Saudi Telecom Company

(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED
31 MARCH 2018
(Unaudited)

First Quarter
2018

INDEX

Building a better working world

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Independent auditor's review report on the interim condensed consolidated financial statements to the shareholders of Saudi Telecom Company

(A Saudi Joint Stock Company)

Introduction:

We have reviewed the accompanying interim condensed consolidated statement of financial position of Saudi Telecom Company - a Saudi Joint Stock Company ("the Company") and its subsidiaries (collectively referred to as "the Group") as at 31 March 2018 and the related interim condensed consolidated statements of profit or loss, comprehensive income, cash flows and changes in equity for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review:

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" endorsed in the Kingdom of Saudi Arabia. A review of interim financial statements consists of making inquiries, primarily to persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion:

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 endorsed in the Kingdom of Saudi Arabia.

for Ernst & Young

Rashid S. AlRashoud
Certified Public Accountant
License No. (366)

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

Riyadh: 8 Sha'ban 1439H
(24 April 2018)

Saudi Telecom Company
A Saudi Joint Stock Company

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
AS AT 31 MARCH 2018
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	**31 March 2018**	31 December 2017 (Restated-Note 4)
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	6	**39,722,042**	39,940,616
Intangible assets and goodwill	7	**9,122,374**	7,164,997
Investments in associates and joint ventures		**6,851,869**	6,908,653
Other non-current assets	8	**9,933,584**	9,807,209
TOTAL NON-CURRENT ASSETS		**65,629,869**	63,821,475
CURRENT ASSETS			
Inventories		**372,232**	470,670
Trade and other receivables	11	**22,820,977**	20,936,620
Short term murabahas		**14,245,574**	14,465,364
Other current assets	9	**8,265,676**	6,866,309
Cash and cash equivalents		**3,675,594**	2,566,954
TOTAL CURRENT ASSETS		**49,380,053**	45,305,917
TOTAL ASSETS		**115,009,922**	109,127,392
EQUITY AND LIABILITIES			
EQUITY			
Issued capital		**20,000,000**	20,000,000
Statutory reserves		**10,000,000**	10,000,000
Other reserves		**(1,713,738)**	(1,665,823)
Retained earnings		**35,181,286**	34,593,756
Equity attributable to the holders of the Parent Company		**63,467,548**	62,927,933
Non-controlling interests		**912,403**	939,189
TOTAL EQUITY		**64,379,951**	63,867,122
LIABILITIES			
NON-CURRENT LIABILITIES			
Long term borrowings	13	**4,054,183**	4,005,980
Provisions		**1,086,225**	1,202,448
Provision for end of service benefit	14	**3,981,053**	3,922,769
Deferred income		**1,127,572**	990,275
Other non-current liabilities	15	**2,381,413**	918,708
TOTAL NON-CURRENT LIABILITIES		**12,630,446**	11,040,180
CURRENT LIABILITIES			
Trade and other payables		**14,742,286**	13,800,955
Short term borrowings	13	**344,947**	647,763
Provisions		**8,113,122**	7,633,984
Deferred income		**107,877**	96,431
Zakat and income tax liabilities	17	**1,618,441**	1,488,001
Other current liabilities	16	**13,072,852**	10,552,956
TOTAL CURRENT LIABILITIES		**37,999,525**	34,220,090
TOTAL LIABILITIES		**50,629,971**	45,260,270
TOTAL EQUITY AND LIABILITIES		**115,009,922**	109,127,392

Saudi Telecom Company
A Saudi Joint Stock Company

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	**For the three months period ended 31 March**	
		2018	2017 (Restated-Note 4)
Revenues	5	**12,385,959**	12,524,106
Cost of revenues		**(5,389,377)**	(5,600,226)
GROSS PROFIT		**6,996,582**	6,923,880
OPERATING EXPENSES			
Selling and marketing		**(1,202,674)**	(1,340,073)
General and administration		**(1,149,651)**	(1,033,246)
Depreciation and amortisation	6 & 7	**(2,011,903)**	(1,935,493)
TOTAL OPERATING EXPENSES		**(4,364,228)**	(4,308,812)
OPERATING PROFIT		**2,632,354**	2,615,068
OTHER INCOME AND EXPENSES			
Cost of early retirement		**-**	(150,000)
Finance income		**149,668**	182,706
Finance costs		**(97,434)**	(90,420)
Other income, net		**94,429**	73,506
Share of gain from investments in associates and joint ventures, net		**36,025**	83,523
Other gains, net		**40,988**	54,888
TOTAL OTHER INCOME AND EXENSES		**223,676**	154,203
NET PROFIT BEFORE ZAKAT, TAXES AND NON-CONTROLLING INTERESTS		**2,856,030**	2,769,271
Zakat and income tax	17	**(198,639)**	(177,893)
NET PROFIT		**2,657,391**	2,591,378
Net profit attributable to:			
Equity holders		**2,587,530**	2,534,746
Non-controlling interests		**69,861**	56,632
		2,657,391	2,591,378
Basic and diluted earnings per share (In Saudi Riyals)		**1.29**	1.27

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018
(All amounts in Saudi Riyals thousands unless otherwise stated)

		For the three months period ended 31 March	
	Notes	***2018***	*2017* (Restated-Note 4)
NET PROFIT		**2,657,391**	2,591,378
OTHER COMPREHENSIVE LOSS			
Items that will not be reclassified subsequently to consolidated statement of profit or loss:			
Re-measurement of end of service benefit provision	14	**(16,022)**	2,355
Fair value changes on equity instruments measured at fair value through other comprehensive income (FVOCI)	10	**(2,357)**	(10,191)
Total items that will not be reclassified subsequently to consolidated statement of profit or loss		**(18,379)**	(7,836)
Items that will be reclassified subsequently to consolidated statement of profit or loss:			
Foreign currency translation differences		**(37,225)**	(9,676)
Fair value changes from cash flow hedges		**1,160**	5,146
Total items that will be reclassified subsequently to consolidated statement of profit or loss		**(36,065)**	(4,530)
TOTAL OTHER COMPREHENSIVE LOSS		**(54,444)**	(12,366)
TOTAL COMPREHENSIVE INCOME		**2,602,947**	2,579,012
Total comprehensive income attributable to:			
Equity holders		**2,539,615**	2,513,292
Non-controlling interests		**63,332**	65,720
		2,602,947	2,579,012

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	For the three months period ended 31 March 2018	2017 (Restated - Note 4)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit before zakat, taxes and non-controlling interests		**2,856,030**	2,769,271
Adjustments for:			
Depreciation and amortisation	6 & 7	**2,011,903**	1,935,493
Impairment on trade receivables and contract costs		**223,689**	219,679
Finance income		**(149,668)**	(182,706)
Finance costs		**97,434**	90,420
Provision for employee end of service benefits and other provisions		**772,160**	829,464
Share of gain from investments in associates and joint ventures, net		**(36,025)**	(83,523)
Other gains, net		**(40,988)**	(54,888)
Operating profit before working capital adjustments		**5,734,535**	5,523,210
Movements in working capital:			
Trade and other receivables		**(2,189,023)**	308,246
Inventories		**98,430**	8,418
Other assets		**(1,744,140)**	(102,887)
Trade and other payables		**807,083**	(2,043,923)
Deferred income		**148,742**	82,602
Other liabilities		**305,372**	622,346
Cash generated from operations		**3,160,999**	4,398,012
Less: Income taxes and zakat paid	17	**(63,022)**	(1,269)
Less: Employee end of service benefits paid		**(74,347)**	(22,963)
Net cash from operating activities		**3,023,630**	4,373,780
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	6	**(1,349,213)**	(1,888,360)
Additions to intangible assets	7	**(197,160)**	(280,990)
Proceeds from sale of property, plant and equipment		**6,876**	844
Purchase of interest in an associate		**-**	(375,095)
Dividends received from associates		**-**	65,987
Proceeds from finance income		**55,586**	73,309
Proceeds and payments related to financial assets, net		**(76,175)**	(1,719,456)
Net cash used in investing activities		**(1,560,086)**	(4,123,761)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		**(1,994)**	(2,246)
Acquisition of non-controlling interests in a subsidiary		**-**	(400,000)
Repayment of borrowings	13	**(334,021)**	(341,086)
Finance costs paid		**(21,762)**	(31,817)
Net cash used in financing activities		**(357,777)**	(775,149)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**1,105,767**	(525,130)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		**2,566,954**	3,631,202
Net foreign exchange difference		**2,873**	542
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		**3,675,594**	3,106,614

Saudi Telecom Company
A Saudi Joint Stock Company

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2018
(All amounts in Saudi Riyals thousands unless otherwise stated)

		Attributable to equity holders of the Parent Company						
	Notes	*Issued capital*	*Statutory reserves*	*Other reserves*	*Retained earnings*	*Total equity holders*	*Non-controlling interests*	*Total equity*
As at 1 January 2017, as previously reported		20,000,000	10,000,000	(1,935,833)	31,877,188	59,941,355	1,336,976	61,278,331
Impact of adoption of new standards		-	-	360	745,027	745,387	(81,251)	664,136
As at 1 January 2017 (as restated)		20,000,000	10,000,000	(1,935,473)	32,622,215	60,686,742	1,255,725	61,942,467
Net profit for the period (as restated)		-	-	-	2,534,746	2,534,746	56,632	2,591,378
Other comprehensive loss (as restated)		-	-	(11,782)	-	(11,782)	(584)	(12,366)
Total comprehensive income (as restated)		-	-	(11,782)	2,534,746	2,522,964	56,048	2,579,012
Dividends paid to shareholders	20	-	-	-	(2,000,000)	(2,000,000)	-	(2,000,000)
Acquisition of non-controlling interests		-	-	106,827	-	106,827	(506,827)	(400,000)
Dividends paid to non-controlling interests		-	-	-	-	-	(29,595)	(29,595)
Balance at 31 March 2017 (as restated)		20,000,000	10,000,000	(1,840,428)	33,156,961	61,316,533	775,351	62,091,884
As at 1 January 2018		**20,000,000**	**10,000,000**	**(1,665,823)**	**34,593,756**	**62,927,933**	**939,189**	**63,867,122**
Net profit		**-**	**-**	**-**	**2,587,530**	**2,587,530**	**69,861**	**2,657,391**
Other comprehensive loss		**-**	**-**	**(47,915)**	**-**	**(47,915)**	**(6,529)**	**(54,444)**
Total comprehensive income		**-**	**-**	**(47,915)**	**2,587,530**	**2,539,615**	**63,332**	**2,602,947**
Dividends paid to shareholders	20	**-**	**-**	**-**	**(2,000,000)**	**(2,000,000)**	**-**	**(2,000,000)**
Dividends paid to non-controlling interests		**-**	**-**	**-**	**-**	**-**	**(90,118)**	**(90,118)**
Balance at 31 March 2018		**20,000,000**	**10,000,000**	**(1,713,738)**	**35,181,286**	**63,467,548**	**912,403**	**64,379,951**

1. GENERAL INFORMATION

A) ESTABLISHMENT OF THE COMPANY

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

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

B) GROUP ACTIVITIES

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

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

b- Deliver, provide, maintain and manage diverse telecommunication and information technology (IT) services to customers.

c- Prepare the required plans and necessary studies to develop, implement and provide the telecom and IT services covering all technical, financial and administrative aspects. In addition, prepare and implement training plans in the field of telecommunications and IT, and provide consultancy services.

d- Expand and develop telecommunication networks, systems, and infrastructure by utilizing the most current devices and equipment in telecom technology, especially in the fields of providing and managing services, applications and software.

e- Provide integrated communication and information technology solutions for instance (telecom, IT services, managed services, and cloud computing services, etc.).

f- Provide information-based systems and technologies to customers including preparing, printing and distributing phone and commercial directories, information bulletins, and provide the telecommunication means for the transfer of internet services.

g- Wholesale and retail trade, import, export, purchase, own, lease, manufacturing, marketing, selling, developing, design, setup and maintenance of devices, equipment, and components of different telecom 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.

h- Real estate investment and the resulting activities, such as selling, buying, leasing, managing, developing and maintenance.

i- Acquire loans and own fixed and movable assets for intended use.

j- Provide financial and managerial support and other services to subsidiaries.

1. GENERAL INFORMATION (CONTINUED)

B) GROUP ACTIVITIES (CONTINUED)

k- Provide development and training-related services, in addition to assets management, development and other related services.

l- Provide decision support, business intelligence and data investment solutions.

m- Provide supply chain services and other related services.

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

2. BASIS OF PREPARATION

These interim condensed consolidated financial statements for the period ended 31 March 2018 have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” IAS 34 that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants (“SOCPA”).

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements in accordance with International Financial Reporting Standards, and should be read in conjunction with the Group’s annual consolidated financial statements as at 31 December 2017.

3. THE GROUP’S ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standards, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments that require restatement of previous financial statements. As required by IAS 34, the nature and effect of these changes are disclosed below (see note 4).

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

4.1 IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has adopted IFRS 9 retrospectively and applied the new standard to prior reporting period presented, i.e. 2017, in accordance with IAS 8 ‘Accounting Policies, Changes in Accounting Estimates and Errors’. It is applicable to financial assets and financial liabilities and covers the classification, measurement, impairment and de-recognition of financial assets and liabilities together with a new hedge accounting model.

a) **Recognition, classification and presentation**

Financial instruments are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

4. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP (CONTINUED)

4.1 IFRS 9 FINANCIAL INSTRUMENTS (CONTINUED)

The Group determines the classification of its financial instruments at initial recognition.

The Group classifies its financial assets in the following categories:

a) those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss) and,
b) those to be measured at amortised cost.

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

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

b) **Measurement**

<u>Initial measurement</u>

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

<u>Subsequent measurement of financial assets</u>

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

a. Financial assets measured at amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost using the effective interest rate ('EIR') method (if the impact of discounting / any transaction costs is significant). Interest income from these financial assets is included in finance income.

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

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

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

Financial assets measured at fair value through other comprehensive income ("FVOCI") are re-measured to fair value at each financial reporting date. No deduction is made for transaction costs that might be incurred when the asset is disposed of in the future.

When the financial asset is derecognized, the related accumulated fair value adjustments in consolidated OCI as at the date of derecognition are reclassified from equity and recognized in the consolidated statement of profit and loss. However, there is no subsequent reclassification of fair value gains and losses to consolidated statement of profit and loss in case of equity instruments.

4. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP (CONTINUED)

4.1 IFRS 9 FINANCIAL INSTRUMENTS (CONTINUED)

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

Measurement category	**Recognition and presentation of gains and losses**
Amortised cost	The following items are recognized in profit or loss: • interest revenue using the effective interest method; • expected credit losses and reversals; and • foreign exchange gains and losses. When the financial asset is derecognized, the gain or loss is recognized in consolidated statement of profit or loss.
Fair value through consolidated other comprehensive income	Gains and losses are recognized in OCI, except for the following items, which are recognized in consolidated statement of profit or loss in the same manner as for financial assets measured at amortized cost: • interest revenue using the effective interest method; • expected credit losses and loss reversals; and • foreign exchange gains and losses. .
Equity investments – presentation of gains or losses in consolidated OCI	Gains and losses are recognized in OCI. Dividends are recognized in consolidated statement of profit or loss unless they clearly represent a repayment of part of the cost of the investment. The amounts recognized in OCI are not reclassified to consolidated statement of profit or loss under any circumstances.
Fair value through consolidated statement of profit or loss	Gains and losses, both on subsequent measurement and derecognition, are recognized in consolidated statement of profit or loss.

Subsequent measurement of financial liabilities

A. Amortized cost

Subsequent to initial recognition, financial liabilities are measured at amortized cost calculated under the effective interest method except for liabilities;

1. Measured at consolidated FVTPL;
2. That arise when a transfer of a financial asset does not qualify for derecognition or is accounted for using the continuing involvement approach:
3. That are commitments to provide a loan at a below-market interest rate and not measured at fair value through condensed consolidated statement of profit or loss:
4. That are financial guarantee contracts.

4. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP (CONTINUED)

4.1 IFRS 9 FINANCIAL INSTRUMENTS (CONTINUED)

5. Contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies. Such contingent consideration shall subsequently be measured at fair value with changes recognised in the consolidated statement of profit or loss.

Gains or losses on financial liabilities that are measured at fair value and that are not part of a hedging relationship are generally recognized in condensed consolidated statement of profit or loss. The only exception is for gains and losses on certain financial liabilities designated as at FVTPL when the entity is required to present the effects of changes in the liability's credit risk in OCI.

B. Liabilities at fair value through profit or loss

Financial liabilities falling under this category include:

1. liabilities held for trading;
2. derivative liabilities not designated as hedging instruments: and
3. those designated as at FVTPL.

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

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

1. the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that financial liability is presented in the consolidated statement of OCI; and
2. the remaining amount of change in the fair value of the financial liability is presented in the consolidated statement of profit or loss.

C. Liabilities other than financial liabilities at FVTPL

Financial liabilities are measured at amortised cost using the effective interest rate. The proceeds from issuing debt are adjusted over the life of the debt so that the carrying amount at maturity is the amount repayable at maturity.

Financial liabilities that are designated as hedged items are subject to the hedge accounting requirements.

IMPAIRMENT OF FINANCIAL INSTRUMENTS

With respect to impairment of financial assets, IFRS 9 requires the use of the expected credit loss model instead of the credit loss model incurred under IAS 39, whereby the Company assesses the expected credit losses associated with its assets carried at amortized cost and debt instrument carried at FV through the consolidated OCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk since initial recognition. Accordingly, the provision for impairment of financial instruments is measured by the amount of the expected credit losses over the life of the financial instrument. If credit risk has not increased significantly, 12 months ECL is used to provide for impairment provision.

For trade receivables and contractual assets, the Group applies a simplified approach to measure the provision for loss in an amount equal to the expected credit loss over the life of the financial instrument.

NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP (CONTINUED)

4.1 IFRS 9 FINANCIAL INSTRUMENTS (CONTINUED)

IMPAIRMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

Derecognition of financial assets
The financial assets are derecognized from the consolidated statement of financial position when the rights to receive cash flows from the financial assets have expired, or have been transferred and the Group has transferred substantially all risks and rewards of ownership. The difference in the carrying amount is recognized in the consolidated statement of profit and loss.

Derecognition of financial liabilities
The financial liabilities are derecognized from the balance sheet when the underlying obligations are extinguished, discharged, lapsed, cancelled, expires or legally released.

OFFSETTING OF FINANCIAL INSTRUMENTS

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

1. The Group currently has a legally enforceable right to set off the recognized amounts of the asset and liability; and,
2. Intention to settle on a net basis is exist, or to realize the asset and settle the liability simultaneously.

4.2 IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations of IFRS. And it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires the Group to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

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

The entity's timing of revenue recognition is either at a point in time or over time depending upon the satisfaction of the performance obligation by transferring control of good or service to the customer.

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP (CONTINUED)

4.2 IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

Product and services	Nature and timing of satisfaction of performance obligation
Telecommunication services	Telecommunication services include voice, data and text services. The Group recognizes revenue as and when these services are provided (i.e. actual usage by the customer).
Bundled packages	The Group accounts for individual products and services separately if they are distinct. The consideration is allocated between separate products and services in a bundled based on their standalone selling prices.
Devices	The Group recognizes revenue when the control of the device is transferred to the customer. This usually occurs at the contract inception when the customer takes the possession of the device.

The Group adopted IFRS 15 and IFRS 9 using the full retrospective method of adoption. The effect of applying those standards is as follows:

- Consolidated statement of financial position as of 31 December 2017:

	As reported under IAS 18 and IAS 39	Adjustments	As restated under IFRS 15 and IFRS 9
Intangible assets	7,773,839	(608,842)	7,164,997
Contract costs **(a)**	-	1,149,387	1,149,387
Contract assets (**b**)	-	5,183,093	5,183,093
Trade and other receivables (**b**)	25,549,424	(4,612,804)	20,936,620
Others	74,789,541	(96,246)	74,693,295
Total assets	108,112,804	1,014,588	109,127,392
Trade and other payables	13,827,806	(26,851)	13,800,955
Contract liabilities (**c**)	-	3,967,799	3,967,799
Other deferred income (**c**)	4,635,515	(3,548,809)	1,086,706
Others	26,404,810	-	26,404,810
Total liabilities	44,868,131	392,139	45,260,270
Retained earnings **(a)(c)**	34,010,412	583,344	34,593,756
Others	29,234,261	39,105	29,273,366
Total liabilities and equity	108,112,804	1,014,588	109,127,392

(All amounts in Saudi Riyals thousands unless otherwise stated)

NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP (CONTINUED)

4.2 IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

- **Consolidated statement of profit or loss for the three months ended 31 March 2017:**

	As reported under IAS 18 and IAS 39	Adjustments	As restated under IFRS 15 and IFRS 9
Revenue **(c)**	12,632,599	(108,493)	12,524,106
Cost of sales **(a)**	(5,598,612)	(1,614)	(5,600,226)
Selling and marketing expenses **(a)**	(1,398,445)	58,372	(1,340,073)
General and administration expenses	(1,028,297)	(4,949)	(1,033,246)
Depreciation and amortisation	(2,002,637)	67,144	(1,935,493)
Finance cost	(90,345)	(75)	(90,420)
Others	69,523	(2,793)	66,730
Profit for the period	2,583,786	7,592	2,591,378

- **Consolidated statement of cash flows for the three months ended 31 March 2017:**

	As reported under IAS 18 and IAS 39	Adjustments	As restated under IFRS 15 and IFRS 9
Net cash from operating activities	4,558,032	(184,252)	4,373,780
Net cash used in investing activities	(4,306,929)	183,168	(4,123,761)
Net cash used in financing activities	(775,149)	-	(775,149)

4. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP (CONTINUED)

4.2 IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

(a) Contract costs

Under IAS 18, contract costs related to commission (cost to obtain) and installation service (cost to fulfil) were expensed as incurred as it was not qualified to be recognized as an asset under any other accounting standards. Under IFRS 15, these will now be capitalized as contract costs and included in contract assets in the consolidated statement of financial position. Commission costs considered as cost to obtain a contract because these costs are incremental costs and the Group expects to recover those costs. Installation costs considered as cost to fulfil a contract because these costs incurred in fulfilling a contract with a customer and are not within the scope of another Standard. The Group recognize an asset from the costs incurred to fulfil a contract only if those costs meet all of the following criteria:

1. the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify:
2. the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
3. the costs are expected to be recovered.

(b) Contract assets

Under IFRS 15, if an entity performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the entity shall present the contract as a contract asset, excluding any amounts presented as a receivable. A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer. There was no restatement due to this change; except for reclassification between receivables to contract assets.

(c) Contract liabilities

Prepaid Data Subscription Revenue
Previously, prepaid data subscription revenue were recognized based on “Months”; however, under IFRS 15, same is recognized based on “Days” resulting in increase in contract liabilities and decrease in retained earnings.

Installation & Activation fees
Under IAS 18, revenue from “Installation & Activation fees” was recognized upfront when the installation was completed. Under IFRS 15, the installation service is not considered a separate performance obligation and therefore a one-time installation and activation fee is added to the total transaction price and recognized over the period of service delivery, resulting in a change in revenue recognition timing.

(All amounts in Saudi Riyals thousands unless otherwise stated)

5. SEGMENT INFORMATION

The following is an analysis of the Group's revenues, results, assets and liabilities based on segmental basis:

	For the three months period ended 31 March	
	2018	*2017 (Restated)*
Revenues (1)		
Saudi Telecom Company	**9,698,952**	10,797,742
STC Channels	**1,164,944**	666,166
Other operating segments (2)	**1,946,663**	1,613,099
Eliminations / Adjustments	**(424,600)**	(552,901)
Total Revenues	**12,385,959**	12,524,106
Cost of operations (excluding depreciation and amortisation)	**(7,741,702)**	(7,973,545)
Depreciation and amortisation	**(2,011,903)**	(1,935,493)
Cost of early retirement	**-**	(150,000)
Finance income	**149,668**	182,706
Finance costs	**(97,434)**	(90,420)
Other income, net	**94,429**	73,506
Gains from investments in associates and joint ventures, net	**36,025**	83,523
Other gains, net	**40,988**	54,888
Zakat and income tax	**(198,639)**	(177,893)
Net profit for the period	**2,657,391**	2,591,378

Following is the gross profit analysis on a segmental basis:

	For the three months period ended 31 March	
	2018	*2017 (Restated)*
Saudi Telecom Company	**5,858,452**	5,947,042
STC Channels	**297,222**	187,615
Other operating segments	**855,421**	837,357
Eliminations/adjustments	**(14,513)**	(48,134)
Gross profit	**6,996,582**	6,923,880

(All amounts in Saudi Riyals thousands unless otherwise stated)

5. SEGMENT INFORMATION (CONTINUED)

The following is an analysis of the Group's assets and liabilities based on segmental basis:

	31 March 2018	*31 December 2017 (Restated)*
Assets		
Saudi Telecom Company	**122,913,199**	116,900,875
STC Channels	**3,069,468**	2,595,865
Other operating segments (2)	**18,328,760**	17,833,336
Eliminations / Adjustments	**(29,301,505)**	(28,202,684)
Total Assets	**115,009,922**	109,127,392
Liabilities		
Saudi Telecom Company	**46,975,952**	41,600,776
STC Channels	**1,960,682**	1,544,043
Other operating segments (2)	**9,858,354**	8,948,790
Eliminations / Adjustments	**(8,165,017)**	(6,833,339)
Total Liabilities	**50,629,971**	45,260,270

(1) Segment revenue reported above represents revenue generated from external and internal customers. There were SR 425 million for the period ended 31 March 2018 (31 December 2017: SR 553 million) inter-segment sales and adjustments in the current period eliminated at consolidation.

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

6. PROPERTY, PLANT AND EQUIPMENT

During the three-months period ended 31 March 2018, the Group acquired assets with total cost of SR 1,680 million (31 March 2017: SR 1,520 million).

During the period, the Group disposed of assets with a net book value of SR 51 million (31 March 2017: SR 30 million) resulting in a loss on sale of property, plant and equipment amounting to SR 44 million for the three months period ended 31 March 2018 (31 March 2017: SR 29 million loss).

Depreciation expense during the three months period ended 31 March 2018 amounted to SR 1,494 million, (31 March 2017: SR 1,454 million).
Following is the allocation of depreciation expense among operating costs items:

	For the three months period ended 31 March	
	2018	*2017 (Restated)*
Cost of revenues	**1,233,216**	1,227,248
Selling and distribution	**8,651**	9,344
General and administration	**251,725**	216,899
	1,493,592	1,453,491

(All amounts in Saudi Riyals thousands unless otherwise stated)

7. INTANGIBLE ASSETS AND GOODWILL

During the three months period ended 31 March 2018, the Group net capitalised intangible assets amounting to SR 1,958 million (31 March 2017: SR 464 million).

Amortisation expense during the three months period ended 31 March 2018 amounted to SR 518 million (31 March 2017: SR 482 million).

Following is the allocation of amortisation expense on operating costs items:

	For the three months period ended 31 March	
	2018	*2017 (Restated)*
Cost of revenues	**136,399**	142,279
Selling and distribution	**122,011**	128,728
General and administration	**259,901**	210,995
	518,311	482,002

8. OTHER NON-CURRENT ASSETS

	31 March 2018	*31 December2017 (Restated)*
Contract cost	**1,506,424**	1,149,387
Financial assets	**8,335,973**	7,795,251
Other assets	**91,187**	862,571
	9,933,584	9,807,209

9. OTHER CURRENT ASSETS

	31 March 2018	*31 December2017 (Restated)*
Contract assets	**6,174,841**	5,183,093
Financial assets	**815,922**	638,986
Other assets	**1,274,913**	1,044,230
	8,265,676	6,866,309

(All amounts in Saudi Riyals thousands unless otherwise stated)

10. FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

The management has assessed fair values of trade and other receivables, short term Murabahas, cash and cash equivalents, and trade and other payables approximate their carrying values significantly due to the short maturities of these financial instruments.

The fair value of financial assets and liabilities is recognized as the amount for which the instrument can be exchanged in an existing transaction between willing parties, other than a forced sale or liquidation.

Fair value of financial assets is estimated based on quoted market prices and estimated future cash flows based on contractual ratios and future commodity ratios in accordance with future curves that can be observed at the end of the financial period of other assets in the portfolio that discounted at a rate reflecting the credit risk of various counterparties. The fair value is within level 2 of the fair value hierarchy. There was no transfers between level 1 and level 2 during the period. The Group’s policy is to recognise transfer to and from the levels of the fair value hierarchy at the end of the reporting period.

The fair value of equity investments is obtained from the net asset value report received from the Fund Manager. Fair value is within level 3 of the fair value hierarchy. And showing in the interim condensed consolidated financial of other comprehensive income.

Following is the movement of equity investments at fair value through consolidated statement of OCI:

	For the three months period ended 31 March	
	2018	*2017 (restated)*
Balance at beginning of the period	**535,634**	415,005
Additions	**375,516**	1,000
Re-measurement recognised in OCI	**(2,357)**	(10,191)
Balance at end of the period	**908,793**	405,814

The management believes that the carrying value of other financial assets and liabilities listed in the interim condensed financial statements approximate their fair values.

(All amounts in Saudi Riyals thousands unless otherwise stated)

11. RELATED PARTY TRANSACTIONS

11.1 Trading transactions and balances with related parties (Associated and Joint Ventures)

The Group entered into the following transactions with related parties:

	For the three months period ended 31 March	
	2018	*2017 (restated)*
Telecommunication services provided		
Associates	**133,358**	96,589
Joint Ventures	**11,534**	5,090
	144,892	101,679
Telecommunication services received		
Associates	**13,246**	2,068
Joint Ventures	**1,010**	4,810
	14,256	6,878

The following balances are outstanding with related parties:

	Amounts due from related parties		***Amounts due to related parties***	
	31 March 2018	*31 December 2017 (restated)*	***31 March 2018***	*31 December 2017 (restated)*
Associates	**255,506**	325,069	**42,683**	29,283
Joint ventures	**8,072**	19,100	**122,318**	89,415
	263,578	344,169	**165,001**	118,698

11.2 Government and government related entities

Revenues related to transactions with governmental parties for the three months period ended 31 March 2018 amounted to SR 1,435 million (31 March 2017 amounted to SR 1,584 million) and expenses related to transactions with governmental parties for the three month period ended 31 March 2018 (including government charges) amounted to SR 1,398 million (31 March 2017 amounted to SR 1,033 million).

As at 31 March 2018, accounts receivable from Government entities totalled SR 20,046 million (31 December 2017: SR 18,822 million) and as at 31 March 2018, accounts payable to government entities totalled SR 9,367 million (31 December 2017: SR 6,872 million).

The existing ageing with government is as follows:

	31 March 2018	*31 December 2017*
Less than a year	**7,513,740**	7,149,960
One to two years	**6,856,391**	6,725,278
More than two years	**5,675,743**	4,946,675
	20,045,874	18,821,913

(All amounts in Saudi Riyals thousands unless otherwise stated)

12. SUBSIDIARIES

A) During the first quarter of 2018, the Company established Communication Towers Co., a fully owned limited liability Company, with a share capital of SR 200 million. Communication Towers Co. Ltd will be responsible for owning, constructing, operating, leasing and commercializing telecom towers. Communication Towers Co. Ltd has not started commercial activities until obtaining the necessary licenses from the relevant authorities.

B) During first quarter of 2018, the Company increased the share capital of Intigral Holding Company by USD 65 million (equivalent to SR 244 million).

13. BORROWINGS

Total borrowings paid during the three months period ended 31 March 2018 amounted to SR 334 million (31 March 2017: SR 341 million).

14. PROVISION FOR END OF SERVICE BENEFIT

The provision for end of service benefit as at 31 March 2018 is calculated using the latest actuarial valuation as at 31 December 2017. During the period there have not been any significant fluctuations or events that would require adjustment to the actuarial assumptions made at 31 December 2017.

15. OTHER NON-CURRENT LIABILITIES

	31 March 2018	*31 December 2017 (Restated)*
Contract liabilities	**772,696**	773,165
Financial liabilities	**1,304,356**	56,603
Other liabilities	**304,361**	88,940
	2,381,413	918,708

16. OTHER CURRENT LIABILITIES

	31 March 2018	*31 December2017 (Restated)*
Contract liabilities	**2,911,691**	3,194,634
Other liabilities	**10,161,161**	7,358,322
	13,072,852	10,552,956

17. ZAKAT AND INCOME TAX LIABILITIES

Zakat

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

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

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

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

18. CAPITAL 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 4,071 million as at 31 March 2018 (31 December 2017: SR 3,802 million).

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

(c) During the first quarter of 2018, the Company received a notification from the Communications and Information Technology Commission (CITC) for wining the auction of frequencies in the bands range of (700) and (1800) MHz over a period of (15 years) starting during 2018 for a total value of SR 1,560 million to be paid within 14 equal instalments starting from 2019.

19. CONTINGENT LIABILITIES

(a) The Group has outstanding letters of guarantee amounting to SR 4,005 million as at 31 March 2018 (31 December 2017: SR 3,712 million).

(b) On 18 January 2017, the Company received a confirmation request letter from the CITC for an amount of SR 8,987 million. This amount includes government charges required to be paid by the Company on a regular basis in addition to other material amounts that are under dispute between the Company and CITC in relation to the calculation method of government charges. The dispute relates to the telecommunications sector as a whole in the Kingdom and does not pertain to the Company only. Based on independent legal opinions and similar judicial rulings in the telecommunications sector in the Kingdom, the Company's management believes that the CITC claim will not be sustained upon judicial examination. Furthermore, the Company is currently claiming to refund of material government fees paid for previous years to CITC that is also related to the same method of calculation of government charges.

Based on the nature of these disputes and provisions recorded, the Company's management does not believe that this dispute will result in any additional material outflow in the future.

19. CONTINGENT LIABILITIES (CONTINUED)

(c) The Group has outstanding letters of credit as at 31 March 2018 amounting to SR 420 million (31 December 2017: SR 420 million).

(d) One of the subsidiaries of the Group has an agreement with one of its key customers to construct a fibre optic network for which net capital work completed is amounted to SR 537 million (31 December 2017: SR 537 million) and amounts received from the key customer amounted SR 742 million (31 December 2017: SR742 million) and recorded as 'deferred revenues' in the Group's statement of financial position. On 21 March 2016, the Company received a letter from the customer requesting a refund for all paid balances.

Based on the independent legal opinions obtained, the management believes that the customer's claims have no merit and therefore this dispute has no material impact on the financial results of the Group.

(e) The Company, in its ordinary course of business, is subject to proceedings, lawsuits and other claims. However, these matters are not expected to have any material impact on the Company's financial position or on the results of its operations as reflected in these financial statements.

(f) The Company received on 16/5/1437 (corresponding to 25 February 2016) a letter containing the request to provide the GAZT with the detailed data for the service of renting the networks of international operators outside the Kingdom for the purpose of calculating the deductible tax of SR 3.1 billion for the years 2004 to 2015. Since The Saudi tax system does not provide for a deduction tax on the service of the rental of networks of international operators and the failure of the source of income outside the Kingdom of Saudi Arabia. Therefore, the management of the Company believes that this service is not taxable. The Company submitted its objection to this linkage. Based on the opinions of the specialists in this regard and the nature of this difference and the provisions recorded, the management of the company does not believe that this assessment will result in any additional provisions.

20. DIVIDENDS

In line with the dividend policy for the next three years period which started from the fourth quarter of 2015, as approved by the Company's Board of Directors on 28 Muharram 1437H (corresponding to 10 November 2015), and endorsed by the General Assembly on 4 April 2016. The dividend policy is based on maintaining a minimum dividend of SR 1 per share on a quarterly basis. The Company will distribute cash dividends to the shareholders for the first quarter of year 2018 amounting to SR 2,000 million representing SR 1 per share.