u>	<u>31 December 2018</u>
Net assets of BGSM (excluding non-controlling interest share and share of other shareholders in Aircel)	364,400	(5,192)
Proportion of the Group's ownership interest in the joint venture	91,100	(1,298)
Goodwill and fair value adjustments, net	1,184,070	1,184,070
Adjustments: the carve-out of Aircel Group and others	3,443,422	3,208,024
Carrying amount of the Group's interest in the joint venture	4,718,592	4,390,796

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21 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

21.2 Investments in joint ventures (continued)

The Following is the aggregate information of joint ventures that are not individually material for the year ended 31 December:

	<i>2019</i>	<i>2018</i>
The Group's share of profit from operations	<u>6,060</u>	8,806
The Group's share of other comprehensive income	<u>1,341</u>	-
The Group's share of total comprehensive income	<u>7,401</u>	8,806
Aggregate carrying amount of the Group's interests in these joint ventures	<u><u>65,060</u></u>	<u><u>57,659</u></u>
Total carrying amount of the Group's share in the joint ventures	<u><u>4,783,652</u></u>	<u><u>4,448,455</u></u>

22. ISSUED CAPITAL

	<u><i>31 December 2019</i></u>	<u><i>31 December 2018</i></u>
<i>Issued and fully paid capital comprises</i>		
2 billion fully paid ordinary shares	20,000,000	20,000,000

23. STATUTORY RESERVE

In accordance with the companies law in the Kingdom of Saudi Arabia and the Company's By-law, 10% of the net income was taken as statutory reserve until it reached 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 resolved to cease the transfer to statutory since it reached half of the capital. Although the recent change in the companies law, include the cease of transfer to statutory reserve when it reaches 30% as minimum instead of 50% of the share capital, the Company maintained the accumulated reserve at 50%. This reserve is not available for distribution to the Company's shareholders.

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24. OTHER RESERVES

	<i>Foreign currency translation reserve</i>	<i>Cash flow hedge reserve</i>	<i>Investments at FVOCI reserve</i>	<i>Other reserves</i>	<i>Total</i>
As at 1 January 2019	(52,321)	(140,129)	425,974	(2,137,402)	(1,903,878)
Assets measured at FVOCI	-	-	(425,974)	-	(425,974)
Re-measurement of the end of service benefit provision (See Note 27)	-	-	-	(710,054)	(710,054)
Exchange difference on translation of foreign operations	(1,479)	-	-	-	(1,479)
Net loss on cash flow hedges	-	(484)	-	-	(484)
Share from associates and joint ventures	-	-	-	296,261	296,261
As at 31 December 2019	(53,800)	(140,613)	-	(2,551,195)	(2,745,608)
As at 1 January 2018	(41,582)	(140,865)	312,431	(1,905,374)	(1,775,390)
Assets measured at FVOCI	-	-	113,543	-	113,543
Re-measurement of the end of service benefit provision (See Note 27)	-	-	-	13,414	13,414
Exchange difference on translation of foreign operations	(10,739)	-	-	-	(10,739)
Net gain on cash flow hedges	-	736	-	-	736
Share from associates and joint ventures	-	-	-	(245,442)	(245,442)
As at 31 December 2018	(52,321)	(140,129)	425,974	(2,137,402)	(1,903,878)

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25. BORROWINGS

Total loans paid during the year ended 31 December 2019 amounted to SR 351 million (31 December 2018: SR 636 million). Total loans received during the year ended 31 December 2019 amounted to SR 5,381 million (31 December 2018: SR 304 million). A list of the loans are as follows:

Nature of borrowing	Date of borrowing	Date of final instalment	Currency	Profit rate	Current portion		Non-current portion	
					Balance as at 31 December 2019	Balance as at 31 December 2018	Balance as at 31 December 2019	Balance as at 31 December 2018
Sukuk (1)	January 2014	June 2024	SAR	3 months SAIBOR + 0.7%	-	-	2,000,000	2,000,000
Sukuk (2)	May 2019	May 2029	USD	3.89%	-	-	4,670,038	-
Murabaha	February 2019	February 2022	SAR	SAIBOR + 0.65%	-	-	180,673	-
Murabaha	December 2018	January 2019	SAR	LIBOR + 0.55%	-	232,499	-	-
Murabaha (3)	May 2009	December 2021	BHD	1 month BIBOR + 0.25%	26,828	26,891	26,829	53,781
Murabaha (4)	July 2017	May 2022	BHD	1 month BIBOR + 1.60%	251,137	58,280	504,623	521,281
Murabaha	December 2018	November 2025	BHD	2.10%	3,062	2,863	18,673	21,786
Murabaha (5)	December 2017	December 2022	MYR	6 months KLIBOR + 0.65%	-	-	1,383,358	1,368,631
Murabaha	May 2019	April 2023	KWD	3.75%	46,427	-	139,282	-
Tawaruq	May 2019	February 2020	KWD	3.5%	61,885	-	-	-
Total					389,339	320,533	8,923,476	3,965,479

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25. BORROWINGS (CONTINUED)

- (1) The company issued a sukuk program with a maximum of SR 5 billion. Sukuk certificates have a nominal value of SR 1 million each, and they were issued with a nominal value for a period of 10 years.
- (2) At the General Assembly meeting on 19 Shaaban of 1440 H (corresponding to April 24, 2019), the Company approved the establishment of an international sukuk program and the issuance of sukuk in accordance with directly or by establishing a special purpose vehicles that is established and used to issue primary or secondary Sukuk in one or several parts Or one or several stages, or through a series of issues in US dollars, not exceeding the amount of USD 5,000 million for the total value of the sukuk issues and parts of Sukuk program referred to above at any time.

Based on the above, the Saudi Telecom Sukuk Company Limited during the second quarter of 2019 (a company established for the purpose of issuing sukuk under the sukuk program referred to above in US dollar) launched the first issue of the Sukuk Program in the amount of USD 1,250 million (equivalent to SR 4,688 million) For 10 years. This program is an international Sukuk in US dollar, with a total number of Sukuk 6,250 Sukuk with a nominal value of USD 200 thousand for the Sukuk with an annual return of 3.89% and a maturity of ten years.

- (3) stc Bahrain has murabaha facilities secured by a land and a building. The risk of return has been hedged for a large portion of the Murabaha facility
- (4) stc Bahrain has an unsecured Murabaha facility of BD 84.8 million (SR 844 million). The Company has entered into cash flow hedging arrangements to hedge the profit rate risk. The book value of murabaha facilities is not materially different from their fair value because the effect of discount, credit risk and other market risks are not considered material.
- (5) These facilities are secured by a letter of guarantee provided by the Company.

26. PROVISIONS

	<u>31 December 2019</u>	<u>31 December 2018</u>
Legal and regulatory provisions ⁽¹⁾	5,806,117	7,336,057
Decommissioning and other provisions ⁽²⁾	242,203	385,304
	<u>6,048,320</u>	<u>7,721,361</u>
Current	5,157,110	6,829,451
Non-current	891,210	891,910
	<u>6,048,320</u>	<u>7,721,361</u>
	<u>2019</u>	<u>2018</u>
Legal and regulatory provision ⁽¹⁾		
Balance as at 1 January	7,336,057	8,392,198
Additions during the year	507,825	1,298,823
Payment / settlements during the year	(2,037,765)	(2,354,964)
Balance as at 31 December	<u>5,806,117</u>	<u>7,336,057</u>
Decommissioning and other provisions ⁽²⁾		
Balance as at 1 January	385,304	444,234
Additions during the year	172,226	7,079
Reductions / adjustment resulting from re-measurement and others	(315,327)	(66,009)
Balance as at 31 December	<u>242,203</u>	<u>385,304</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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26. PROVISIONS (CONTINUED)

- 1) The Company is considered a party of number of legal and regulatory claims. The Group, after taking independent 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 less than one year.
- 2) In the course of Company's normal activities, a number of sites and other assets are utilised which are expected to have costs associated with restoration of the assets to how it was upon removing the assets. The associated cash outflows are expected to occur primarily in years up to ten years from the date when the assets are brought in use.

27. RETIREMENT BENEFITES PLANS

End of service benefit provision

The Group provides end of service benefits to its employees. The entitlement is based upon the employees' final salary and length of service, subject to the completion of a minimum service years, calculated under the provisions of 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.

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

Discount rate risk	A decrease in the discount rate will increase the end of service benefits plan liability.
Change in Salaries 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 salaries of the plan participants will increase the plan's liability.

Calculation of end of service benefit provision was done using the most recent actuarial valuation as at 31 December 2019. During the financial year, Actuarial assumptions relating to the discount rate have been updated, resulting in an increase in the present value of the defined benefit obligations.

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, during 2019, used in determining the end of service benefit obligation represent the discount rate of (3.2%-4.3%) and the expected increase in salary (2.7%-5.7%) (2018: discount rate of (4.3%-5%) and the expected increase in salary (3.3%-5%).

The net expenses recognized in the consolidated statement of profit or loss are as follows for the year ended 31 December:

	<u>2019</u>	<u>2018</u>
Services cost	367,423	354,101
Interest cost	193,490	176,477
	<u>560,913</u>	<u>530,578</u>

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27. RETIREMENT BENEFITES PLANS (CONTINUED)

End of service benefit provision (continued)

Movements of End of service benefit provision for the year ended 31 December is as follow:

	<u>2019</u>	<u>2018</u>
Balance at beginning of the year	3,919,362	3,922,065
Expenses recognized in the consolidated statement of profit or loss	560,913	530,578
Actuarial losses recognised in the consolidated statement of comprehensive income	710,054	(13,414)
paid during the year	(451,050)	(521,861)
Exchange differences and others	73,526	1,994
Balance at end of the year	4,812,805	3,919,362

The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the financial year, with other assumptions being constant.

- If the discount rate increases (decreases) by 25 basis points, the end of service benefit provision would (decrease) or increase by SR 127 million (31 December 2018: (decrease) or increase by SR 111 million).
- If the expected salary growth increases (decreases) by 0.25%, the end of service benefit provision would increase or (decrease) by SR 126 million (31 December 2018: increase by or (decrease) by SR 112 million).

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

Defined contribution plans

The Group is participating in a pension schemes for its employees which are managed by government institutions in the countries concerned. The amount recognised as an expense for defined contribution plans for the year ended 31 December 2019 is SR 443 million (31 December 2018: SR 401 million).

28. CONTRACT LIABILITIES

	<u>31 December 2019</u>	<u>31 December 2018</u>
Deferred revenue from services	2,632,582	3,192,688
Customer loyalty programme	605,068	118,167
	3,237,650	3,310,855
Current	2,465,735	2,538,940
Non-current	771,915	771,915
	3,237,650	3,310,855

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29. LEASE LIABILITIES

Following is the movement on lease liabilities during 2019:

Balance as at 1 January 2019	2,367,348
Additions during the year	1,174,990
Payments during the year	(712,467)
Annual interest costs	137,576
Other adjustments	(86,270)
	<hr/>
Balance as at 31 December 2019	2,881,177
	<hr/> <hr/>
Current	1,300,242
Non-current	1,580,935
	<hr/> <hr/>
	2,881,177
	<hr/> <hr/>

30. OTHER FINANCIAL LIABILITIES

	<i>31 December 2019</i>	<i>31 December 2018</i>
Financial liabilities related to frequency spectrum licenses	1,618,653	1,528,923
Dividends payable	2,111,161	81,927
Derivative liabilities	7,373	6,140
	<hr/>	<hr/>
	3,737,187	1,616,990
	<hr/> <hr/>	<hr/> <hr/>
Current	2,145,276	90,731
Non-current	1,591,911	1,526,259
	<hr/> <hr/>	<hr/> <hr/>
	3,737,187	1,616,990
	<hr/> <hr/>	<hr/> <hr/>

31. OTHER LIABILITIES

	<i>31 December 2019</i>	<i>31 December 2018</i>
Government charges	956,478	3,699,077
Deferred income (*)	3,341,943	2,185,431
Statutory dues and Other	766,145	411,226
	<hr/>	<hr/>
	5,064,566	6,295,734
	<hr/> <hr/>	<hr/> <hr/>
Current	1,555,860	4,118,718
Non-current	3,508,706	2,177,016
	<hr/> <hr/>	<hr/> <hr/>
	5,064,566	6,295,734
	<hr/> <hr/>	<hr/> <hr/>

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31. OTHER LIABILITIES (CONTINUED)

(*) The details of deferred income are as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Government grants (*)	3,320,684	2,138,098
Others	21,259	47,333
	<u>3,341,943</u>	<u>2,185,431</u>
Current	21,259	41,141
Non-current	3,320,684	2,144,290
	<u>3,341,943</u>	<u>2,185,431</u>

(*) 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 4.6).

32. TRADE AND OTHER PAYABLES

	<u>31 December 2019</u>	<u>31 December 2018</u>
Accrued expenses	8,364,626	8,323,129
Trade payables	6,550,812	3,050,348
Employee accruals	1,382,581	1,424,912
Other trade payables	1,445,780	1,031,981
Capital supplier dues and retentions	880,864	234,630
Customer refundable deposits	69,749	27,907
	<u>18,694,412</u>	<u>14,092,907</u>

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

33. ZAKAT AND INCOME TAX

	<u>31 December 2019</u>	<u>31 December 2018</u>
Zakat (a)	1,452,645	1,443,224
Income taxes (b)	29,633	22,551
	<u>1,482,278</u>	<u>1,465,775</u>

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33. ZAKAT AND INCOME TAX (CONTINUED)

a. Zakat

The Group calculates and records the zakat provision based on the zakat base in accordance with the zakat rules and principles in the Kingdom:

	<u>2019</u>	<u>2018</u>
Share capital – beginning of the year	20,000,000	20,000,000
<i>Additions:</i>		
Retained earnings, reserves and provisions – beginning of the year	63,151,587	60,377,908
Borrowings and payables	15,318,831	4,589,524
Adjusted net profit	10,129,061	10,097,775
Adjusted total shareholders' equity	108,599,479	95,065,207
<i>Deductions:</i>		
Net property (adjusted) and investments	58,227,066	58,050,032
Dividends paid	12,000,000	8,000,000
Deferred expenses and other balances	1,962,266	326,064
Total adjusted deductions	72,189,332	66,376,096
Zakat base	36,410,147	28,689,111
Zakat on wholly owned companies for the year	938,538	717,228
Zakat adjustments during the year	(203,893)	-
Add: zakat on partially owned companies for the year	6,463	6,718
Total zakat provision charged during the year	741,108	723,946
Zakat provision		
	<u>2019</u>	<u>2018</u>
Balance at beginning of the year	1,443,224	1,488,001
Charge during the year	741,108	723,946
Settlements during the year	(3,907)	(99,535)
Amounts paid during the year	(727,780)	(669,188)
Balance at end of the year	1,452,645	1,443,224

The Company submitted all zakat returns until the end of 2018, with payment of zakat due based on those returns, and accordingly received zakat certificates for those years. Effective from the year 2009, the Company started the submission of consolidated zakat return for the Company and its wholly owned subsidiaries (whether directly or indirectly) in accordance with the Ministerial Decree No.1005 dated 28/4/1428H.

During year 2019, the Group reached a settlement with the GAZT regarding 2008 and 2009 objections, in addition to a final settlement for the years 2010 and 2011 objections resulted in payment of SR 57 million.

In February 2020, the Group received a notification from the GAZT stating that the settlement procedures related to 2008 and 2009 was not accepted and thus these objections are still being considered by the General Secretariat of Tax Committees (formerly the Appeal Committee) until the date of preparing these consolidated financial statements. These Zakat disputed differences were essentially a result of the comparison between Zakat base and the adjusted profit whichever is higher. The Group believes that the results of these above-mentioned objections will be in its favor.

In January 2020, the group received a zakat assessment that includes differences related to zakat declaration for the year 2018 amounted to SR 226 million, and the Group has objected to it within the statutory deadline. The Group sees the merit of its legal position and it will not result in any material additional provisions.

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33. ZAKAT AND INCOME TAX (CONTINUED)

b. Income 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 2019 amounts to SR 21 million (2018: SR 23 million).

34. REVENUES

	<i>For the year ended 31 December</i>	
	<i>2019</i>	<i>2018</i>
Rendering of services	45,642,945	43,142,069
Sale of goods	8,556,090	8,372,850
Others	168,496	448,324
	54,367,531	51,963,243

35. COST OF REVENUES

	<i>For the year ended 31 December</i>	
	<i>2019</i>	<i>2018</i>
Network access charges	4,515,488	4,998,609
Government charges (*)	3,108,508	3,565,553
Cost of devices sold	6,049,028	4,386,167
Employees' costs	3,059,466	2,969,178
Repair and maintenance	2,730,892	2,346,994
Cards recharge and printing cost	1,302,581	1,532,359
Amortisation and impairment of contract costs (See Note 15)	315,797	373,644
Others	894,546	1,317,657
	21,976,306	21,490,161

"Others" mainly comprise various expenses mainly related to rent of property, equipment and vehicles, telecommunication services, postage, courier, security and safety expenses, premises expenses, and consultancy.

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

	<i>For the year ended 31 December</i>	
	<i>2019</i>	<i>2018</i>
Commercial service provisioning fees	2,237,983	2,800,149
License fees	373,237	398,250
Frequency spectrum fees	360,039	350,136
Others	137,249	17,018
	3,108,508	3,565,553

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36. SELLING AND MARKETING EXPENSES

	<i>For the year ended 31 December</i>	
	<i>2019</i>	<i>2018</i>
Employees' costs	2,152,253	2,314,684
Impairment loss on trade receivables (See Note 11.1)	662,043	706,935
Advertising and publicity	769,601	560,114
Sales commissions	786,809	505,623
Call centre expenses	260,898	268,534
Amortisation and impairment on contract assets	102,807	241,151
Repairs and maintenance	320,765	195,201
Sport activities sponsorship cost	83,245	142,414
Amortisation and impairment of contract costs (See Note 15)	88,346	42,989
Others	355,202	502,643
	<u>5,581,969</u>	<u>5,480,288</u>

"Others" comprises various items, the main ones are: security and safety, telephone and utility expenses.

37. GENERAL AND ADMINISTRATIVE EXPENSES

	<i>For the year ended 31 December</i>	
	<i>2019</i>	<i>2018</i>
Employees' costs	3,303,365	2,617,257
Repair and maintenance	880,471	914,609
Consultancy, legal and professional fees	404,776	247,202
Security and safety expenses	141,181	140,311
Sadad service fees	120,211	107,097
Utilities expenses	99,025	179,683
Operating lease costs	88,605	359,351
Others	506,642	591,529
	<u>5,544,276</u>	<u>5,157,039</u>

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

38. FINANCE INCOME

	<i>For the year ended 31 December</i>	
	<i>2019</i>	<i>2018</i>
Income from murabaha	360,136	378,042
Income from sukuk	279,025	173,493
	<u>639,161</u>	<u>551,535</u>

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39. FINANCE COST

	<i>For the year ended 31 December</i>	
	<i>2019</i>	<i>2018</i>
Financing costs relating to murabaha	144,429	67,836
Financing costs relating to sukuk	193,635	59,104
Financing cost relating to lease liabilities	137,576	-
Unwinding of discounts on provisions and financial obligations	289,514	268,500
	765,154	395,440

40. NET OTHER LOSSES

	<i>For the year ended 31 December</i>	
	<i>2019</i>	<i>2018</i>
Net gain arising on financial assets measured at FVTPL	287,480	7,465
Loss on sale/disposal of property and equipment	(324,546)	(291,431)
Net foreign exchange (loss) gain and others	(3,894)	68,473
	(40,960)	(215,493)

41. 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:

	<i>2019</i>	<i>2018</i>
Profit for the year attributable to owners of the Company	10,664,666	10,779,771
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)	5.33	5.39

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

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42. FINANCIAL INSTRUMENTS

42.1 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

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.

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 2019.

The Group reviews the capital structure on annual basis to evaluate the cost of capital and the risks associated with capital. The Group has the following target ratios:

- (1) Debt to EBITDA level of 200% or below
- (2) Debt to (Debt + Equity) level of 50% or below

The ratio as at the year ended 31 December was as follows:

	<i>2019</i>	<i>2018</i>
Debt (a)	9,312,815	4,286,012
EBITDA (b)	21,264,980	19,835,755
Debt to EBITDA	44%	22%
Debt	9,312,815	4,286,012
Debt + Equity (c)	72,367,861	70,947,610
Debt to (Debt + Equity)	13%	6%

(a) Debt is defined as current and non-current borrowings as described in Note 25.

(b) EBITDA is defined as operating profit for the year adjusted for depreciation and amortization expenses.

(c) Equity is defined as total equity including issued capital, reserves, retained earnings and non-controlling interest.

42.2 Fair value of financial instruments

The Group uses valuation techniques appropriate to current circumstances that provide sufficient data to measure fair value. 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 (See Note 4-17).

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42. FINANCIAL INSTRUMENTS (CONTINUED)

42.2 Fair value of financial instruments (continued)

The following table shows the fair values of the Group's financial assets and liabilities:

financial instruments Categories

	31 December 2019		
	Carrying amount	Fair value	Fair value measurement using
Financial assets			
Trade and other receivables (See Note 11)	21,372,368	21,372,368	Level 3
Short term murabahas (See Note 12)	2,181,416	2,181,416	Level 2
<i>At fair value through profit or loss</i> (See Note 17)	1,550,869	1,550,869	Level 3
<i>At amortised cost:</i>			
Sukuk	5,600,543	5,600,543	Level 2
Loans to employees	438,481	438,481	Level 2
Others	110,129	110,129	Level 2
	31,253,806	31,253,806	
Financial liabilities			
<i>At amortised cost:</i>			
<i>Borrowings</i> (See Note 25) :			
Murabahas and Tawaruq – unsecured	1,232,554	1,232,554	Level 2
Sukuk – unsecured	6,670,038	6,670,038	Level 2
Murabahas – secured	1,410,223	1,410,223	Level 2
Other financial liabilities (See Note 30)	1,618,653	1,618,653	Level 2
Dividends payable (See Note 30)	2,111,161	2,111,161	Level 2
<i>At fair value through profit or loss</i>			
Derivative liabilities (See Note 30)	7,373	7,373	Level 2
	13,050,002	13,050,002	

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42. FINANCIAL INSTRUMENTS(CONTINUED)

42.2 Fair value of financial instruments (continued)

financial instruments Categories

	31 December 2018		
	Carrying amount	Fair value	Fair value measurement using
Financial assets			
Trade and other receivables (See Note 11)	14,493,149	14,493,149	Level 3
Short term murabahas (See Note 12)	9,685,491	9,685,491	Level 2
<i>At fair value through profit or loss</i> (See Note 17)	3,115,185	3,115,185	Level 2
<i>At amortised cost:</i>			
Sukuk	1,490,137	1,490,137	Level 2
Murabahas	2,250,746	2,250,746	Level 2
Loans to employees	524,417	524,417	Level 2
Others	86,174	86,174	Level 2
<i>At fair value through other comprehensive income</i> (See Note 17)	1,394,602	1,394,602	Level 3
	<u>33,039,901</u>	<u>33,039,901</u>	
Financial liabilities			
<i>At amortised cost:</i>			
<i>Borrowings</i> (See Note 25) :			
Murabahas – unsecured	605,052	605,052	Level 2
Sukuk – unsecured	2,000,000	2,000,000	Level 2
Murabahas – secured	1,680,960	1,680,960	Level 2
Other financial liabilities (See Note 30)	1,528,923	1,528,923	Level 2
Dividends payable (See Note 30)	81,927	81,927	Level 2
<i>At fair value through profit or loss</i>			
Derivative liabilities (See Note 30)	6,140	6,140	Level 2
	<u>5,903,002</u>	<u>5,903,002</u>	

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42. FINANCIAL INSTRUMENTS (CONTINUED)

42.3 Profit rate risk

The Group's main profit rate risk arises from borrowings and financial assets with variable profit margin rates. Some of the Group's companies through the use of profit swap contracts manage 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 analyses below have been determined based on the exposure to profit rates for non-derivative instruments at the end of the financial year. These show 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 year 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 18 million (2018: SR 4.5 million). This hypothetical effect on profit of the Group primarily arises from the potential effect of variable profit financial liabilities.

42.4 Foreign currency risk management

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

42.5 Credit risk management

The Group has approved guidelines and policies that allow it to only deal with creditworthy counter parties and limit counter party exposure. The guidelines and policies allow the Group to invest only with those counterparties that have high investment grade credit rating issued by international credit rating agencies and limit 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's credit risk is monitored on a quarterly basis.

Other than the concentration of credit risk disclosed in Note 11, concentration of credit risk with respect to trade receivables is 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 impairment loss (See Note 11).

In addition, the Group is exposed to credit risk in relation to financial guarantees given to some subsidiaries with regard to financing arrangements. 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 or instance that the Group will incur any loss with respect to its financial guarantees as of the date of the preparation of this consolidated financial statement.

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

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

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42. FINANCIAL INSTRUMENTS (CONTINUED)

42.6 Liquidity risk management (continued)

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

	Undiscounted Cash Flows			
	<i>Carrying amount</i>	<i>1 year or less</i>	<i>Above 1 – 5 years</i>	<i>Above 5 years</i>
<i>31 December 2019</i>				
Trade and other payables (Note 32)	9,007,687	9,007,687	-	-
Borrowings (Note 25)	9,312,815	401,967	2,918,857	6,053,423
Dividends payable (Note 30)	2,111,161	2,111,161	-	-
Lease liabilities (Note 29)	2,881,177	1,532,798	1,689,324	483,919
Other financial liabilities (Note 30)	1,618,653	221,347	885,386	1,068,815
Derivative liabilities (Note 30)	7,373	5,523	1,243	607
	<u>24,938,866</u>	<u>13,280,483</u>	<u>5,494,810</u>	<u>7,606,764</u>
<i>31 December 2018</i>				
Trade and other payables (Note 32)	4,082,329	4,082,329	-	-
Borrowings (Note 25)	4,286,012	323,196	2,020,001	2,000,000
Dividends payable (Note 30)	81,927	81,927	-	-
Other financial liabilities (Note 30)	1,528,923	221,347	885,386	1,290,161
Derivative liabilities (Note 30)	6,140	4,451	1,689	-
	<u>9,985,331</u>	<u>4,713,250</u>	<u>2,907,076</u>	<u>3,290,161</u>

The Group has unused financing facilities amounting to SR 4,611 million as at 31 December 2019 (2018: SR 1,072 million). The Group expects to meet its obligations from operating cash flows, cash and cash equivalents and proceeds of maturing financial assets.

In accordance with the terms of the agreements with the operators, commercial debtors and creditors are settled in connection to call routing and roaming fees and only the net amounts are settled or collected. Accordingly, the net amounts are presented in the consolidated statement of financial position.

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42. FINANCIAL INSTRUMENTS (CONTINUED)

42.6 Liquidity risk management (continued)

The following table presents the recognised financial instruments that are offset or are subject to enforceable master netting agreements and other similar agreements as at:

	<i>Gross amounts</i>	<i>Amounts set off</i>	<i>Net amounts</i>
31 December 2019			
<u>Financial assets</u>			
Trade and other receivables	26,131,053	(4,758,685)	21,372,368
<u>Financial liabilities</u>			
Trade and other payables	23,453,097	(4,758,685)	18,694,412
31 December 2018			
<u>Financial assets</u>			
Trade and other receivables	17,052,530	(2,559,381)	14,493,149
<u>Financial liabilities</u>			
Trade and other payables	16,652,288	(2,559,381)	14,092,907

42.7 Changes in liabilities arising from financial activities

Changes in liabilities arising from financial activities are as follows:

	<i>1 January 2019</i>	<i>Cash flows</i>	<i>Non-monetary changes</i>	<i>31 December 2019</i>
Short-term borrowings	320,533	(242,147)	310,953 ⁽¹⁾	389,339
Lease liabilities - current	1,471,935	(712,467)	540,774 ⁽²⁾	1,300,242
Long-term borrowings	3,965,479	5,272,616	(314,619)	8,923,476
	<u>5,757,947</u>	<u>4,318,002</u>	<u>537,108</u>	<u>10,613,057</u>
	<i>1 January 2018</i>	<i>Cash flows</i>	<i>Non-monetary changes</i>	<i>31 December 2018</i>
Short-term borrowings	647,763	(460,840)	133,610 ⁽¹⁾	320,533
Long-term borrowings	4,005,980	-	(40,501) ⁽¹⁾	3,965,479
	<u>4,653,743</u>	<u>(460,840)</u>	<u>93,109</u>	<u>4,286,012</u>

(1) Mainly includes reclassification from non-current to current portion.

(2) Mainly includes new lease liabilities.

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43. CAPITAL COMMITMENTS

- (a) During the fourth quarter of 2018, the Company signed an agreement with the Ministry of Finance, the Ministry of Communications & Information Technology and the authority of Communications and Information Technology ("Government Entities") for a comprehensive and final settlement of the outstanding dispute related to commercial services provisioning fees provided by the Company and the licences fees granted to the Company for the period from 1 January 2008 to 31 December 2017. In return, the Company is committed to provide capital investments in its infrastructure which is in line with the Kingdom's vision to develop the telecommunications infrastructure within a period of three years from 1 January 2018 according to the terms and conditions of the comprehensive Settlement Agreement (Referred to as "Target Performance Indicators").
- (b) One of the subsidiaries has an agreement to invest in a fund aiming to improve the telecommunication and internet environment for USD 300 million (equivalent to SR 1,125 million) as at 31 December 2019 (31 December 2018: USD 300 million (equivalent to SR 1,125 million)).

44. CONTINGENT LIABILITIES

- (a) The Group has outstanding letters of guarantee amounting to SR 4,514 million as at 31 December 2019 (31 December 2018: SR 6,597 million).
- (b) The Group has outstanding letters of credit as at December 31 2019 amounting to SR 961 million (31 December 2018: SR 655 million).
- (c) On 21 March 2016, the Company received a letter from a key customer requesting a refund for paid balances amounted to SR 742 million related to construction of a fibre optic network. Based on the independent legal opinions obtained, the management believes that the customer's claim have no merit and therefore this claim has no material impact on the financial results of the Group.
- (d) The Group, 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 on the Company's financial position or on the results of its operations as reflected in these consolidated financial statements.
- (e) The Company has submitted an objection to the appeal committee with respect to GAZT withholding tax assessment on international operators' networks rentals outside Saudi Arabia for the years from 2004 to 2015 for an amount of SR 2.9 billion. The management believes that Saudi tax regulations do not impose withholding tax on the rental of international operators' networks since the source of income did not occur inside the Kingdom, therefore this service should not be subject to withholding tax. Based on the opinions of tax specialists in this matter, the nature of the services and existing similar cases where the decision was in the favour of the companies in the telecom sector, the Company's management believes that this assessment will not result into any additional provisions.
- (f) The agreement signed with government entities during the fourth quarter of 2018 includes detailed mechanisms relating to the performance indicators that the Company is required to achieve within three years starting from 2018. The Company has re-evaluated the related provisions in line with the expectations of the target performance indicators which shall be reviewed periodically.

45. SUBSEQUENT EVENTS

- 1. On 2 January 2020, Uber completed the acquisition deal of Careem company assets. The impact on Group's results from the sale of its direct investment in Careem Company will be recorded during the first quarter of 2020.
- 2. On 29 January 2020, The Company signed a non-binding memorandum of understanding with the Vodafone Global Group according to which the Company will acquire 55% of the shares of Vodafone Egypt with a value of approximately USD 2,392 million (equivalent to about SR 8,970 million). The final purchase consideration will be determined upon signing the final agreement.

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46. DIVIDENDS

On 9 Rabi Thani 1440H (corresponding to 16 December 2018) the Board of Directors have approved the Company's dividends policy for the next three years starting from the fourth quarter of 2018, which was approved by the General Assembly on 19 Sha`ban 1440H (corresponding to 24 April 2019). The objective of the dividends policy is based on maintaining a minimum level of dividend of SR 1 per share on quarterly basis. The Company will consider and pay additional dividend subject to the Board of Directors recommendation after assessment and determination of the Company's financial situation, outlook and capital expenditure requirements. It is probable that additional dividends are likely to vary on quarterly basis depending on the company's performance.

The dividends policy will remain subject to:

- (1) Any material changes in the Company's strategy and business (including the commercial environment in which the Company operates).
- (2) Laws, regulations and legislations governing the sector at which the Company operates.
- (3) Any banking, other funding or credit rating covenants or commitments that the company may be bound to follow from time to time.

In line with this policy, the Company distributed the following cash dividends during the year ended 31 December 2019:

- SR 2,000 million at a rate of SR 1 per share for the fourth quarter of 2018.
- SR 4,000 million at a rate of SR 2 per share as an additional one-time special dividends for the year 2018.
- SR 2,000 million at a rate of SR 1 per share for the first quarter of 2019.
- SR 2,000 million at a rate of SR 1 per share for the second quarter of 2019.
- SR 2,000 million at a rate of SR 1 per share for the third quarter of 2019.

In line with the same policy, the Company will distribute cash dividends to the shareholders of the Company for the fourth quarter of 2019, amounting to SR 2,000 million, at a rate of SR 1 per share.

47. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

At its meeting held on 22 Rajab 1441 H (corresponding to 17 March 2020), the Board of Directors approved the consolidated financial statements for the year 2019.

48. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the classification used for the year ended 31 December 2019.