Saudi Telecom Company

a Saudi Joint Stock Company

Consolidated Financial Statements for the Year Ended December 31, 2015

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Ernst & Young & Co. (Public Accountants)
6th & 14th Floors – Al Faisaliah Office Tower
PO Box 2732
King Fahad Road
Riyadh 11461
Saudi Arabia
Registration Number: 45

Tel: +966 11 273 4740
Fax: +966 11 273 4730

www.ey.com

AUDITORS' REPORT TO THE SHAREHOLDERS OF SAUDI TELECOM COMPANY (A Saudi Joint Stock Company)

Scope of audit

We have audited the accompanying consolidated balance sheet of Saudi Telecom Company - Saudi joint stock company (the "Company") and its subsidiaries (the "Group") as at 31 December 2015 and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements are the responsibility of the Group's management and have been prepared by them in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

Unqualified opinion

In our opinion, the consolidated financial statements taken as a whole:

i) present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2015 and the consolidated results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

ii) comply with the requirements of the Regulations for Companies and the Company's by-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

for Ernst & Young

Rashid S. AlRashoud
Certified Public Accountant
Registration No. 366

Riyadh: 9 Jumad Awal 1437 H
(18 February 2016)

Saudi Telecom Company (a Saudi Joint Stock Company)
Consolidated Statement of Financial Position as at December 31, 2015
(Saudi Riyals in thousands)

	Note	2015	2014
ASSETS			
Current assets:			
Cash and cash equivalents	3	**4,504,046**	5,467,121
Short-term investments	4	**16,802,175**	14,347,318
Accounts receivable, net	5	**11,796,090**	8,514,689
Prepayments and other current assets	6	**3,886,566**	2,740,175
Total current assets		**36,988,877**	31,069,303
Non-current assets:			
Investments accounted for under equity method and others	7	**6,914,011**	8,518,937
Investments held to maturity	8	**6,474,751**	6,787,047
Property, plant and equipment, net	9	**40,487,591**	38,228,697
Intangible assets, net	10	**4,783,107**	4,523,073
Other non-current assets	11	**1,012,772**	966,583
Total non-current assets		**59,672,232**	59,024,337
Total assets		**96,661,109**	90,093,640
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable	12	**3,796,511**	2,070,158
Other credit balances – current	13	**4,861,815**	4,189,499
Accrued expenses	14	**12,152,978**	7,786,143
Murabahas – current	15	**1,903,087**	1,997,246
Total current liabilities		**22,714,391**	16,043,046
Non-current liabilities:			
Murabahas – non-current	15	**3,744,076**	5,785,169
Sukuk	16	**2,000,000**	2,000,000
Provision for end of service benefits	17	**4,075,625**	3,768,489
Other credit balances - non-current	13	**2,164,774**	1,168,326
Total non-current liabilities		**11,984,475**	12,721,984
Total liabilities		**34,698,866**	28,765,030
Equity			
Shareholders' equity:			
Authorized, issued and outstanding share capital: 2 billion shares, par value SR 10 per share	18	**20,000,000**	20,000,000
Statutory reserve	19	**10,000,000**	10,000,000
Retained earnings		**34,652,901**	33,394,473
Other reserves	20	**(1,546,576)**	(1,153,101)
Financial statements' translation differences		**(2,564,989)**	(1,819,044)
Total shareholders' equity		**60,541,336**	60,422,328
Non-controlling interests		**1,420,907**	906,282
Total equity		**61,962,243**	61,328,610
Total liabilities and equity		**96,661,109**	90,093,640

The accompanying notes from 1 to 36 form an integral part of these consolidated financial statements.

Saudi Telecom Company (a Saudi Joint Stock Company)
Consolidated Statement of Income for the Year Ended December 31, 2015
(Saudi Riyals in thousands)

	Note	2015	2014
Revenues from services	**21**	**50,650,612**	45,825,640
Cost of services	**22**	**(20,305,793)**	(17,670,009)
Gross Profit		**30,344,819**	28,155,631
Operating Expenses			
Selling and marketing expenses	**23**	**(7,198,738)**	(5,928,975)
General and administrative expenses	**24**	**(3,852,430)**	(3,166,159)
Depreciation and amortization	**25**	**(7,434,369)**	(7,029,907)
Impairment losses relating to investments	**7, 26**	**-**	(399,000)
Total Operating Expenses		**(18,485,537)**	(16,524,041)
Operating Income		**11,859,282**	11,631,590
Other Expenses and Income			
Cost of early retirement		**(405,703)**	-
Losses from investments accounted for under equity method		**(378,745)**	(261,088)
Finance costs	**27**	**(238,410)**	(234,523)
Commissions		**446,375**	389,639
Others, net	**28**	**(796,777)**	637,803
Other (expenses) and income, net		**(1,373,260)**	531,831
Net Income before Zakat, Taxes and Non-controlling interests		**10,486,022**	12,163,421
Provision for zakat and taxes	**29**	**(696,844)**	(774,695)
Net Income before non-controlling Interests		**9,789,178**	11,388,726
Non-controlling interests' share		**(530,750)**	(429,236)
Net Income		**9,258,428**	10,959,490
Basic earnings per share from Operating Income in Saudi Riyals		**5.93**	5.82
Basic (losses)/earnings per share from income from other operations (Other expenses and income) in Saudi Riyals		**(0.69)**	0.27
Basic earnings per share on net Income in Saudi Riyals		**4.63**	5.48

The accompanying notes from 1 to 36 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 December 31, 2015
(Saudi Riyals in thousands)

	Note	2015	2014
CASH FLOW FROM OPERATING ACTIVITIES			
Net income before zakat, taxes and non-controlling interest		**10,486,022**	12,163,421
Adjustments to reconcile net income to net cash flow provided from operating activities:			
Depreciation and amortization		**7,434,369**	7,029,907
Impairment losses relating to investments	7, 26	**-**	399,000
Provision for doubtful debts	23	**1,714,542**	1,293,219
Losses from investments accounted for under the equity method		**378,745**	261,088
Commissions		**(446,375)**	(389,639)
Finance costs	27	**238,410**	234,523
Losses from foreign exchange fluctuation		**17,465**	24,548
Provision for end of service benefits		**530,189**	410,338
Early retirement program cost		**405,703**	-
Losses/(Gains) on sale/disposal of property, plant and equipment	28	**360,193**	(402,722)
Gain resulting from subsidiary acquisition	34	**(90,748)**	-
Change in:			
Accounts receivable		**(4,995,943)**	(2,306,760)
Prepayments and other current assets		**(1,519,506)**	446,491
Other non-current assets		**(46,189)**	(56,731)
Accounts payable		**1,726,353**	1,051,536
Other credit balances		**311,504**	(44,059)
Accrued expenses		**4,325,178**	(1,335,924)
Deferred revenues		**986,975**	446,771
Zakat and taxes paid		**(585,236)**	(407,042)
End of service benefits paid		**(223,053)**	(37,300)
Early retirement program paid		**(293,023)**	-
Net cash provided from operating activities		**20,715,575**	18,780,665
CASH FLOW FROM INVESTING ACTIVITIES			
Capital expenditures		**(9,248,435)**	(6,100,145)
Intangible assets, net		**(1,099,973)**	(616,305)
Investments in equity and others		**40,266**	132,633
Acquisition of a new subsidiary	34	**-**	40,462
Investments held to maturity	8	**(59,718)**	(5,099,547)
Short-term investments		**(2,454,857)**	2,481,615
Proceeds from commissions		**234,583**	264,029
Proceeds from sale of property, plant and equipment		**851,326**	10,404
Net cash used in investing activities		**(11,736,808)**	(8,886,854)
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends paid		**(8,018,959)**	(6,469,730)
Murabahas, net		**(1,763,239)**	(762,279)
Sukuk issuance	16	**-**	2,000,000
Finance costs paid		**(159,644)**	(154,755)
Net cash used in financing activities		**(9,941,842)**	(5,386,764)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(963,075)**	4,507,047
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**5,467,121**	960,074
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**4,504,046**	5,467,121
Non-cash items:			
Financial statements' translation differences		**(745,945)**	(18,622)
Other reserves		**(393,475)**	(121,214)

The accompanying notes from 1 to 36 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 December 31, 2015
(Saudi Riyals in thousands)

	Note	Share Capital	Statutory Reserve	Retained Earnings	Other Reserves	Financial Statements' Translation Differences	Reserves relating to Assets Held for Sale	Total Shareholders' Equity	Non-Controlling Interests	Total Equity
Balance at December 31, 2013		20,000,000	10,000,000	28,689,090	(1,031,887)	(1,800,422)	372,846	56,229,627	(66,934)	56,162,693
Net income		-	-	10,959,490	-	-	-	10,959,490	-	10,959,490
Dividends		-	-	(6,500,000)	-	-	-	(6,500,000)	-	(6,500,000)
Other reserves	20	-	-	-	(121,214)	-	-	(121,214)	-	(121,214)
Reserves relating to assets held for sale		-	-	-	-	-	(372,846)	(372,846)	-	(372,846)
Financial statements translation differences		-	-	-	-	(18,622)	-	(18,622)	-	(18,622)
Non-controlling interests		-	-	-	-	-	-	-	973,216	973,216
Recycling reserves to retained earnings		-	-	245,893	-	-	-	245,893	-	245,893
Balance at December 31, 2014		**20,000,000**	**10,000,000**	**33,394,473**	**(1,153,101)**	**(1,819,044)**	**-**	**60,422,328**	**906,282**	**61,328,610**
Net income		-	-	**9,258,428**	-	-	-	**9,258,428**	**-**	**9,258,428**
Dividends		-	-	**(8,000,000)**	-	-	-	**(8,000,000)**	**-**	**(8,000,000)**
Other reserves	20	-	-	**-**	**(393,475)**	-	-	**(393,475)**	**-**	**(393,475)**
Financial statements translation differences		-	-	**-**	**-**	**(745,945)**	-	**(745,945)**	**-**	**(745,945)**
Non-controlling interests		-	-	**-**	**-**	-	-	-	**514,625**	**514,625**
Balance at December 31, 2015		**20,000,000**	**10,000,000**	**34,652,901**	**(1,546,576)**	**(2,564,989)**	**-**	**60,541,336**	**1,420,907**	**61,962,243**

The accompanying notes from 1 to 36 form an integral part of these consolidated financial statements.

1 GENERAL

A) ESTABLISHMENT OF THE COMPANY

Saudi Telecom Company (the "Company") was established as a Saudi Joint Stock Company pursuant to the Royal Decree No. M/35, dated Dhul Hijja 24, 1418H (corresponding to April 21, 1998) which authorized the transfer of the telegraph and telephone division of the Ministry of Post, Telegraph and Telephone ("MoPTT") (hereinafter referred to as the "Telecom Division") with its various components and technical and administrative facilities to the Company, and in accordance to the Council of Ministers' Resolution No. 213 dated Dhul Hijja 23, 1418H (corresponding to April 20, 1998) which approved the Company's Articles of Association (the "Articles"). The Company was duly wholly owned by the Government of the Kingdom of Saudi Arabia (the "Government"). Pursuant to the Council of Ministers' Resolution No. 171 dated Rajab 2, 1423H (corresponding to September 9, 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 Muharram 6, 1419H (corresponding to May 2, 1998), and received its Commercial Registration No. 1010150269 as a Saudi Joint Stock Company on Rabi Awal 4, 1419H (corresponding to June 29, 1998). The Company's head office is located in Riyadh.

B) GROUP ACTIVITIES

The main activities of the Group comprise the provision and introduction of telecommunications, information and media services, which include, among other things:

a- Establish, manage, operate and maintain fixed and mobile telecommunication networks and systems.

b- Deliver, provide, maintain and manage diverse telecommunication services to customers.

c- Prepare the required plans and studies to develop, execute and provide telecommunication services from all technical, financial and managerial aspects. In addition, to prepare and execute training plans in the telecommunication field, provide or obtain consulting services which are directly or indirectly related to its business and activities.

d- Expand and develop telecommunication networks and systems by utilizing the updated modern devices and equipment in telecom technology, especially in the field of providing and managing services.

e- Provide information, technologies and systems that depend on customers' information, including preparing, printing and distributing phone and commercial directories, brochures, information, data and providing the required communication means to transfer (internet) services which do not conflict with the Council of Ministers' Resolution No. (163) dated 23/10/1418H, the general computer services, and any telecommunication activities or services the Company provides whether for media, trade, advertising or any other purposes the Company considers appropriate.

f- Wholesale and retail trade, import, export, purchase, own, lease, manufacturing, marketing, selling, developing, design, setup and maintenance of devices, equipment, and components of different telecommunication networks including fixed, moving and special networks, computer programs and the other intellectual properties, in addition to providing services and contracting works that are related to the different telecom networks.

g- Invest in the Company's real estate properties and the resulting activities, such as selling, buying, leasing, managing, developing and maintenance.

Moreover, the Group has the right to establish other companies and to join with other companies, entities, or other local or foreign bodies, that are engaged in similar activities or completing to its core business or that may assist the Group to achieve its purpose and the Group can acquire the entire of the related company or part of it.

1) GENERAL (CONTINUED)

C) INVESTMENTS OF THE COMPANY

The Company has various investments in subsidiaries, associates and joint ventures collectively known for the financial statements' purposes as the "Group". The details of these investments are as follows:

Company's Name	Ownership % December 31, 2015	Ownership % December 31, 2014	Treatment
Subsidiaries:			
(1) Arabian Internet and Communications Services Co. Ltd. (STC Solutions) (Previously STC Advanced Solutions) - Kingdom of Saudi Arabia	100%	100%	Full Consolidation
(2) Telecom Commercial Investment Company Ltd. – (TCIC) - Kingdom of Saudi Arabia	100%	100%	Full Consolidation
(3) VIVA Bahrain (BSCC) – Kingdom of Bahrain	100%	100%	Full Consolidation
(4) Aqalat Company Limited (Aqalat) – Kingdom of Saudi Arabia	100%	100%	Full Consolidation
(5) Public Telecommunication Company - (BRAVO) – Kingdom of Saudi Arabia	100%	100%	Full Consolidation
(6) Safayer Company Ltd., – (Safayer) - Kingdom of Saudi Arabia	100%	100%	Full Consolidation
(7) Intigral Holding Company (Intigral) – Kingdom of Bahrain	71%	71%	Full Consolidation
(8) Sale Advanced Co. Ltd. – (Sale Co.) - Kingdom of Saudi Arabia	60%	60%	Full Consolidation
(9) Kuwait Telecom Company (VIVA) (KJC) - Kuwait	26%	26%	Full Consolidation
Joint ventures and associate companies:			
(10) Oger Telecom Ltd. – (OTL) – United Arab Emirates	35%	35%	Equity Method
(11) Binariang GSM Holding – (Binariang) Malaysia	25%	25%	Equity Method
(12) Arab Submarine Cables Company Limited. - Kingdom of Saudi Arabia	50%	50%	Equity Method
(13) Arab Satellite Communications Organization (Arabsat) - Kingdom of Saudi Arabia	36.66%	36.66%	Equity Method
(14) Contact Centers Company – (CCC) Kingdom of Saudi Arabia	49%	50%	Equity Method
(15) Virgin Mobile Saudi Consortium LCC – (VMSC) - Kingdom of Saudi Arabia	10%	-%	Equity Method

(1) Arabian Internet and Communications Services Co. Ltd. (STC Solutions) (Previously STC Advanced Solutions) - Kingdom of Saudi Arabia

The Arabian Internet and Communications Services Co. (a limited liability company) was established in April 2002. The company 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 its SR 100 million share capital.

(2) Telecom Commercial Investment Company Ltd. – (TICI) Kingdom of Saudi Arabia

Telecom Commercial Investment Company (a limited liability company) was established in the Kingdom of Saudi Arabia in October 2007 by the Saudi Telecom Company with a share capital of SR 1 million, and which owns 100% of the company's share capital. The company operates in the Saudi market and was established for the purpose of operation and maintenance of telecommunication networks, computer systems' networks and internet networks, maintenance, operation and installation of telecommunication and information technology systems and programs.

1) GENERAL (CONTINUED)

C) INVESTMENTS OF THE COMPANY (CONTINUED)

(3) VIVA Bahrain (BSCC) – Kingdom of Bahrain

VIVA Bahrain (BSCC) was established in the Kingdom of Bahrain in February 2009 by the Saudi Telecom Company with a share capital of BHD 75 million and the Saudi Telecom Company owning 100% of its share capital (which is equivalent to approximately SR 746 million at the exchange rate as at that date). This company operates in the field of all mobile telecommunication services, international telecommunications, broadband and other related services in the Bahraini market, and commenced its commercial operation on March 3, 2010.

(4) Aqalat Limited Company – The Kingdom of Saudi Arabia

Aqalat Limited Company was established in the Kingdom of Saudi Arabia in March 2013 by the Company owning 100% of its SR 10 million share capital. Aqalat operates in the field of establishing, owning, investing, managing of real estate and contracting, and providing consulting services, and importing and exporting services to the benefit of the Company. Aqalat has not yet started its commercial operations.

(5) Public Telecommunication Company "BRAVO" – Kingdom of Saudi Arabia

Public Telecommunication Company "BRAVO" was established in February 2002 in the Kingdom of Saudi Arabia. The Company acquired 100% of its SR 200 million share capital in January 2014. BRAVO operates in the electrical business and communication networks, wholesale and retail trade in fixed telecommunications equipment, electrical appliances, import, marketing, installation and maintenance of fixed and mobile telecommunications and information technology licensed devices (see Note 34).

(6) Safayer Company Ltd. (Safayer) – Kingdom of Saudi Arabia

Safayer Company Ltd. was established in the Kingdom of Saudi Arabia in June 2014 with share capital amounting to SR 100 million. The Company owns 100% of Safayer share capital. Safayer operates in the retail and wholesale trade of computer systems and devices, fixed and mobile telecommunication, internet equipment, advertising and publicity material, spare parts, electrical equipment, automatic payment equipment, automatic points of sale equipment, selling of telecommunication operator's services, establish telecom and sales centers, and services' sales. The commercial registration was issued on January 14, 2015. Therefore, Safayer has been consolidated in the Group consolidated financial statements starting from the first quarter of year 2015. Safayer has not yet started its commercial operations.

(7) Intigral Holding Company (BSCC) (Intigral) – Kingdom of Bahrain

Intigral Holding Company was established by the Company in the Kingdom of Bahrain in June 2009 with share capital amounting to BHD 28 million which is equivalent to approximately SR 281 million at the exchange rate as at that date. The Saudi Telecom Company used to own 51% of Intigral Holding Company's share capital. In December 2011, the Saudi Telecom Company increased its shareholding interest by 20% to reach 71%. Intigral is a holding company which owns shares in companies operating in the field of content services and digital media in Gulf countries.

1) GENERAL (CONTINUED)

C) INVESTMENTS OF THE COMPANY (CONTINUED)

(8) Sale for Distribution and Communication Co. Ltd (SaleCo.) – The Kingdom of Saudi Arabia

Sale for Distribution and Communication Company Limited (Saleco) was established in the Kingdom of Saudi Arabia in January 2008 and operates in the wholesale and retail trade of recharge card services, telecommunication equipment and devices, computer services, sale and re-sale of all fixed and mobile telecommunication services, and commercial centers' maintenance and operation. SaleCo operates in the Saudi Market with branches in Bahrain and Oman. The Company acquired 60% of SaleCo SR 100 million share capital in December,2011. On December 25, 2015, the Company's board of directors have agreed to provide an offer to acquire Ethad Sale's stake in Sale Advanced Co. Ltd. (Saleco), which represent 40% of the Saleco's shares, for an amount of SR 400 million. The Company is still waiting for a response regarding this offer from the owners of Ethad Sale.

(9) Kuwait Telecom Company (VIVA) (KJC) - Kuwait

In December 2007, the Saudi Telecom Company acquired 26% of the KD 50 million share capital of the Kuwait Telecom Company, equivalent to approximately SR 687 million at the exchange rate as at that date, this company operates in the field of mobile services in the Kuwaiti market, and commenced its commercial operation on December 4, 2008. It was listed as a joint stock company in Kuwait Stock Exchange on December 14, 2014. Saudi Telecom Group manages Kuwait Telecom Company (VIVA) and treats its investment in it by using the full consolidation method due to its control over the financial and operating policies. Group representation on the board of the Kuwaiti Telecom Company constitutes a majority of the members.
On December 27, 2015, the Company has submitted a voluntary offer to acquire the issued shares of Kuwait Telecom Company (VIVA) not already owned by STC, which represents 74% of VIVA, issued shares. The offer presented by the Company to VIVA's shareholders amounted to Kuwaiti Dinar 1 per share (equivalent to SR 12.37). The period of this offer ended on January31, 2016, and the number of shares that accepted the offer accumulated to 128,860,518 shares which represent 25.8% of total issued shares to Kuwaiti Telecom Company (VIVA). The total value of those share KD 128, 860,518 (which is equivalent to SR 1,590,138,792) and thus the Company's share in Kuwait Telecom Company (VIVA) is 51.8% instead of 26% (see Note 35).

(10) Oger Telecom Company Ltd. (OTL) - U.A.E.

Oger Telecom Ltd. is a Holding company registered in Dubai, the United Arab Emirates, having investments in companies operating primarily in the telecommunications sector in Turkey and South Africa. The Company acquired 35% of OTL's USD 3.6 billion share capital, equivalent to approximately SR 13.5 billion in April 2008 at the exchange rate as at that date.

(11) Binariang GSM Holding - Malaysia

Binariang is a Malaysian investment holding company registered in Malaysia, and which owns 100% of Maxis (Malaysia Holding Group), an un-listed group operating in the telecommunications sector in Malaysia. On November 2009, 30% of Maxis' shares were offered for public subscription and the company was subsequently listed on the Malaysian stock market. Also, another share of 5% was sold in the month of July 2012. The percentage ownership of Binariang Holding in Maxis accordingly was reduced to 65%. Binariang Holding has other investments in India (Aircel Company).

On September 2007, Saudi Telecom Company acquired 25% of its MYR 20.7 billion share capital of Binariang Group, equivalent to approximately SR 23 billion at the exchange rate as at that date.

1) GENERAL (CONTINUED)

C) INVESTMENTS OF THE COMPANY (CONTINUED)

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

(12) Arab Submarine Cables Company Limited. - Kingdom of Saudi Arabia

Arab Submarine Cables Company (a mixed limited liability company) was established on September 2002 for the purpose of constructing, leasing, managing and operating a submarine cable connecting the Kingdom of Saudi Arabia and the Republic of Sudan for the telecommunications between them and any other country. The operations of Arab Submarine Cables Company Ltd. started on the month of June 2003, and Saudi Telecom Company acquired 50% of its SR 75 million share capital in September 2002.

(13) Arab Satellite Communications Organization "Arabsat" – Kingdom of Saudi Arabia

This organization was established on April 1976 by member states of the Arab League. 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).

(14) Contact Center Company– The Kingdom of Saudi Arabia

Contact Center Company (a mixed limited liability company) was established to provide call canters services and answer directory queries with Aegis Company at the end of December 2010 in the Kingdom of Saudi Arabia, with a share capital of SR 4.5 million. In December, 2010, Saudi Telecom Group acquired approximately 50% of its SR 4.5 million share capital (225,001 owned shares out of 450,000 shares). During the fourth quarter of year 2015, the Company sold 1% of its stake in Contact Centers Company to the other partners according to the terms of the partners' agreement(220,500 owned shares out of 450,000 shares).

(15) Virgin Mobile Saudi Consortium LCC (VMSC) – Kingdom of Saudi Arabia

Virgin Mobile Saudi Consortium (Limited liability Company) or VMSC was established during the year 2013 as a mobile virtual network operator and started its operation during the year of 2014. The Company owns 10% of VMSC's SR 52 million share capital (2014: SR 20 million). The partners' agreement and the article of association of VMSC was amended to include a new partner during the year of 2015. This resulted into a reclassification of this investment from investment available for sale to investment in associate company accounted for using the equity method.

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are summarized below:

2-1 Basis of preparation and measurement

The accompanying consolidated financial statements are prepared in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants. The consolidated financial statements of the Group include the financial statements of the Company and its subsidiaries mentioned in Note 1.

The significant accounting policies used for the preparation of the consolidated financial statements mentioned below are consistent with the accounting policies detailed in the audited consolidated financial statements for the year ended December 31, 2014.

The consolidated financial statements are prepared under the historical cost convention except for investments held for trading and available for sale, and derivative financial instruments which are measured at fair value.

2-2 Basis of consolidation

Subsidiaries

Entities controlled by the Group are classified as subsidiaries. Control is defined as the power to use, or direct the use, of another entity's assets in order to earn economic benefits. The financial statements of the subsidiaries are included in the consolidated financial statements of the Group effective from the date control commences until the date it ceases.

Intra-Group balances and transactions and any unrealized gains arising from intra-group transactions, if material, are eliminated in full in the consolidated financial statements.

2-3 Use of estimates

The preparation of the consolidated financial statements in conformity with the accounting standards generally accepted in the Kingdom of Saudi Arabia requires the use of accounting estimates and assumptions which affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the amounts of revenues and expenses during the reporting period of the consolidated financial statements.

2-4 Period of the consolidated financial statements

The Group's financial year begins on January 1 and ends on December 31 of each Gregorian year.

2-5 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances and highly liquid investments with maturity of 90 days or less from the acquisition date. Otherwise, they are classified as short-term investments.

2-6 Short term investments

Short term investment include Islamic "Murabahas" with local, regional, and international banks with high credit rating for periods that do not exceed a year and no less than 91 days.

2-7 Accounts receivable

Accounts receivable are stated at their net realizable value, which represents billed and unbilled revenues net of allowance for doubtful debts.
The Group reviews its accounts receivable for the purpose of providing the required allowances against doubtful debts. When creating the allowance, consideration is given to the type of service rendered (mobile, landlines, data, international settlements, etc…), customer category, age of the

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2-7 Accounts receivable (continued)

receivable, and the Group's experience in previous debts collection and the general economic situation.

2-8 Offsetting of accounts

The Group has agreements with international network operators and other parties to offset receivables and payables relating to the same operator on a periodic basis.

2-9 Inventories

Inventories, which principally comprise cables, spare parts and consumables, are stated at weighted average cost, net of allowances. Inventory items that are considered an integral part of the network assets, such as emergency spares, which cannot be removed from the switch, are recorded within the property, plant and equipment. Inventory items held by contractor responsible for upgrading and expanding the network are recorded within 'capital work-in- progress'.

The Group creates an allowance for obsolete and slow-moving inventories, based on a study of the usage of the major inventory categories separately. When such an exercise is impractical, the allowance is based on groups or categories of inventory items, taking into consideration the items which may require significant reduction in their value.

2-10 Property, plant and equipment and depreciation

1) Prior to May 2, 1998, the Telecom Division did not maintain sufficiently detailed historical information to record property, plant and equipment based on historical cost. Consequently, all property, plant and equipment transferred by the Telecom Division on May 2, 1998 were recorded based on the independent valuation local and international valuation experts.

   The principal bases used for valuation are as follows:

- Land	Appraised value
- Buildings, plants and equipment	Depreciated replacement cost

2) Except for what is mentioned in paragraph (1) above, property, plant and equipment acquired by the Group are recorded at historical cost.

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

4) Property, plant and equipment, excluding land, are depreciated using the straight line method over the following estimated useful lives of assets:

	Number of Years
Buildings	20 – 50
Network and telecommunication equipment	3 – 25
Other assets	2 – 8

5) Repair and maintenance costs are recognized as incurred, except to the extent that they increase productivity or extend the useful life of an asset, in which cases they are capitalized.

6) Gains and losses resulting from the disposal / sale of property, plant and equipment are determined by comparing the proceed with the book value of the disposed-off / sold assets, and the gains and losses are included in the consolidated statement of income.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2-10 Property, plant and equipment and depreciation (continued)

7) Leases of property, plant and equipment where the Group transfers substantially all benefits and risks of ownership are classified as capital leases. Capital leases are capitalized at the inception of the lease at the lower of the fair value or the present value of the minimum lease payments. Each lease payment is to be allocated between the finance charge which is expensed in the current period and the reduction in the liability amount under the capital lease.
8) Assets leased under capital leases are depreciated over their estimated useful lives.
9) Assets under concession agreements (if any) are depreciated over their useful lives or the contract period whichever is shorter.

2-11 Software costs

1) Costs of operating systems and application software purchased from the vendor are capitalized if they meet the capitalization criteria, which include productivity enhancement or a noticeable increase in the useful life of the asset. These costs are amortized over the estimated period for which the benefits will be received.
2) Internally developed operating systems software costs are capitalized if they meet the capitalization criteria, which include the dedication of a defined internal work group to develop the software and the ability to readily identify related costs. These costs are amortized over the estimated period for which the benefits will be received.
3) Internally developed application software costs are recognized as expenses when incurred. When the costs of operating systems software cannot be identified separately from the associated computer hardware costs, the operating systems software costs are recorded as part of the hardware.
4) Subsequent additions, modifications or upgrades of software programs, whether operating or application packages, are expensed as incurred.
5) Computer software training and data-conversion costs are expensed as incurred.

2-12 Intangible assets

Goodwill

- Goodwill arises upon the acquisition of a stake in the subsidiaries. It represents the excess of the cost of the acquisition over the Group's share in the fair value of the net assets of the subsidiary at the date of purchase. When this difference is negative, it is immediately recognized as gains in the consolidated statement of income in the period in which the acquisition occurred.
- Goodwill is recorded at cost and is reduced by any impairment losses (if any).

Spectrum rights and licenses

These intangible assets are recorded upon acquisition at cost and are amortized starting from the date of service on a straight line basis over their useful lives or statutory duration, whichever is shorter. Licenses are amortized over periods ranging from 20 to 30 years.

2-13 Impairment of non-current assets

The Group reviews periodically non-current assets to determine whether there are indications that they may be impaired. When such indications are present, the recoverable amount of the asset is estimated. If the recoverable amount of the asset cannot be determined individually, then the cash generating unit

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2-13 Impairment of non-current assets (continued)

to which the asset relates is used instead. The excess of the carrying amount of the asset over its recoverable amount is treated as impairment in its value to be recognized in the consolidated

statement of income of the financial period in which it occurs. When it becomes evident that the circumstances which resulted in the impairment no longer exist, the impairment amount (except for goodwill) is reversed and recorded as income in the consolidated statement of income of the financial period in which such reversal is determined. The amount of reversal shall not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in previous financial periods.

2-14 Investments

Investments accounted for under the equity method

a- Investments in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control that is when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of all the parties sharing control.

Contractual arrangements that involve a separate entity in which each venture has an interest are referred to as jointly controlled entities.

Goodwill arising on the acquisition of the Group's interest in a jointly controlled venture is accounted for as a portion of that investment when applying the equity method.

The Group records the investments in joint venture on acquisition at cost, and are adjusted subsequently by the Group's share in the joint ventures' net income (loss), distributed dividends and any changes in the joint ventures' equity, to reflect the Group's share in the investee's net assets. These investments are reflected in the consolidated statement of financial position as non-current assets, and the Group's share in the net income (loss) of the joint ventures is presented in the consolidated statement of income.

b- Investments in associates

Associates are those corporations or other entities on which the Group exercises significant influence, but which it does not control, generally accompanying a shareholding of 20% to 50% of the voting rights. Significant influence is the power to participate in the financial and operating policies of the associates but not the power to exercise control over those policies.

The Group accounts for investments in entities in which it has a significant influence under the equity method. Under the equity method, the Group records the investments on acquisition at cost, and are adjusted subsequently by the Group's share in the net income (loss) of the investees, the investees' distributed dividends and any changes in the investee's equity, to reflect the Group's share in the investee's net assets. These investments are reflected in the consolidated statement of financial position as non-current assets, and the Group's share in the net income (loss) of the investees is presented in the consolidated statement of income.

Other investments

Available for sale marketable securities that do not lead to control or significant influence are carried at fair value, which is based on market value when available. However, if fair value cannot be determined for available for sale securities, due to non-availability of an active exchange market or other indexes through which market value can objectively be determined, its cost will be considered as the alternative fair value. Unrealized gains and losses, if material, are shown as a separate component

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2-14 Investments (continued)

within shareholders' equity in the consolidated statement of financial position. Losses resulting from permanent decline in fair value below cost are recorded in the consolidated statement of income in the period in which the decline occurs.

Gains and losses resulting from sale of available for sale securities are recorded in the period of sale, and previously recorded unrealized gains and losses are reversed in the consolidated statement of income.

Investment in financial securities held to maturity are recorded at the cost adjusted for amortization of premiums and accretion of discounts, if any. Losses resulting from permanent decline in fair value below costs are recorded in the consolidated statement of income in the period in which the decline occurs.

2-15 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 period in which such assessment is approved by the Department of Zakat and Income Tax.

2-16 Taxes

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

Deferred taxes

Deferred tax 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.

2-17 Provision for End of service benefits

The provision for employees' end of service benefits represents amounts due to the employees upon the termination of their contracts, in accordance with the terms and conditions of the laws applicable in the Kingdom of Saudi Arabia and the countries of foreign investee companies.

2-18 Foreign currency transactions

Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

These consolidated financial statements are presented in Saudi Riyals.

Transactions and balances

Balances of monetary assets and liabilities denominated in foreign currencies of specific amounts are translated using rates of exchange prevailing at the consolidated statement of financial position date.

Gains and losses arising on the settlement of foreign currency transactions, and unrealized gains and losses resulting from the translation to Saudi Riyals of foreign currency denominated monetary balances are recorded in the consolidated statement of income.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2-18 Foreign currency transactions (continued)

Entities of the Group (translation of financial statements)

The results and financial positions of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the exchange rate prevailing on the statement of financial position date.
- Items of shareholders' equity at acquisition (except retained earnings), are translated at the exchange rate prevailing on the acquisition date.
- Changes in the items of shareholders' equity (except retained earnings), are translated at the exchange rate prevailing on the date of occurrence.
- Retained earnings are translated as follows: retained earnings translated at the end of prior year plus net income for the period as per the translated consolidated statement of income less declared dividends within the period translated at the exchange rate prevailing on the date of declaration.
- Items in the consolidated statement of income are translated using the weighted average rate for the period. Significant gains and losses are translated at the exchange rate prevailing on the date of their occurrence.
- All resulting exchange difference, if material, is recognised as a separate component of shareholders' equity.

When those entities are partially sold or disposed of, exchange differences that were previously recorded in shareholders' equity are recognized in the consolidated statement of income as part of the gains or losses on sale.

2-19 Contingent liabilities

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

2-20 Revenue recognition

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

The Company generates revenue mainly from the provision of telecommunications services, which comprises of usage charges, calls revenues, messaging, interconnection fees, graphic services, and fees of infrastructure, installation, operation, sales of appliances and other added services.

Revenue is recognized according to the following:

- Revenue for access charges, airtime usage and messaging is recognized as revenue as services are performed. Unbilled revenues resulting from services already provided are accrued at the end of each period and unearned revenue from services collected in advance but are to be provided in future periods is deferred.
- Prepaid service revenue is recognized based on actual usage of the prepaid credits. The unused prepaid credit is deferred until used by the customer or expired.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2-20 Revenue recognition (continued)

- Monthly subscription fees, that are not linked to the amount of use, are recognized according to the straight-line method over the term of service period.
- Revenue from arrangements with multiple deliverables is allocated based on the fair value relative to each individual deliverable.
- Revenue from interconnection of voice, roaming, and data traffic with other local and international telecommunications operators is recognized at the time the services are performed based on the actual recorded services and he agreed tariff.
- Revenue from sale of telecommunication equipment, and handsets etc. is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.
- Charges billed in advance are deferred and recognized over the period in which the services are rendered.
- Service revenue rendered to customers is recognized upon collection when collectability is highly uncertain.

2-21 Customer loyalty program

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

2-22 Cost of services

Cost of services represents all costs incurred by the Group on rendering of services which are directly related to revenues generated from the use of the network, and are recognized in the period the services are rendered. Cost of services mainly include the following:

- Government charges are the costs incurred by the Group for the rights to provide the telecommunications services including the use of the frequency spectrum.
- Access charges represent the costs to connect telecommunications services to international and local carriers' networks.

2-23 Selling and marketing expenses

Selling and marketing expenses represent all costs incurred by the Group, which are directly related to the marketing, distribution and sale of services. They are expensed as incurred when it is not possible to determine the relevant benefiting periods. Otherwise, they are charged to the relevant periods.

2-24 General and administrative expenses

General and administrative expenses represent all the operating expenses incurred by the Group that cannot be directly linked to the costs of services or selling and marketing expenses. They are expensed as incurred when it is not possible to determine the relevant benefiting periods. Otherwise, they are charged to the relevant periods.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2-25 Earnings per share

Earnings per share are calculated by dividing operating income, , income from other operations (other income and expenses), and net income for the financial period, by the weighted average number of outstanding shares.

2-26 Financial derivatives

The Group uses derivative financial instruments to manage its exposure to interest rate and foreign exchange rates risk, including interest rate swaps and forward currency contracts. Derivatives are initially measured at fair value at the date the derivative contract is entered into and are subsequently re-measured at fair value at the date of each reporting period. The resulting gain or loss is recognized in the consolidated statement of income immediately unless the derivative is designated and is effective as a hedging instrument, in which event the timing of the recognition in the consolidated statement of income depends on the nature of the hedge relationship.

The Group designates certain derivatives as either hedges of the fair value of recognized assets and liabilities or an unrecognized commitment except for foreign currency risks (fair value of the hedge), hedge of variability in cash flows that are either attributable to particular risks associated with designated assets or liabilities or the foreign currency risks in an unrecognized firm commitments (cash flow hedge).

Changes in fair value of derivatives that are designated and qualify as fair value hedges are recognized in the consolidated statement of income, together with any changes in the fair value of the hedged assets or liabilities. In the case of cash flow hedges, the effective portion of changes in fair value of the derivatives that are designated and qualify as cash flow hedges is recognized in shareholder's equity. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statement of income.

Hedge accounting is discontinued when the Group either revokes the hedge relationship, the hedging instrument is sold, terminated, or exercised, or it no longer meets the requirements of hedge accounting. Any gain/loss accumulated remains in the shareholder’s equity and is recognized in the consolidated statement of income when the transaction is no longer expected to occur.

2-27 Related parties

During the ordinary course of business, the Group deals with related parties, all transactions of relative importance with related parties are disclosed regardless of the presence or absence of balances for these transactions by the end of the financial period. Transactions of the same nature are grouped into a single disclosure, with the exception of separate disclosures for transactions, which are necessary to understand the impact of the related party transactions on the financial data of the Group.

3 CASH AND CASH EQUIVALENTS

The Company invests a part of surplus cash in Murabaha deals with maturity periods of 90 days or less with several local banks. The average rate of commission on them during the year 2015 was 1.13 % (2014: 0.53 %). Total commissions earned on the balances during the year 2015 amounted to SR 15 million (2014: SR 14 million).

The commissions earned by subsidiaries on Murabahas amounted to SR 4.9 million (2014: SR 3.5 million).

At the end of the year, cash and cash equivalents consists of the following:

(Thousands of Saudi Riyals)	2015	2014
Short-term Murabahas	**3,062,347**	3,946,692
Current accounts at bank	**1,441,699**	1,520,429
	4,504,046	5,467,121

4 SHORT-TERM INVESTMENTS

The Company also invests a part of surplus cash in Murabaha accounts with maturity periods of 91 days or more with several local banks. The average rate of return during the year 2015 was 1.27% (2014: 1.21%), and the total commissions earned on them during the year 2015 amounted to SR 198 million (2014: SR 181 million).

The commissions earned by subsidiaries on short-term Murabahas amounted to SR 13.4 million (2014: SR 11.6 million).

5 ACCOUNTS RECEIVABLE, NET

(a) Accounts receivable on December 31 consists of the following:

(Thousands of Saudi Riyals)	2015	2014
Billed receivables	**10,382,772**	8,405,353
Unbilled receivables	**4,147,551**	1,987,842
	14,530,323	10,393,195
Allowance for doubtful debts	**(2,734,233)**	(1,878,506)
	11,796,090	8,514,689

The movement in the allowance for doubtful debts during the year is as follows:

(Thousands of Saudi Riyals)	2015	2014
Balance at January 1	**1,878,506**	1,191,907
- Additions (refer to Note 23)	**1,714,542**	1,293,219
	3,593,048	2,485,126
- Bad debts written-off during the year	**(858,815)**	(606,620)
Balance at December 31	**2,734,233**	1,878,506

(b) Since inception, the Company recognizes revenues from services rendered to particular customers upon collection and that is when collectability is highly uncertain. The Company is currently pursuing the collection of these revenues. Uncollected billed revenues from these customers for the year 2015 amounted to SR 68 million (2014: SR 75 million), with an annual average of SR 158 million for the sixteen years preceding 2015.

5 ACCOUNTS RECEIVABLE, NET (CONTINUED)

(c) The Group has agreements with local and international network operators whereby amounts receivable from and payable to the same operator are subject to offsetting. At December 31 , the net amounts included in accounts receivable, accounts payable, and accrued expenses balance were as follows:

(Thousands of Saudi Riyals)	2015	2014
Accounts receivable, net	**3,300,506**	2,795,289
Accounts payable and accruals, net	**4,241,061**	3,109,181

(d) Amounts receivable from Government entities as at December 31, 2015 amounted to SR 6,383 million (2014: SR 3,458 million), while amounts payable to Government entities as at December 31, 2015 amounted SR 2,010 million (2014: SR 847 million).

6 PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets consists of the following:

(Thousands of Saudi Riyals)	2015	2014
Advances to suppliers	**1,064,279**	825,403
Inventories	**789,701**	786,768
Accrued commissions and receivables	**632,285**	578,108
Dues from government entities	**410,091**	10,000
Deferred expenses	**182,352**	135,711
Accrued profit on Sukuk	**141,371**	-
Prepaid rents	**123,740**	125,851
Employees' housing loans - current portion	**112,225**	122,956
Prepaid insurance	**88,092**	62,189
Others	**342,430**	93,189
	3,886,566	2,740,175

7 INVESTMENTS ACCOUNTED FOR UNDER EQUITY METHOD AND OTHERS

These investments consist of the following:

(Thousands of Saudi Riyals)	2015		2014	
	Ownership		Ownership	
Investments in associate companies – Kingdom of Saudi Arabia:				
Arab Satellite Communications Organization (“Arabsat”)	**36.66%**	**1,594,614**	36.66%	1,564,466
Arab Submarine Cables Company Limited.	**50%**	**44,382**	50%	43,033
Contact Centers Company	**49%**	**45,021**	50%	31,464
Virgin Mobile Saudi Consortium LCC – (see Note 1)	**10%**	**3,304**	-	-
		1,687,321		1,638,963
Investments in joint ventures:				
Binariang GSM Holding - Malaysia	**25%**	**4,566,141**	25%	4,564,761
Oger Telecom Ltd. U.A.E.	**35%**	**486,656**	35%	2,234,390
		5,052,797		6,799,151
Other investments		**173,893**		80,823
Total investments in equity and other		**6,914,011**		8,518,937

Other investments include the Company`s investment in Venture Capital Fund which is a fund investing in emerging, small and medium-sized companies working in the fields of Communications and Information Technology in the Saudi market and other global markets, on the form of investment units. The Company invested an initial amount of USD 50 million equivalent to SR 187.5 million (of which it only paid USD 37.5 million equivalent to SR 140.6 million) (2014: USD 25 million equivalent to SR 93.8 million). Investment units owned by the Company were valued at SR 166.3 million as of December 31, 2015 (2014: SR 74.6 million). Currently, the Company is the sole investor in this fund.

Also, other investments include the Company's investments in Saudi Media Measurement Company, which started its operations in early 2014 in the business of providing media measurement for the purpose of supplying the Media Market with correct and authentic information. The Company owns 10.42% of its SR 54 million share capital which is equivalent to approximately SR 5.6 million (2014: owns 14.15% of its SR 39.8 million share capital which is equivalent to approximately SR 5.6 million).

During the fourth quarter of year 2014, the Group booked an impairment provision on investments amounting to SR 399 million in relation to its investment in Oger Telecom Ltd (resulting from Cell C Company - one of Oger Telecom’s subsidiaries).

8 INVESTMENTS HELD TO MATURITY

In the second quarter of year 2014, the Company established diversified investing portfolios with several local and international banks with an amount of SR 4 billion for a period that does not exceed five years and with full capital protection. The average rate of return on these investing portfolios is 1.09% which translates to total earned commission of SR 44 million in 2015. Further, in the fourth quarter of year 2014, the Company invested SR 1 billion in long term Murabaha with an international bank for a five year term with an annual profit margin of 3% earning commission of SR 30 million in 2015.

8 INVESTMENTS HELD TO MATURITY (CONTINUED)

In the third quarter of 2014, one of the subsidiaries invested an amount of Bahraini Dinar (BHD) 10 million equivalent to SR 99.5 million (2014: SR 99.5 million) with an international bank as long-term cash murabaha for a period of three years, with an annual profit margin of 3.1%. Further, in the third quarter of 2015, an amount of Bahraini Dinar (BHD) 6 million equivalent to SR 59.7 million was invested with an international bank as long term cash murabah for a period of two years with an annual profit margin of 2.25% and the total earned commission from these investment amounted to SR 3.8 million during 2015.

In December 2007, one of the subsidiaries invested 1,508 Malaysian Ringgit (“MR”) (equivalent to SR 1,315 million) (2014: SR 1,688 million) in Sukuk for 50 years (callable after 10 years) with an annual profit margin of 10.75% (profit margin has been increased by 1.50% to reach 10.75 starting June 29, 2014). The Sukuk investment was financed by a floating rate, 10 years term loan denominated in MR, for an equivalent amount. At the same time as Sukuk investment and term loan, the underlying Sukuk and loan cash flows (coupons and financing cost only) were hedged for interest rate and foreign exchange risk. In 2015, the hedge agreement was unwound, and since Sukuk and term loan principle amounts are naturally hedged for foreign exchange risk as both are dominated in Malaysian Ringgit, there is no effect on the income statement from the exchange rate fluctuations.

9 PROPERTY, PLANT AND EQUIPMENT, NET

(Thousands of Saudi Riyals)	Land and Buildings	Telecommunications Network and Equipment	Other Assets	Capital Work in Progress	Total 2015	Total 2014
Gross book value						
- Balance at January 1	**13,833,274**	**66,844,652**	**6,363,540**	**4,097,329**	**91,138,795**	86,521,169
- Acquisition of a subsidiary	**-**	**-**	**-**	**-**	**-**	744,010
- Additions	**25,000**	**62,642**	**45,992**	**8,937,526**	**9,071,160**	6,094,284
- Transfers	**510,478**	**8,293,769**	**859,671**	**(9,663,918)**	**-**	-
- Disposals	**(201,277)**	**(1,291,480)**	**(139,465)**	**(40,000)**	**(1,672,222)**	(2,131,144)
-Foreign currency translation	**-**	**15**	**(3)**	**268**	**280**	(89,524)
Balance at December 31	**14,167,475**	**73,909,598**	**7,129,735**	**3,331,205**	**98,538,013**	91,138,795
Accumulated depreciation						
- Balance at January 1	**(7,306,254)**	**(41,128,771)**	**(4,475,073)**	**-**	**(52,910,098)**	(48,119,100)
-Acquisition of a subsidiary	**-**	**-**	**-**	**-**	**-**	(481,878)
- Depreciation	**(465,121)**	**(5,542,159)**	**(313,917)**	**-**	**(6,321,197)**	(6,141,566)
- Disposals	**60,697**	**1,098,518**	**21,874**	**-**	**1,181,089**	1,797,183
- Foreign currency translation	**-**	**(209)**	**(7)**	**-**	**(216)**	35,263
Balance at December 31	**(7,710,678)**	**(45,572,621)**	**(4,767,123)**	**-**	**(58,050,422)**	(52,910,098)
Net book value at December 31, 2015	**6,456,797**	**28,336,977**	**2,362,612**	**3,331,205**	**40,487,591**	
Net book value at December 31, 2014	6,527,020	25,715,881	1,888,467	4,097,329		38,228,697

9 PROPERTY, PLANT AND EQUIPMENT, NET (CONTINUED)

(a) Land and buildings include land of SR 2,053 million as at December 31, 2015 (2014: SR 2,143 million).

(b) In accordance with the Royal Decree referred to in Note (1), the ownership of assets had been transferred to the Company on May 2, 1998. However, the transfer of legal ownership of certain land parcels is still in progress. Land parcels for which legal ownership has been transferred to the Company' name amounted to SR 1,943 million as at December 31, 2015. The transfer of the ownership of the remaining land parcels with a value of SR 196 million is still in progress.

(c) Property, plant and equipment includes fixed assets belonging to certain investee companies that are pledged against bank borrowings for the investees for an amount of SR 96 million.

(e) In 2014, the Company has received a resolution from the Ministry of Finance (MOF) requiring the expropriation of a land owned by the Company covering an area of 1,047,000 square meters and located in Alfaisaliah district in Riyadh. The compensation assessed by MOF amounted to SR 726 million and was collected during the first quarter of year 2015. Since the net book value of the relevant land and buildings amounted to SR 131 million, the Company realized a gain of SR 595 million. However, the Company objected to the compensation amount received because the land's assessed value is less than its estimated fair value. On December 2015, Riyadh Administrative Court issued a primary ruling to accept the Company's objection to the appreciation value in consideration of the expropriation of the land and therefore canceling the previous ruling made by the appreciation committee and allowing for a re-valuation of the land.

10 INTANGIBLE ASSETS, NET

(Thousands of Saudi Riyals)	Licenses	Others	Total	
			2015	2014
Total book value				
- Balance at January 1	**5,100,040**	**1,777,196**	**6,877,236**	6,152,139
- Additions	**36,567**	**1,336,558**	**1,373,125**	728,417
- Foreign currency translation	**548**	**385**	**933**	(3,320)
Balance at December 31	**5,137,155**	**3,114,139**	**8,251,294**	6,877,236
Amortization				
- Balance at January 1	**(1,313,332)**	**(1,040,831)**	**(2,354,163)**	(1,468,773)
- Amortization during the year	**(219,191)**	**(893,981)**	**(1,113,172)**	(888,341)
- Foreign currency translation	**(554)**	**(298)**	**(852)**	2,951
Balance at December 31	**(1,533,077)**	**(1,935,110)**	**(3,468,187)**	(2,354,163)
Carrying value at December 31, 2015	**3,604,078**	**1,179,029**	**4,783,107**	
Carrying value at December 31, 2014	3,786,708	736,365		4,523,073

11 OTHER NON-CURRENT ASSETS

Other non-current assets consist of the following:

(Thousands of Saudi Riyals)	2015	2014
Employees' housing loans	**496,902**	660,453
Deferred expenses	**393,144**	202,542
Others	**122,726**	103,588
	1,012,772	966,583

"Other" mainly comprise advanced commissions, advanced fees and refundable deposits.

12 ACCOUNTS PAYABLE

Accounts payable consists of the following:

(Thousands of Saudi Riyals)	2015	2014
Government charges (see Note 5 (d))	**2,009,990**	846,554
Trade payables	**1,786,521**	1,223,604
	3,796,511	2,070,158

13 OTHER CREDIT BALANCES

Other credit balances - current consists of the following:

(Thousands of Saudi Riyals)	2015	2014
Deferred revenues – current	**1,922,916**	1,698,049
Provision for zakat and taxes (see Note 29)	**1,574,266**	1,439,579
Withholding tax provision	**275,173**	253,123
Suppliers' retentions	**118,511**	140,278
Early retirement program accruals	**112,680**	-
Customers' refundable deposits	**78,491**	120,748
Settlement of seconded employees' entitlements	**60,950**	60,950
Others	**718,828**	476,772
	4,861,815	4,189,499

"Others" mainly comprise social insurance dues, dividends payable, and current portion of clubs' sponsorship liabilities.

Other credit balances - non-current consists of the following:

(Thousands of Saudi Riyals)	2015	2014
Deferred revenues – non-current	**1,540,445**	778,337
Financial derivatives	**20,102**	66,500
Others	**604,227**	323,489
	2,164,774	1,168,326

"Others" mainly comprise the non-current portion of clubs' sponsorship liabilities and suppliers' retentions.

14 ACCRUED EXPENSES

Accrued expenses consist of the following:

(Thousands of Saudi Riyals)	2015	2014
Trade accruals	**1,597,471**	1,191,089
Provision for liabilities and commitments	**3,805,753**	1,718,347
External networks' dues settlement	**3,597,572**	1,982,344
Capital expenditures	**1,489,583**	986,356
Employees' accruals	**1,346,912**	1,257,900
Others	**315,687**	650,107
	12,152,978	7,786,143

15 MURABAHAS

Murabahas consist of the following:

(Thousands of Saudi Riyals)	2015	2014
Current portion	**1,903,087**	1,997,246
Non-current portion	**3,744,076**	5,785,169
	5,647,163	7,782,415

15 MURABAHAS (CONTINUED)

The following table indicates the details of murabaha as at December 31:

(Thousands of Saudi Riyals)			Outstanding balance			
			Current portion		Non-current portion	
Nature of Financing	**Date of Financing**	**Date of Final Installment**	**2015**	**2014**	**2015**	**2014**
Murabaha	April 2008	April 2018	**110,000**	110,000	**165,000**	275,000
Murabaha	April 2008	April 2018	**555,556**	555,556	**833,333**	1,388,888
Murabaha	April 2008	April 2018	**388,889**	388,889	**583,333**	972,222
Murabaha	September 2015	July 2018	**41,220**	-	**61,831**	128,166
Murabaha	January 2011	December 2015	**-**	64,083	**-**	-
Murabaha	July 2012	December 2021	**5,368**	5,368	**91,252**	96,626
Murabaha	July 2012	December 2017	**132,095**	99,077	**144,479**	276,591
Murabaha	July 2012	December 2017	**204,146**	153,120	**223,279**	427,459
Murabaha	December 2007	December 2017	**-**	-	**1,315,486**	1,687,500
Murabaha	December 2014	November 2015	-	250,000	**-**	-
Credit facilities	September 2015	June 2018	**115,635**	61,530	**184,855**	290,977
Credit facilities	September 2015	June 2018	**102,911**	53,330	**141,228**	241,740
Tawaruq	-	-	**247,267**	256,293	**-**	-
Total			**1,903,087**	1,997,246	**3,744,076**	5,785,169

- Some of the murabahas mentioned above are guaranteed "fully protected" with bonds and outstanding letters of credit.
- Non-current portion of Murabaha includes Murabaha with an amount of SR 97 million pledged against fixed assets.

16 Sukuk

In the second quarter of year 2014, the Company approved a Sukuk issuance program with a maximum amount of SR 5 billion. The first tranche has been issued as described in the following as at December 31, 2015:

Issuance type	Issuance Date	Issuance Denomination	Issuance Total Amount	Maturity Date
Telecom Sukuk	June 9, 2014	SR 1 Million	SR 2 Billion	June 9, 2024

The Sukuk described above have been issued at the face value without discount or premium. These Sukuk are interest bearing and are calculated on the basis of three months (SIBOR) plus 70 basis points margin payable every three months and for a period of 10 years.

17 PROVISIONS FOR END OF SERVICE BENEFITS

The movement in the provisions for end of service benefits during the year is as follows:

(Thousands of Saudi Riyals)	2015	2014
Balance at January 1	**3,768,489**	3,395,451
Additions during the year	**530,189**	410,338
Settlements/Adjustments during the year	**(223,053)**	(37,300)
Balance at December 31	**4,075,625**	3,768,489

The provision is calculated on the basis of vested benefits to which the employees are entitled should they leave at the balance sheet date, using the employees' latest salaries and allowances and years of service. The Group's companies use benefits programs which comply with the laws applicable in their countries.

18 SHARE CAPITAL

The Company's capital amounts to SR 20,000 million, divided into 2,000 million fully paid shares at par value of SR 10 each. As at December 31, 2015 and 2014, the Government owned 70% of the Company's shares.

19 STATUTORY RESERVE

As per the Company's Articles of Association, 10% of net income is appropriated as statutory reserve until such reserve equals 50% of issued share capital. This reserve is not available for distribution to the Company's shareholders. Based on the approval of the Ordinary General Assembly of Shareholders at its meeting on Rabi Thani 23, 1432 H corresponding to March 28, 2011 it was approved to cease the transfer of statutory reserve since it has reached the legal limit.

20 OTHER RESERVES

Other reserves consists of the following:

(Thousands of Saudi Riyals)	2015	2014
Hedging reserves	**132,187**	199,742
Other reserves	**1,414,389**	953,359
	1,546,576	1,153,101

21 REVENUE FROM SERVICES

Revenue from services consists of the following:

(Thousands of Saudi Riyals)	2015	2014
Usage charges	**29,742,951**	27,527,088
Subscription fees	**19,705,658**	17,283,673
Activation fees	**130,733**	89,332
Others	**1,071,270**	925,547
	50,650,612	45,825,640

22 COST OF SERVICES

Cost of services consists of the following:

(Thousands of Saudi Riyals)	2015	2014
External networks' usage charges	**6,387,435**	7,259,085
Government charges (*)	**4,435,478**	4,233,751
Repair and maintenance	**2,929,784**	2,466,896
Employees' costs	**2,067,184**	1,883,061
Cards recharge and printing cost	**1,786,726**	1,246,996
Rents of equipment, property and vehicles	**994,583**	510,438
Others	**1,704,603**	69,782
	20,305,793	17,670,009

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

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

(Thousands of Saudi Riyals)	2015	2014
Commercial service provisioning fees	**3,631,415**	3,478,364
Frequency spectrum fees	**508,868**	481,226
License fees	**295,195**	274,161
	4,435,478	4,233,751

(Thousands of Saudi Riyals)	2015	2014
Company	**4,147,445**	3,887,189
Subsidiaries	**288,033**	346,562
	4,435,478	4,233,751

23 SELLING AND MARKETING EXPENSES

Selling and marketing expenses consist of the following:

(Thousands of Saudi Riyals)

	2015	2014
Employee costs	**2,347,319**	2,195,224
Provision for doubtful debts	**1,714,542**	1,293,219
Advertising and publicity	**798,085**	673,598
Call center expenses	**366,531**	125,901
Sales commission	**362,174**	271,692
Sport activities sponsorship costs	**359,233**	62,809
Printing of telephone cards and office equipment	**191,700**	136,777
Repair and maintenance	**134,347**	304,377
Telecommunication expenses, postage, and courier	**102,695**	71,565
Consultancies, legal and professional fees	**89,016**	128,163
Others	**733,096**	665,650
	7,198,738	5,928,975

"Others" mainly comprise rents of equipment, property, and motor vehicles, security and safety, and utilities expenses.

24 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses consist of the following:

(Thousands of Saudi Riyals)

	2015	2014
Employees' costs	**2,069,768**	1,651,532
Repair and maintenance	**548,479**	496,300
Consultancies, legal and professional fees	**336,378**	301,937
Rents of equipment, property and vehicles	**307,923**	308,208
Security and safety expenses	**92,014**	86,706
Premises expenses	**55,914**	51,191
Others	**441,954**	270,285
	3,852,430	3,166,159

"Others" comprise various items, the main ones being: insurance premiums, office supplies, freight, handling, postage, and courier expenses.

25 DEPRECIATION AND AMORTIZATION

Depreciation and amortization consist of the following:

(Thousands of Saudi Riyals)

	2015	2014
Depreciation (see Note 9)	**6,321,197**	6,141,566
Amortization (see Note 10)	**1,113,172**	888,341
	7,434,369	7,029,907

26 IMPAIRMENT LOSSES RELATED TO INVESTMENTS

In the fourth quarter of year 2014, the Group recognized impairment amounting to SR 399 million in relation to its investment in Oger Telecom Ltd (resulting from Cell C Company - one of Oger Telecom's subsidiaries). (See Note 7).

27 FINANCE COSTS

Finance costs comprise the following:

(Thousands of Saudi Riyals)	2015	2014
Company	**64,523**	156,795
Subsidiaries	**173,887**	77,728
	238,410	234,523

28 OTHER, NET

Other expenses and income, net consist of the following:

(Thousands of Saudi Riyals)

	2015	2014
Miscellaneous revenues	**757,441**	868,869
(Losses)/Gains on sale or disposal of property, plant and equipment	**(360,193)**	402,722
Miscellaneous expenses	**(1,194,025)**	(633,788)
	796,777	637,803

- Miscellaneous revenues for the year ended December 31, 2015 mainly include gains of SR 91 million resulting from the acquisition of a subsidiary (see Note 34) and suppliers delay penalties amounting to SR 178 million (2014: SR 107 million).
- Gains and losses on sale or disposal of property, plant, and equipment for the year ended 31 December 2014 includes a gain amount of SR 595 million resulting from the compensation that was assessed against the expropriation of the land owned by the Company located in Alfaisaliah district in Riyadh (see Note 9).
- Miscellaneous expenses for the year ended December 31, 2015 mainly include two-month salary of SR 395 million paid to the Company's employees following a Royal Decree.

29 ZAKAT AND TAXATION PROVISION

(a) Zakat base

(Thousands of Saudi Riyals)	2015	2014
Share capital – beginning of the year	**20,000,000**	20,000,000
Additions:		
Retained earnings, statutory reserve and Provisions – beginning of the year	**47,829,118**	42,272,856
Borrowings and payables	**8,892,725**	8,646,102
Adjusted net income	**11,181,514**	12,693,644
Adjusted total shareholders' equity	**87,903,357**	83,612,602
Deductions:		
Net property (adjusted) and investments	**53,073,347**	54,154,761
Dividends paid	**8,018,959**	6,469,730
Deferred expenses and other balances	**1,217,620**	1,235,801
Total adjusted deductions	**62,309,926**	61,860,292
Zakat base	**25,593,431**	21,752,310
Zakat on fully owned ownership companies	**639,836**	543,808
Adjustment related to year 2013	**-**	158,877
Total Zakat on fully owned ownership companies	**639,836**	702,685
Add: Zakat on partially owned companies	**55,973**	71,903
Total consolidated zakat expense	**695,809**	774,588

(b) Zakat provision

(Thousands of Saudi Riyals)	2015	2014
Balance at January 1	**1,438,662**	1,038,998
Charge for the year	**695,809**	774,588
Amounts paid during the year	**(560,975)**	(374,924)
Balance at December 31	**1,573,496**	1,438,662

Final zakat assessments were submitted for the years since inception through 2014. Effective from the year 2009, the Company started the submission of one zakat declaration for the Company and its fully-owned subsidiaries (whether directly or indirectly) in accordance with the Ministerial Decree No.1005 dated 28/4/1428H.

As described in the accounting policies, the Company calculates zakat depending on zakat base without comparing it with adjusted net income as required by the Department of Zakat and Income. The Company believes that the comparison does not represent the proper basis for the calculation of Sharia zakat according to the zakat collection system and the Sharia rules.

Final zakat assessments were received for the years since inception through 2009. The Company accepted zakat assessments up to 2006, and submitted objections for the year 2007 through 2009. The total zakat differences for these objections amounted to SR 602 million and the Company provided bank guarantees against it. These objections are still at different stages with the objection and appeal committees as at the reporting date of these consolidated financial statements. The zakat assessments for the years 2010 through 2014 are still under study at the Department of Zakat as at the reporting date of these consolidated financial statements.

29 ZAKAT AND TAXATION PROVISION (CONTINUED)

(c) TAX PROVISION

The tax amount shown in the consolidated statement of income represents the Group's share of taxes charged on subsidiaries in accordance with tax laws applicable in their countries. The tax expenses for the year ended on December 31, 2015 amounted to SR 1,035 thousand (2014: SR 107 thousand) and the balance of the provision as at December 31, 2015 amounted to SR 770 thousand (2014: SR 917 thousand).

30 RELATED PARTY TRANSACTIONS

Government entities in the Kingdom of Saudi Arabia

The Company provides various services to the Government such as voice, data transfer and other services.

The revenues and expenses related to Governmental entities in 2015 (including Government charges disclosed in Note 22 above) amounted to SR 3,387 million and SR 4,158 million, respectively (2014: SR 3,267 million and SR 3,925 million, respectively).

As at December 31, 2015, accounts receivable from and accounts payable to Government entities totaled SR 6,383 million and SR 2,010 million, respectively. (2014: SR 3,458 million and SR 847 million, respectively).

Joint ventures and associates

Transactions and the outstanding balances with joint ventures and investments accounted for under the equity method during the year were not material except for the investment in Sukuk amounting to SR 1,315 (2014: SR 1,688 million) (See Note 8).

Subsidiaries

The related parties transactions with subsidiaries amounted to SR 22,598 million during the year and the outstanding balances were SR 4,985 million as at December 31, 2015 (2014: transactions amounted to SR 22,725 million and the outstanding balances amounted to SR 4,368 million). All transactions and balances were eliminated at the time of consolidation from the consolidated financial statements.

31 COMMITMENTS AND CONTINGENCIES

Commitments

(a) The Group enters into commitments in the ordinary course of business for major capital expenditures, primarily in connection with its network expansion programs. Outstanding capital expenditure commitments amounted to SR 3,501 million as at December 31, 2015 (2014: SR 2,880 million).

(b) Certain lands and buildings, for use in the Group's operations, are leased under operating lease commitments expiring at various future dates. The following schedule present operating lease commitment:

(Thousands of Saudi Riyals)	2015	2014
During 12 months	**535,914**	529,783
From 2 to 5 years	**1,137,232**	1,259,340
More than 5 years	**413,707**	628,497

31 COMMITMENTS AND CONTINGENCIES (CONTINUED)

(c) One of the subsidiaries has an agreement to invest in a fund aiming to improve the telecommunication and internet environment in the gulf region for USD 300 million (equivalent to SR 1,125 billion).

Contingencies

- The Group has outstanding letters of guarantee amounting to SR 3,955 million as at December 31, 2015 (2014: SR 4,012 million) which include a letter of guarantee amounting to USD 142 million (equivalent to SR 533 million) (2014: USD 142 million equivalent to SR 533 million) issued in favor of XL Axiata in relation to PT Axis, whose sale transactions was completed during the year 2014, value added tax (VAT) pending case with the Indonesian tax authorities. Based on existing facts and technical tax opinions obtained, the result of the pending case is expected to be in favor of PT Axis. Also, the Group's share of the outstanding guarantee letters of its investments in joint ventures amounts to SR 796 million (2014: SR 539 million).
- The Company received confirmation request letter from the Communications and Information Technology Commission (CITC) for an amount of SR 5.4 billion. This amount includes government charges paid by the Company on a regular basis in addition to other material amounts that are under dispute between the Company and CITC in relation to calculation method of government charges. The dispute relates to the telecommunications sector in the Kingdom as part of its normal operations and does not pertain to the Company only. However, based on independent legal opinions and similar judicial rulings in the telecommunication market in the Kingdom, the Company's management believes that these amounts are invalid. Furthermore, the Company is currently claiming to refund material government fees paid during the previous years to CITC which is also relating to the same method of government charges. Accordingly, and based on the nature of these disputes and provisions that are recorded, the Company's management does not believe that this dispute will result in any additional material provisions in the future.
- The Group has outstanding letters of credit as at December 31, 2015 amounting to SR 536 million (2014: SR 188 million).
- The Company, in its ordinary course of business, is subject to proceedings, lawsuits and other claims. However, these matters are not expected to have a material impact neither on the Company's financial position nor on the results of its operations as reflected in these consolidated financial statements.

32 FINANCIAL INSTRUMENTS

Fair value
Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The management does not believe that the fair value of the Group's financial assets and liabilities differ materially from its carrying value as at December 31, 2015 and 2014.

Commission rate risk
Commission rate risk comprises various risks related to the effect of changes in commission rates on the Group's financial position and its cash flows. The Group manages its cash flows by controlling the timing between cash inflow and outflow. Surplus cash is invested to increase the Group's commission income through holding balances in short-term and long-term deposits and murabahas. However, the related commission rate risk is not considered to be significant.

Currency risk
Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Management monitors fluctuations in foreign currency exchange rates and enters into

32 FINANCIAL INSTRUMENTS (CONTINUED)

hedging agreements when needed to reduce the foreign currency exchange rates risk. The official currency of the Group is the Saudi Riyal, the base currency dealing by the Group and its price is currently fixed with a minor margin against the U.S. dollar.

Credit risk

Credit risk is the risk that other parties will fail to discharge their obligations to the Group and cause the Group to incur a financial loss. Financial instruments that subject the Group to concentrations of credit risk consist primarily of cash balances and accounts receivable. The Group deposits its cash balances with a number of major high credit-rated financial institutions and has a policy of limiting its balances deposited with each institution. The Group does not believe that there is a significant risk of non-performance by these financial institutions. The Group does not consider itself exposed to a concentration of credit risk with respect to accounts receivable due to its diverse customer base (residential, professional, large commercial business and public entities) operating in various industries and located in many regions.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity is managed by periodically ensuring its availability in amounts sufficient to meet any future commitments when they become due. The Group does not consider itself exposed to significant risks in relation to liquidity.

33 SEGMENT INFORMATION

- According to the main activities of the Group

The Group has identified its main operating segments by the type of service provided by the Group and transactions between operating segments occur in accordance with the normal trade provisions and terms. There are no other substantial revenues or expenses between segments.

The main operating segments of the Group comprise:

- GSM, for which the main services are: mobile, third and fourth generation services, prepaid cards, international roaming and messages.
- PSTN, for which the main services are: fixed line, card telephones, interconnect and international calls.
- DATA, for which the main services are: leased data transmission circuits, and DSL.
- Un-allocated, pertains to services which could not be linked with the main operating segments of the Group.

33 SEGMENT INFORMATION (CONTINUED)

The following table shows the information according to the Group`s main activities for the year ended December 31, 2015:

(Thousands of Saudi Riyals)	GSM	PSTN	DATA	Un-allocated /adjusted	TOTAL
Revenue from services	37,518,388	5,859,544	7,181,971	90,709	50,650,612
Interconnect revenues	966,493	7,882,697	1,408,866	-	10,258,056
Interconnect expenses	(5,005,373)	(1,472,333)	(3,780,350)	-	(10,258,056)
Net revenues from services	33,479,508	12,269,908	4,810,487	90,709	50,650,612
Depreciation and amortization	3,152,428	3,281,579	725,710	274,652	7,434,369
Net income/(loss)	10,879,423	(1,940,134)	1,149,961	(830,822)	9,258,428
Total assets	33,716,590	26,001,867	14,450,669	22,491,983	96,661,109
Total liabilities	17,327,455	8,950,025	5,362,763	3,058,623	34,698,866

The following table shows the information according to the Group`s activities for the year ended December 31, 2014 as follows:

(Thousands of Saudi Riyals)	GSM	PSTN	DATA	Un-allocated / adjusted	TOTAL
Revenue from services	33,191,005	5,950,385	6,689,979	(5,729)	45,825,640
Interconnect revenues	1,354,452	8,956,264	1,211,874	-	11,522,590
Interconnect expenses	(5,078,480)	(1,747,944)	(4,696,166)	-	(11,522,590)
Net revenue from services	29,466,977	13,158,705	3,205,687	(5,729)	45,825,640
Depreciation and amortization	3,499,816	2,587,559	706,200	236,332	7,029,907
Net income/(loss)	10,902,010	(516,524)	634,030	(60,026)	10,959,490
Total assets	30,197,668	25,318,872	10,503,106	24,073,994	90,093,640
Total liabilities	13,169,612	6,638,321	3,625,054	5,332,043	28,765,030

- According to Group operations

The Group has divided its operations into domestic and international operations.

The following table shows the segmental information according to Group operations during the year ended December 31:

2015

(Thousands of Saudi Riyals)	Domestic Operations	International Operations		
	KSA	VIVA Bahrain	Intigral Holding Company	Kuwait Telecom Company (VIVA)
Operating revenues (*)	46,829,158	1,434,917	322,914	3,422,209
Total assets (**)	109,647,160	2,294,768	450,324	3,253,799

***The financial statements consolidation adjustments relating to the revenues amounted to SR (1,358,586) thousand.**
**** The financial statements consolidation adjustments relating to the assets amounted to SR (18,984,942) thousand.**

2014

(Thousands of Saudi Riyals)	Domestic Operations	International Operations		
	KSA	VIVA Bahrain	Intigral Holding Company	Kuwait Telecom Company (VIVA)
Operating revenues (*)	42,919,001	1,349,910	387,929	3,078,408
Total assets (**)	100,782,664	2,500,619	466,207	2,742,806

*The financial statements consolidation adjustments relating to the revenues amounted to SR (1,909,608) thousand.

** The financial statements consolidation adjustments relating to the assets amounted to SR (16,398,656) thousand.

34 PUBLIC TELECOMMUNICATION COMAPANY LIMITED “BRAVO”

On October 31, 2013, the Company signed an agreement with Wataniya International FZ, a limited liability company, and Al Wataniya Gulf Telecommunications Holding Company (collectively referred as the Other Party) whereby full ownership of BRAVO, a Saudi Arabian limited liability company, shall be transferred to the Company, against the settlement of all its dues, as it has been agreed that other party will pay an amount of SR 244 million in addition to transfer all of Bravo assets to the Company.

Bravo is one of the telecommunication companies operating in the Kingdom through the Build Operate Transfer (BOT) agreement with the Company for 15 years contract. BRAVO commenced its operations in year 2005 to provide Push To Talk wireless communication service using iDEN technology operating on the SMR800 frequency band.

On January 30, 2014, the ownership transfer of BRAVO to the Company has been completed after obtaining the approval from the regulatory authorities.

The carrying value of BRAVO net assets amounting to SR 381 million at purchase date was acquired against the remaining outstanding balances due to the Company of SR 202 million, resulting into an excess amount of SR 179 million recorded as a provision subject to fair value determination of net assets acquired. The fair value of acquired net assets will be determined based on the price purchase allocation expected to be completed within a year from the acquisition date. During the first quarter of year 2015, the price purchase allocation was completed resulting into the following:

	(Millions of Saudi Riyals)
Consideration amount	(202)
Fair value of identified net assets as of the acquisition date	293
Gains from acquisition (See Note 28)	**91**

35 SUBSEQUENT EVENTS

- Subsidiary ownership increase

On January 31, 2016, the allotted time period for the voluntary offer submitted by the Company to acquire the remaining 74% issued shares of Kuwait Telecom Company (VIVA) not already owned by STC, has ended. The number of shares that accepted the offer accumulated to 128,860,518 shares which represent 25.8% of total issued shares of VIVA. The total value of acquired shares amounted to Kuwaiti Dinar KD 128, 860,518 (equivalent to SR 1,590,138,792) on the basis of purchase price of KD 1 per share (equivalent to SR 12.34 per share). Hence the Company’s share in VIVA became 51.8% instead of 26.0%.

- Dividend distribution

The Board of Directors in its meeting held on 28 Muharram 1437H (corresponding to 10 November 2015), approved the dividend policy for the three years starting from the 4th quarter 2015, which will

35 SUBSEQUENT EVENTS (CONTINUED)

also be approved by the general assembly. This dividend policy is based on maintaining a minimum level of distributions representing SR 1 per share quarterly. According to this policy, the Board of Directors recommended interim cash dividends to the shareholders for the 4th quarter 2015 amounting to SR 2,000 million, representing SR 1 on each outstanding share. Therefore, the total distributed dividend for the year 2015 amounted to SR 4 per share (2014: SR 3.50 per share).

- Financial statements approval
The Board approved in its meeting held on 9 Jumada Al Awla 1437 H (corresponding to 18 February 2016) the consolidated financial statements for the year 2015.

36 RECLASSIFICATION

Certain figures for the year ended December 31, 2014 have been reclassified to conform to the presentation used for the year ended December 31, 2015.