Saudi Telecom Company

(A Saudi Joint Stock Company)

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

Fourth Quarter
2018

INDEX

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

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 December 2018 and the related interim condensed consolidated statements of profit or loss and comprehensive income for the three months and year ended 31 December 2018 and the interim condensed consolidated statements of cash flows and changes in equity for the year 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: 22 Jumad Awal 1440H
(28 January 2019)

Saudi Telecom Company
A Saudi Joint Stock Company

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

	Notes	31 December 2018	31 December 2017 (Restated-Note 4)
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	6	**41,920,408**	39,940,616
Intangible assets and goodwill	7	**9,540,467**	7,174,575
Investments in associates and joint ventures	13	**6,581,733**	6,908,653
Contract costs		**1,030,129**	1,091,254
Other non-current assets	8	**3,744,637**	8,654,142
TOTAL NON-CURRENT ASSETS		**62,817,374**	63,769,240
CURRENT ASSETS			
Inventories		**787,456**	482,281
Trade and other receivables	11	**14,368,760**	20,368,531
Short term murabahas		**9,685,491**	14,465,364
Contract assets		**8,621,505**	5,488,053
Other current assets	9	**7,738,897**	1,341,560
Cash and cash equivalents		**8,154,063**	2,567,044
TOTAL CURRENT ASSETS		**49,356,172**	44,712,833
TOTAL ASSETS		**112,173,546**	108,482,073
EQUITY AND LIABILITIES			
EQUITY			
Issued capital		**20,000,000**	20,000,000
Statutory reserves		**10,000,000**	10,000,000
Other reserves		**(1,903,878)**	(1,775,390)
Retained earnings		**37,428,072**	34,637,791
Equity attributable to the equity holders of the Parent Company		**65,524,194**	62,862,401
Non-controlling interests		**1,147,914**	939,180
TOTAL EQUITY		**66,672,108**	63,801,581
LIABILITIES			
NON-CURRENT LIABILITIES			
Long term borrowings	14	**3,967,949**	4,005,980
Provisions		**891,910**	1,203,152
Provision for end of service benefit	15	**3,919,150**	3,922,065
Deferred income		**2,154,915**	990,275
Contract liabilities		**771,915**	773,165
Other non-current liabilities	16	**1,558,986**	146,982
TOTAL NON-CURRENT LIABILITIES		**13,264,825**	11,041,619
CURRENT LIABILITIES			
Trade and other payables		**16,582,242**	13,166,177
Short term borrowings	14	**325,072**	647,763
Provisions		**6,905,626**	7,633,280
Deferred income		**40,353**	96,431
Zakat and income tax liabilities	18	**1,423,258**	1,623,423
Contract liabilities		**2,538,940**	3,261,695
Other current liabilities	17	**4,421,122**	7,210,104
TOTAL CURRENT LIABILITIES		**32,236,613**	33,638,873
TOTAL LIABILITIES		**45,501,438**	44,680,492
TOTAL EQUITY AND LIABILITIES		**112,173,546**	108,482,073

Saudi Telecom Company
A Saudi Joint Stock Company

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

		For the three months period ended 31 December		*For the year ended 31 December*	
	Notes	***2018***	*2017 (Restated-Note 4)*	***2018***	*2017 (Restated-Note 4)*
Revenues	5	**13,166,395**	12,502,721	**52,068,032**	50,689,350
Cost of revenues		**(4,515,106)**	(5,154,808)	**(21,502,806)**	(22,105,926)
GROSS PROFIT		**8,651,289**	7,347,913	**30,565,226**	28,583,424
OPERATING EXPENSES					
Selling and marketing		**(1,460,958)**	(1,071,794)	**(5,466,586)**	(5,636,649)
General and administration		**(1,779,327)**	(1,445,384)	**(5,241,268)**	(4,516,029)
Depreciation and amortisation	6 & 7	**(1,923,573)**	(1,950,365)	**(7,601,155)**	(7,444,735)
TOTAL OPERATING EXPENSES		**(5,163,858)**	(4,467,543)	**(18,309,009)**	(17,597,413)
OPERATING PROFIT		**3,487,431**	2,880,370	**12,256,217**	10,986,011
OTHER EXPENSES AND INCOME					
Cost of early retirement program		**(17,513)**	(150,000)	**(450,000)**	(600,000)
Finance income		**137,842**	125,316	**551,535**	584,682
Finance costs		**(88,163)**	(103,432)	**(398,702)**	(353,542)
Other (expenses)/ income, net		**(8,046)**	2,930	**106,993**	85,036
Share of (losses)/ gains from investments in associates and joint ventures, net	13	**(91,794)**	58,012	**(10,605)**	305,591
Other (losses)/ gains, net		**(88,844)**	17,898	**(215,493)**	(18,405)
TOTAL OTHER EXPENSES AND INCOME		**(156,518)**	(49,276)	**(416,272)**	3,362
NET PROFIT BEFORE ZAKAT, TAXES AND NON-CONTROLLING INTERESTS		**3,330,913**	2,831,094	**11,839,945**	10,989,373
Zakat and income tax	18	**(137,325)**	(193,227)	**(748,937)**	(720,700)
NET PROFIT		**3,193,588**	2,637,867	**11,091,008**	10,268,673
Net profit attributable to:					
Equity holders		**3,116,088**	2,554,980	**10,790,281**	10,015,576
Non-controlling interests		**77,500**	82,887	**300,727**	253,097
		3,193,588	2,637,867	**11,091,008**	10,268,673
Basic and diluted earnings per share (In Saudi Riyals)		**1.56**	1.28	**5.40**	5.01

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

	Notes	***For the three months period ended 31 December*** ***2018***	*2017 (Restated-Note 4)*	***For the year ended 31 December*** ***2018***	*2017 (Restated-Note 4)*
NET PROFIT		**3,193,588**	2,637,867	**11,091,008**	10,268,673
OTHER COMPREHENSIVE INCOME/(LOSS)					
Items that will not be reclassified subsequently to consolidated statement of profit or loss:					
Re-measurement of end of service benefit provision	15	**56,037**	(121,606)	**13,414**	(117,361)
Fair value changes on equity instruments measured at fair value through other comprehensive income (FVOCI)	10	**124,917**	53,617	**113,543**	90,557
Total items that will not be reclassified subsequently to consolidated statement of profit or loss		**180,954**	(67,989)	**126,957**	(26,804)
Items that will be reclassified subsequently to consolidated statement of profit or loss:					
Foreign currency translation differences		**33,102**	(7,585)	**(10,003)**	6,875
Share of other comprehensive (loss)/ income of associates and joint ventures, net		**(145,080)**	26,112	**(247,317)**	(30,603)
Total items that will be reclassified subsequently to consolidated statement of profit or loss		**(111,978)**	18,527	**(257,320)**	(23,728)
TOTAL OTHER COMPREHENSIVE INCOME/ (LOSS)		**68,976**	(49,462)	**(130,363)**	(50,532)
TOTAL COMPREHENSIVE INCOME		**3,262,564**	2,588,405	**10,960,645**	10,218,141
Total comprehensive income attributable to:					
Equity holders		**3,185,002**	2,504,819	**10,661,793**	9,958,319
Non-controlling interests		**77,562**	83,586	**298,852**	259,822
		3,262,564	2,588,405	**10,960,645**	10,218,141

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

	Notes	*For the year ended 31 December* **2018**	2017 (Restated - Note 4)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit before zakat, taxes and non-controlling interests		**11,839,945**	10,989,373
Adjustments for:			
Depreciation and amortisation	6 & 7	**7,601,155**	7,444,735
Amortization of contract costs		**397,857**	443,905
Impairment on trade receivables, contract assets and contract costs		**966,862**	984,057
Writedown of inventories		**(82,314)**	96,617
Finance income		**(551,535)**	(584,682)
Finance costs		**398,702**	353,542
Provision for employee end of service benefits and other provisions		**1,368,255**	2,806,936
Share of loss (gain) from investments in associates and joint ventures, net	13	**10,605**	(305,591)
Other losses, net		**215,493**	18,405
Operating profit before working capital adjustments		**22,165,025**	22,247,297
Movements in working capital:			
Trade and other receivables		**5,350,508**	(8,298,267)
Inventories		**(222,861)**	(104,382)
Contract costs		**(477,758)**	(404,074)
Contract assets		**(3,339,955)**	1,756,702
Other assets		**(1,555,611)**	(702,237)
Trade and other payables		**2,895,171**	410,636
Deferred income		**1,108,562**	374,007
Contract liabilities		**(724,005)**	(1,027,978)
Other liabilities		**(5,082,577)**	2,813,388
Cash generated from operations		**20,116,499**	17,065,092
Less: Income taxes and zakat paid	18	**(524,606)**	(649,427)
Less: Employee end of service benefits paid		**(520,572)**	(499,614)
Net cash from operating activities		**19,071,321**	15,916,051
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	6	**(8,466,538)**	(6,576,858)
Additions to intangible assets	7	**(1,366,542)**	(1,359,313)
Proceeds from sale of property, plant and equipment		**146,431**	13,375
Purchase of interest in an associate		**-**	(375,095)
Dividends received from associates		**-**	41,077
Proceeds from finance income		**595,848**	752,261
Proceeds and payments related to financial assets, net		**4,124,049**	498,916
Net cash used in investing activities		**(4,966,752)**	(7,005,637)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		**(8,054,671)**	(8,019,234)
Acquisition of non-controlling interests in a subsidiary		**-**	(437,382)
Repayment of borrowings	14	**(638,799)**	(3,298,573)
Proceeds from borrowings	14	**306,407**	1,924,461
Finance costs paid		**(128,882)**	(149,454)
Net cash used in financing activities		**(8,515,945)**	(9,980,182)
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		**5,588,624**	(1,069,768)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**2,567,044**	3,631,202
Net foreign exchange differences		**(1,605)**	5,610
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**8,154,063**	2,567,044

Saudi Telecom Company
A Saudi Joint Stock Company

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE YEAR ENDED 31 DECEMBER 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***	***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 IFRS (9) and (15)	4	-	-	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 (as restated)		-	-	-	10,015,576	10,015,576	253,097	10,268,673
Other comprehensive (loss)/income (as restated)		-	-	(57,257)	-	(57,257)	6,725	(50,532)
Total comprehensive income (as restated)		-	-	(57,257)	10,015,576	9,958,319	259,822	10,218,141
Dividends to shareholders	21	-	-	-	(8,000,000)	(8,000,000)	-	(8,000,000)
Acquisition of non-controlling interests		-	-	67,474	-	67,474	(546,772)	(479,298)
Dividends to non-controlling interests		-	-	-	-	-	(29,595)	(29,595)
Other reserves		-	-	149,866	-	149,866	-	149,866
Balance at 31 December 2017		20,000,000	10,000,000	(1,775,390)	34,637,791	62,862,401	939,180	63,801,581
As at 1 January 2018		**20,000,000**	**10,000,000**	**(1,775,390)**	**34,637,791**	**62,862,401**	**939,180**	**63,801,581**
Net profit		**-**	**-**	**-**	**10,790,281**	**10,790,281**	**300,727**	**11,091,008**
Other comprehensive income		**-**	**-**	**(128,488)**	**-**	**(128,488)**	**(1,875)**	**(130,363)**
Total comprehensive income/(loss)		**-**	**-**	**(128,488)**	**10,790,281**	**10,661,793**	**298,852**	**10,960,645**
Dividends to shareholders	21	**-**	**-**	**-**	**(8,000,000)**	**(8,000,000)**	**-**	**(8,000,000)**
Dividends to non-controlling interests		**-**	**-**	**-**	**-**	**-**	**(90,118)**	**(90,118)**
Balance at 31 December 2018		**20,000,000**	**10,000,000**	**(1,903,878)**	**37,428,072**	**65,524,194**	**1,147,914**	**66,672,108**

1. GENERAL INFORMATION

A) ESTABLISHMENT OF THE COMPANY

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

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

B) GROUP ACTIVITIES

The main activities of the Company and its subsidiaries (collectively referred to as 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 portable assets for intended use.

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

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.

1. GENERAL INFORMATION (CONTINUED)

B) GROUP ACTIVITIES (CONTINUED)

m- Provide supply chain services and other related services.

n – Provide digital payment services

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

2. BASIS OF PREPARATION

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" 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 in 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. IFRS 9 covers the requirements of classification, measurement and re-recognition of the financial assets and liabilities with providing new bases of hedge accounting and the requirements of the financial assets impairment.

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 in the consolidated financial position 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) Fair value (either through other comprehensive income, or through profit or loss) and,
b) 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**

Initial measurement

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 recognised directly in the consolidated statement of profit or loss).

Subsequent measurement of financial assets

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

a. Financial assets measured at amortised cost

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

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

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 the Group 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 derecognised, the accumulated fair value adjustments that are recognised in the consolidated statement of comprehensive income are reclassified to the consolidated statement of profit or 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 recognised in consolidated statement of profit or loss: • interest revenue using the effective interest rate method; • expected credit losses (or reversals); and • foreign exchange gains and losses. When the financial asset is derecognised, the gain or loss is recognised in consolidated statement of profit or loss.
Fair value through consolidated statement of comprehensive income	Gains and losses are recognised in consolidated statement of comprehensive income, except for the following items, which are recognised in consolidated statement of profit or loss in the same manner as for financial assets measured at amortised cost: • 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 statement of comprehensive income	Gains and losses are recognised in consolidated statement of comprehensive income. Dividends are recognised in consolidated statement of profit or loss unless they clearly represent repayment of part of the cost of the investment. The amounts recognised in consolidated statement of comprehensive income 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 recognised in consolidated statement of profit or loss.

Subsequent measurement of financial liabilities

A. Amortised cost

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

1. Measured at fair value through consolidated statement of profit or loss;
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 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 in general) recognised in consolidated statement of profit or loss. The only exception is for gains and losses on certain financial liabilities designated as at fair value through consolidated statement of profit or loss when the entity is required to present the effects of changes in the liability's credit risk in the consolidated statement of comprehensive income.

B. Financial 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 fair value through consolidated statement of profit and loss.

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

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

1. the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that financial liabilities is presented in the consolidated statement of comprehensive income; and
2. the remaining amount of change in the fair value of the financial liabilities 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 amortised cost and debt instrument carried at fair value through the consolidated statement of comprehensive income. 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 since the initial recognition, 12-months expected credit losses 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.

4. 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 derecognised from the consolidated statement of financial position when the rights to receive cash flows from the financial assets have expired, or have been transferred or transferred substantially all risks and rewards of ownership. The difference in the carrying amount is recognised in the consolidated statement of profit and loss.

Derecognition of financial liabilities
The financial liabilities are derecognised when the underlying obligations are extinguished, discharged, lapsed, canceled, expires or legally released.

OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

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 recognised 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 recognised 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 recognises revenue when it transfers control over a product or services to a customer.

The Group'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 recognises revenue when (or as) it satisfies the performance obligation which is when the control over products or services is transferred to a 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)

4. 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 obligations.
Telecommunication services	Telecommunication services include voice, data and text services. The Group recognises 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 recognises 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 and goodwill (b)	7,773,839	(599,264)	7,174,575
Contract costs (a)	-	1,091,254	1,091,254
Contract assets (b)	-	5,488,053	5,488,053
Trade and other receivables (b)	25,549,424	(5,180,893)	20,368,531
Others	74,789,541	(429,881)	74,359,660
Total assets	108,112,804	369,269	108,482,073
Trade and other payables	13,827,806	(661,629)	13,166,177
Contract liabilities (c)	-	4,034,860	4,034,860
Other deferred income (c)	4,635,523	(3,548,817)	1,086,706
Others	26,404,802	(12,053)	26,392,749
Total liabilities	44,868,131	(187,639)	44,680,492
Retained earnings (a)(c)	34,010,412	627,379	34,637,791
Others	29,234,261	(70,471)	29,163,790
Total liabilities and equity	108,112,804	369,269	108,482,073

(All amounts in Saudi Riyals thousands unless otherwise stated)

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

Interim condensed consolidated statement of profit or loss for the three months period ended 31 December 2017:

	As reported under IAS 18 and IAS 39	Adjustments	As restated under IFRS 15 and IFRS 9
Revenue (c)	12,494,179	8,542	12,502,721
Cost of sales (a)	(4,906,083)	(248,725)	(5,154,808)
Selling and marketing expenses (a)	(1,117,196)	45,402	(1,071,794)
General and administration expenses	(1,388,375)	(57,009)	(1,445,384)
Depreciation and amortisation	(2,140,097)	189,732	(1,950,365)
Finance cost	(105,898)	2,466	(103,432)
Others	(116,875)	(22,196)	(139,071)
Net profit for the period	2,719,655	(81,788)	2,637,867

Interim condensed consolidated statement of profit or loss for the year ended 31 December 2017:

	As reported under IAS 18 and IAS 39	Adjustments	As restated under IFRS 15 and IFRS 9
Revenue (c)	50,746,675	(57,325)	50,689,350
Cost of sales (a)	(21,255,477)	(850,449)	(22,105,926)
Selling and marketing expenses (a)	(5,726,280)	89,631	(5,636,649)
General and administration expenses	(4,471,573)	(44,456)	(4,516,029)
Depreciation and amortisation	(8,208,360)	763,625	(7,444,735)
Finance cost	(354,199)	657	(353,542)
Others	(360,651)	(3,145)	(363,796)
Net profit for the period	10,370,135	(101,462)	10,268,673

Interim condensed consolidated statement of cash flows for the year ended 31 December 2017:

	As reported under IAS 18 and IAS 39	Adjustments	As restated under IFRS 15 and IFRS 9
Net cash from operating activities	16,700,155	(784,104)	15,916,051
Net cash used in investing activities	(7,789,741)	784,104	(7,005,637)
Net cash used in financing activities	(9,980,182)	-	(9,980,182)

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 fulfill) were expensed as incurred as it was not qualified to be recognised 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 fulfill a contract and are not within the scope of another Standard. The Group recognise an asset from the costs incurred to fulfill a contract only if those costs meet all of the following criteria:

1. the costs relate directly to a contract or to an (anticipated specific contract).
2. the costs generate or enhance resources of the Group 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 a Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, The Group shall present the contract as a contract asset, excluding any amounts presented as a receivable. A contract asset is the Company right to consideration in exchange for goods or services that the Group has transferred to a customer. There was no significant restatement due to this change; except for reclassification between receivables to intangible and contract assets.

(c) Contract liabilities

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

Installation & Activation fees
Under IAS 18, revenue from installation and activation fees was recognised 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 recognised 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 and results based on segmental basis:

	For the three months period ended 31 December		*For the year ended 31 December*	
	2018	*2017 (Restated-Note 4)*	***2018***	*2017 (Restated-Note 4)*
Revenues (1)				
Saudi Telecom Company	**9,655,528**	9,676,601	**39,449,021**	41,445,230
STC Channels	**1,535,960**	1,179,028	**5,371,771**	3,055,095
Other operating segments (2)	**2,612,870**	2,425,111	**9,502,337**	8,349,196
Eliminations/ Adjustments	**(637,963)**	(778,019)	**(2,255,097)**	(2,160171)
Total revenues	**13,166,395**	12,502,721	**52,068,032**	50,689,350
Cost of operations (excluding depreciation and amortisation)	**(7,755,391)**	(7,671,986)	**(32,210,660)**	(32,258,604)
Depreciation and amortisation	**(1,923,573)**	(1,950,365)	**(7,601,155)**	(7,444,735)
Cost of early retirement	**(17,513)**	(150,000)	**(450,000)**	(600,000)
Finance income	**137,842**	125,316	**551,535**	584,682
Finance costs	**(88,163)**	(103,432)	**(398,702)**	(353,542)
Other (expenses) income, net	**(8,046)**	2,930	**106,993**	85,036
Gains from investments in associates and joint ventures, net	**(91,794)**	58,012	**(10,605)**	305,591
Other losses, net	**(88,844)**	17,898	**(215,493)**	(18,405)
Zakat and income tax	**(137,325)**	(193,227)	**(748,937)**	(720,700)
Net profit	**3,193,588**	2,637,867	**11,091,008**	10,268,673

Following is the gross profit analysis on a segmental basis:

	For the three months period ended 31 December		*For the year ended 31 December*	
	2018	*2017 (Restated-Note 4)*	***2018***	*2017 (Restated-Note 4)*
Saudi Telecom Company	**7,395,981**	6,270,159	**25,542,372**	24,543,045
STC Channels	**347,225**	255,004	**1,314,707**	698,456
Other operating segments (2)	**908,083**	1,014,926	**3,795,436**	3,730,057
Eliminations/ Adjustments	**-**	(192,176)	**(87,289)**	(388,134)
Gross profit	**8,651,289**	7,347,913	**30,565,226**	28,583,424

(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 December 2018	*31 December 2017 (Restated-Note 4)*
Assets		
Saudi Telecom Company	**119,727,479**	117,153,459
STC Channels	**3,333,662**	2,595,865
Other operating segments (2)	**19,535,904**	17,813,702
Eliminations / Adjustments	**(30,423,499)**	(29,080,953)
Total Assets	**112,173,546**	108,482,073
Liabilities		
Saudi Telecom Company	**41,859,360**	41,853,359
STC Channels	**2,068,819**	1,544,043
Other operating segments (2)	**10,493,060**	8,946,143
Eliminations / Adjustments	**(8,919,801)**	(7,663,053)
Total Liabilities	**45,501,438**	44,680,492

(1) Segment revenue reported above represents revenue generated from external and internal customers. There were SR 638 million and SR 2,255 million respectively for the three month periods and the year ended 31 December 2018 (for the three month periods and the year ended 31 December 2017: SR 778 million and SR 2,160 million) inter-segment sales and adjustments eliminated at consolidation.

(2) Other operating segments include: VIVA Kuwait, VIVA Bahrain, STC Solutions, Intigral, STC Specialized, Sapphire and Aqalat.

6. PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2018, the Group acquired assets with total cost of SR 8,415 million (31 December 2017: SR 6,965 million).

During the year ended 31 December 2018, the Group disposed of assets with a net book value of SR 406 million (31 December 2017: SR 262 million) resulting in a loss on sale of property, plant and equipment for the three months period and the year ended 31 December 2018 amounting to SR 81 million and SR 260 million, respectively, (three months period and the year ended 31 December 2017: SR 34 million and SR 249 million, respectively).

Depreciation expense during the three months period and the year ended 31 December 2018 amounted to SR 1,481 million and SR 5,916 million, respectively (three months period and the year ended 31 December 2017: SR 1,493 million and SR 5,884 million, respectively).

Following is the breakdown of depreciation expense if allocated to operating costs items:

	For the three months period ended 31 December		***For the twelve months period ended 31 December***	
	2018	*2017 (Restated-Note 4)*	***2018***	*2017 (Restated-Note 4)*
Cost of revenues	**1,222,274**	1,213,384	**4,870,272**	4,888,994
Selling and marketing	**5,960**	10,126	**31,472**	35,250
General and administration	**252,673**	269,929	**1,013,818**	959,653
Total	**1,480,907**	1,493,439	**5,915,562**	5,883,897

(All amounts in Saudi Riyals thousands unless otherwise stated)

7. INTANGIBLE ASSETS AND GOODWILL

During the year ended 31 December 2018, the net additions intangible assets amounted to SR 4,012 million (31 December 2017: SR 1,334 million).

Amortisation expense during the three months period and the year ended 31 December 2018 amounted to SR 443 million and SR 1,686 million respectively (three months period and the year ended 31 December 2017: SR 457 million and SR 1,561 million, respectively).

Following is the breakdown of amortisation expense if allocated to operating costs items:

	For the three months period ended 31 December		*For the year ended 31 December*	
	2018	*2017 (Restated-Note 4)*	***2018***	*2017 (Restated-Note 4)*
Cost of revenues	**137,603**	200,670	**550,947**	561,945
Selling and marketing	**(4,271)**	20,030	**23,282**	120,940
General and administration	**309,334**	236,226	**1,111,364**	877,953
Total	**442,666**	456,926	**1,685,593**	1,560,838

8. OTHER NON-CURRENT ASSETS

	31 December 2018	*31 December 2017 (Restated-Note 4)*
Financial assets	**3,373,016**	7,793,291
Other assets	**371,621**	860,851
	3,744,637	8,654,142

9. OTHER CURRENT ASSETS

	31 December 2018	*31 December 2017 (Restated-Note 4)*
Financial assets	**5,441,329**	335,487
Other assets	**2,297,568**	1,006,073
	7,738,897	1,341,560

(All amounts in Saudi Riyals thousands unless otherwise stated)

10. FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

The Group has assessed that 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 recognised 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 were 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 shown in the interim condensed consolidated statement of comprehensive income.

Following is the movement of equity investments at fair value through the interim condensed consolidated statement of comprehensive income:

	For the year ended 31 December	
	2018	*2017*
Balance at beginning of the period	**535,634**	415,005
Additions	**745,425**	30,072
Re-measurement recognised in OCI	**113,543**	90,557
Balance at end of the period	**1,394,602**	535,634

The Group 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 PARTIES TRANSACTIONS AND BALANCES

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

The following are the transactions with related parties:

	For the three months period ended 31 December		*For the year ended 31 December*	
	2018	*2017*	***2018***	*2017*
Telecommunication services provided				
Associates	**149,660**	125,761	**492,013**	457,382
Joint Ventures	**-**	5,346	**13,742**	17,347
	149,660	131,107	**505,755**	474,729
Telecommunication services received				
Associates	**-**	-	**37,566**	18,372
Joint Ventures	**-**	6,907	**8,655**	18,927
	-	6,907	**46,221**	37,299

The following balances are outstanding with related parties:

	Amounts due from related parties		*Amounts due to related parties*	
	31 December 2018	*31 December 2017*	***31 December 2018***	*31 December 2017*
Associates	**338,652**	325,069	**23,184**	29,283
Joint ventures	**5,444**	19,100	**112,801**	89,415
	344,096	344,169	**135,985**	118,698

11.2 Trading transactions and balances with related parties (Government and government-related entities)

Revenues related to transactions with governmental parties for the three months period and the year ended 31 December 2018 amounted to SR 1,223 million and SR 5,938 million, respectively (for the three months period and the year ended 31 December 2017 amounted to SR 1,225 million and SR 5,355 million, respectively) and expenses related to transactions with governmental parties for the three months period and the year ended 31 December 2018 (including government charges) amounted to SR 1,727 million and SR 4,492 million, respectively (for the three months period and the year ended 31 December 2017 amounted to SR 944 million and SR 3,973 million, respectively). Based on the Council of Ministers' resolution No. (196) dated 4 Rabi Thani 1440 H corresponding to 11 December 2018, the percentage of fees collected located by the government for providing telecommunications services commercially has been amended to become a uniform annual fee of 10% of net telecommunications revenues effective 1 January 2018 instead of the previous percentages which were 15% of net mobile service revenues, 10% of net fixed line revenues and 8% of net revenues from data services. Furthermore, the company's services licenses have been combined into a unified license.

As at 31 December 2018, accounts receivable from Government entities totalled SR 12,119 million (31 December 2017: SR 18,822 million) and as at 31 December 2018, accounts payable to government entities totalled SR 3,706 million (31 December 2017: SR 6,872 million) which were after the Group's agreement with the government to pay all outstanding receivables as at 31 December 2016 amounting to SR 12,532 million through offsetting accounts payables balances and the collection of the balance in cash. The group will also subscribe to an amount of SR 4 billion in Sukuk that shall be issued by the Ministry of Finance during the first quarter of 2019.

(All amounts in Saudi Riyals thousands unless otherwise stated)

11. RELATED PARTIES TRANSACTIONS AND BALANCES (continued)

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

The following is the existing ageing with government is as follows:

	31 December 2018	*31 December 2017*
Less than a year	**6,759,956**	7,149,960
One to two years	**5,358,794**	6,725,278
More than two years	**-**	4,946,675
	12,118,750	18,821,913

12. SUBSIDIARIES

During the first quarter of 2018, the Company established Communication Towers Co. Ltd., a fully owned limited liability Company, with a share capital of SR 200 million. Communication Towers Company 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.

13. ASSOCIATES AND JOINT VENTURES

During the fourth quarter of 2018, the Group has recorded an impairment provision amounting to SR 168 million related to its investment in Binariang GSM Holdings (“BGSM”).

14. BORROWINGS

Total borrowings paid during the year ended 31 December 2018 amounted to SR 639 million (31 December 2017: SR 3,299 million). Total borrowings received during the year ended 31 December 2018 amounted to SR 307 million (31 December 2017: SR 1,924 million).

15. PROVISION FOR END OF SERVICE BENEFIT

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

16. OTHER NON-CURRENT LIABILITIES

	31 December 2018	*31 December 2017 (Restated-Note 4)*
Financial liabilities	**1,526,259**	59,755
Other liabilities	**32,727**	87,227
	1,558,986	146,982

17. OTHER CURRENT LIABILITIES

	31 December 2018	*31 December 2017 (Restated-Note 4)*
Financial liabilities	**86,191**	44,390
Other liabilities	**4,334,931**	7,165,714
	4,421,122	7,210,104

18. ZAKAT AND INCOME TAX LIABILITIES

Zakat

Final zakat declarations were submitted for the years since inception through 2017. 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 canceling 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 of 2016, the Company has settled the provision amounting to SR 294 million. The differences resulting from these comparisons represent majority of the zakat differences objected to. The Company'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 2017 are still pending with GAZT until the date of preparation of these interim condensed consolidated financial statements.

19. CAPITAL COMMITMENTS

(a) During the fourth quarter of 2018, the Company signed an agreement with the Ministry of Finance, the Ministry of Communications & Information Technology and the authority of Communications and Information Technology ("Government Entities") for a comprehensive and final settlement of the outstanding dispute related to the fees of providing telecommunications services commercially and the licences fees granted to the company for the period from 1 January 2008 to 31 December 2017. In return, the Company is committed to capital investments in its infrastructure which is in line with the Kingdom's vision to develop the telecommunications infrastructure within a period of three years commencing on 1 January 2018 according to the terms and conditions of the comprehensive Settlement Agreement (Referred to as "Target Performance Indicators").

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

20. CONTINGENT LIABILITIES

(a) The Group has outstanding letters of guarantee amounting to SR 6,594 million as at 31 December 2018 (31 December 2017: SR 3,712 million).

(b) The Group has outstanding letters of credit as at 31 December 2018 amounting to SR 655 million (31 December 2017: SR 420 million).

(c) 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: SR 742 million) and recorded as ‘contract liabilities’ 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 independent legal opinion, the management believes that the claim from the customer is unsubstantiated and has no significant impact on the Group’s statement of financial position.

(d) 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 interim condensed consolidated financial statements.

(e) The Company has submitted an objection before the Appeal Committee in relation to GAZT’s assessment of withholding tax on the service of renting the networks of international operators outside the Kingdom for the years 2004 to 2015. The management of the Company believes that the Saudi tax system does not provide for a deduction tax on the service of the rental of networks of international operators considering that the source income is not generated within the Kingdom of Saudi Arabia. Based on expert matter specialists’ opinions and the nature of the dispute as well as the existence of similar cases concluded in favour of other companies in the telecommunications sector, the management of the Company does not believe that GAZT assessment will result in any additional provisions.

(f) The agreement signed with government entities during the fourth quarter of 2018 (see Note 19) includes detailed mechanisms relating to the target performance indicators that the Company is required to achieve within three years starting from the current year. The Company has re-evaluated the related provisions in line with the expectations of the target performance indicators which will be reviewed periodically.

21. DIVIDENDS

On 9 Rabi Thani 1440 H (corresponding to December 16, 2018) the Board of Directors have approved the Company's dividend policy for the next three years starting from the fourth quarter of 2018, which will be presented at the next General Assembly meeting for approval. The objective of the dividend policy is to maintain a minimum level of dividend of SR 1 per share on quarterly basis. The Company will consider and pay additional dividend subject to the Board approval after assessment and determination of the Company's financial situation, outlook and capital expenditure requirements. Additional dividends are likely to vary on quarterly basis depending on the company's performance. The dividends policy will remain subject to:

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

In line with the above policy, the Company's Board of Directors recommended to distribute cash dividends to the shareholders of the Company for the fourth quarter of 2018, amounting to SR 2,000 million, at a rate of SR 1 per share. Furthermore, after evaluating the financial position, future expectations and capital requirements of the Company, the Board of Directors has recommended to distribute an amount of SR 4,000 million for each share as an additional one-time special dividends for year of 2018.

During the year of 2018, the company distributed cash dividends to its shareholders for the fourth quarter of 2017 and for the first, second and third quarters of 2018 with an amount of SR 2,000 million for each quarter representing SR 1 per share which is in line with the company's previous dividends policy for the three-year period starting from the fourth quarter of 2015, approved by the Company's Board of Directors on 28 Muharram 1437H (corresponding to 10 November 2015) and approved by the General Assembly on 4 April 2016. The total dividends distributed during 2018 was SR 4 per share (2017: SR 4 per share).

22. SUBSEQUENT EVENTS

At its meeting held on 4 Jumada Al-Awal 1440H (corresponding to 10 January 2019), the Board of Directors approved to buy an additional (39%) stake in Virgin Mobile Saudi Arabia for SR 151 million. The legal and regulatory procedures concerning the transaction are expected to be completed during 2019. Upon completing the transaction, Saudi Telecom Group's share in Virgin Mobile Saudi Arabia shall increase to (49%).