



Saudi Telecom Company
A Saudi Joint Stock Company

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017

First Quarter
2017

**Saudi Telecom Company
A Saudi Joint Stock Company**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017**

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Independent auditors' 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 2017 and the related interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows 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 fair presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") and International Financial Reporting Standard 1 *First-time adoption of International Financial Reporting Standards* ("IFRS 1") that are 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 of 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 and IFRS 1 that are endorsed in the Kingdom of Saudi Arabia.



for Ernst & Young
Rashid S. AlRashoud
Certified Public Accountant
Registration No. (366)



Riyadh: 8 Sha'aban 1438H
(4 May 2017)

Saudi Telecom Company
A Saudi Joint Stock Company

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2017
All Amounts in Saudi Riyals Thousands

| | <i>Notes</i> | <u>31 March</u> <u>2017</u> <u>(UNAUDITED)</u> | <u>31 December</u> <u>2016</u> <u>AUDITED (Note 20)</u> | <u>1 January</u> <u>2016</u> <u>AUDITED (Note 20)</u> |
|--|--------------|---|--|--|
| ASSETS | | | | |
| NON-CURRENT ASSETS | | | | |
| Property, plant and equipment | 4 | 39,373,146 | 39,418,554 | 37,960,520 |
| Intangible assets and goodwill | 5 | 7,845,386 | 7,840,443 | 7,555,857 |
| Investments in associates and joint ventures | | 6,692,273 | 6,301,641 | 6,253,461 |
| Other non-current assets | 6 | 7,693,195 | 7,652,195 | 7,733,876 |
| TOTAL NON-CURRENT ASSETS | | 61,604,000 | 61,212,833 | 59,503,714 |
| CURRENT ASSETS | | | | |
| Inventories | | 459,564 | 466,766 | 923,214 |
| Trade and other receivables | 9 | 20,424,734 | 19,768,149 | 12,740,745 |
| Short term Murabahas | | 16,700,741 | 15,004,490 | 16,803,421 |
| Other current assets | 7 | 1,676,662 | 1,693,448 | 2,324,482 |
| Cash and cash equivalents | | 3,106,614 | 3,631,202 | 4,487,827 |
| TOTAL CURRENT ASSETS | | 42,368,315 | 40,564,055 | 37,279,689 |
| TOTAL ASSETS | | 103,972,315 | 101,776,888 | 96,783,403 |
| EQUITY AND LIABILITIES | | | | |
| EQUITY | | | | |
| Issued capital | | 20,000,000 | 20,000,000 | 20,000,000 |
| Statutory reserves | | 10,000,000 | 10,000,000 | 10,000,000 |
| Other reserves | 20 | (1,840,788) | (1,935,833) | (709,624) |
| Retained earnings | | 32,404,342 | 31,877,188 | 30,978,331 |
| Equity attributable to owners | | 60,563,554 | 59,941,355 | 60,268,707 |
| Non-controlling interests | | 856,602 | 1,336,976 | 1,420,842 |
| TOTAL EQUITY | | 61,420,156 | 61,278,331 | 61,689,549 |
| LIABILITIES | | | | |
| NON-CURRENT LIABILITIES | | | | |
| Long term borrowings | 11 | 3,761,327 | 4,017,231 | 5,744,076 |
| Provisions | | 1,131,897 | 1,125,743 | 1,050,030 |
| Provision for end of service benefit | 12 | 3,876,629 | 3,775,668 | 3,678,290 |
| Deferred revenue | | 1,521,819 | 1,445,777 | 1,590,681 |
| Other non-current liabilities | 13 | 269,094 | 292,530 | 418,041 |
| TOTAL NON-CURRENT LIABILITIES | | 10,560,766 | 10,656,949 | 12,481,118 |
| CURRENT LIABILITIES | | | | |
| Trade and other payables | | 12,462,991 | 13,918,472 | 13,200,276 |
| Short term borrowings | 11 | 1,810,240 | 1,867,220 | 1,905,482 |
| Provisions | | 6,427,508 | 5,682,808 | 1,551,492 |
| Zakat and tax liabilities | 14 | 1,867,235 | 1,685,442 | 1,877,704 |
| Deferred revenue | | 2,729,014 | 2,816,841 | 1,926,777 |
| Other current liabilities | 15 | 6,694,405 | 3,870,825 | 2,151,005 |
| TOTAL CURRENT LIABILITIES | | 31,991,393 | 29,841,608 | 22,612,736 |
| TOTAL LIABILITIES | | 42,552,159 | 40,498,557 | 35,093,854 |
| TOTAL EQUITY AND LIABILITIES | | 103,972,315 | 101,776,888 | 96,783,403 |

Saudi Telecom Company
A Saudi Joint Stock Company

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017
All Amounts in Saudi Riyals Thousands

| | | <i>For the three-month period ended</i> | |
|---|--------------|---|--------------------|
| | <i>Notes</i> | <i>2017</i> | <i>2016</i> |
| | | <i>31 March</i> | |
| Revenues | | 12,829,912 | 13,228,622 |
| Cost of revenues | | (5,795,925) | (6,152,527) |
| GROSS PROFIT | | <u>7,033,987</u> | <u>7,076,095</u> |
| OPERATING EXPENSES | | | |
| Selling and marketing | | (1,398,445) | (1,314,156) |
| General and administration | | (1,028,297) | (943,526) |
| Depreciation and amortization | | (2,002,637) | (1,961,987) |
| TOTAL OPERATING EXPENSES | | <u>(4,429,379)</u> | <u>(4,219,669)</u> |
| OPERATING PROFIT | | <u>2,604,608</u> | <u>2,856,426</u> |
| OTHER INCOME AND EXPENSES | | | |
| Cost of early retirement | | (150,000) | (38,494) |
| Finance income | | 182,706 | 153,508 |
| Finance costs | | (90,345) | (90,805) |
| Other income and expenses, net | | 73,506 | (220,856) |
| Share of gains from investments in associates and joint ventures, net | | 86,316 | 71,171 |
| Other gains and losses, net | | 54,888 | (51,819) |
| TOTAL OTHER INCOME AND EXPENSES | | <u>157,071</u> | <u>(177,295)</u> |
| NET INCOME BEFORE ZAKAT, TAXES AND NON-CONTROLLING INTEREST | | <u>2,761,679</u> | <u>2,679,131</u> |
| Zakat and income tax | 14 | (177,893) | (194,738) |
| NET INCOME FOR THE PERIOD | | <u>2,583,786</u> | <u>2,484,393</u> |
| <i>Net income for the period attributable to:</i> | | | |
| Equity holders | | 2,527,154 | 2,396,578 |
| Non-controlling interests | | 56,632 | 87,815 |
| | | <u>2,583,786</u> | <u>2,484,393</u> |
| Basic and diluted earnings per share (In Saudi Riyals) | | <u>1.26</u> | <u>1.20</u> |

Saudi Telecom Company
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INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017
All Amounts in Saudi Riyals Thousands

| | | <i>For the three-month period ended</i> | |
|--|--------------|---|-------------------------|
| | <i>Notes</i> | <i>2017</i> | <i>2016</i> |
| NET INCOME FOR THE PERIOD | | <u>2,583,786</u> | <u>2,484,393</u> |
| OTHER COMPREHENSIVE INCOME FOR THE PERIOD | | | |
| <i>Items that will not be reclassified subsequently to profit or loss:</i> | | | |
| Re-measurement of end of service benefit provision | 12 | 2,355 | 837 |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | |
| Foreign currency translation differences | | (9,676) | 136,001 |
| Fair value changes on available-for-sale financial assets | 8 | (10,191) | (1,526) |
| Fair value changes from cash flow hedges | | 5,146 | (2,037) |
| <i>Total items that may be reclassified subsequently to profit or loss</i> | | <u>(14,721)</u> | <u>132,438</u> |
| TOTAL OTHER COMPREHENSIVE INCOME FOR THE PERIOD | | <u>(12,366)</u> | <u>133,275</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | | <u>2,571,420</u> | <u>2,617,668</u> |
| <i>Total comprehensive income for the period attributable to:</i> | | | |
| Equity holders | | 2,515,372 | 2,528,643 |
| Non-controlling interests | | 56,048 | 89,025 |
| | | <u>2,571,420</u> | <u>2,617,668</u> |

Saudi Telecom Company
A Saudi Joint Stock Company

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017
All Amounts in Saudi Riyals Thousands

| | | <i>For the three-month period ended</i> | |
|--|--------------|---|--------------------|
| | | <i>31 March</i> | |
| | <i>Notes</i> | <i>2017</i> | <i>2016</i> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net income for the period before zakat, taxes and non-controlling interests | | 2,761,679 | 2,679,131 |
| <i>Adjustments for:</i> | | | |
| Depreciation and amortisation | | 2,002,637 | 1,961,987 |
| Impairment on trade receivables | | 190,550 | 142,226 |
| Finance income | | (182,706) | (153,508) |
| Finance costs | | 43,275 | 52,074 |
| Provision for employee end of service benefits and other provisions | | 829,964 | 1,211,500 |
| Unwinding of discounts (Provision for employee end of service benefits and other provisions) | | 47,070 | 38,731 |
| Share of gains from investments in associates and joint ventures, net | | (86,316) | (71,171) |
| Loss on sale of property, plant and equipment | 4 | 29,232 | 79,234 |
| Net gain on derivatives | | (2,317) | (2,355) |
| Net gain on financial liabilities classified at fair value | | (75,281) | (23,091) |
| Net gains on currency exchange rates | | (6,520) | (1,969) |
| | | <hr/> | <hr/> |
| | | 5,551,267 | 5,912,789 |
| <i>Movements in working capital:</i> | | | |
| Trade and other receivables | | (847,135) | (1,268,339) |
| Inventories | | 7,202 | 177,630 |
| Other assets | | 192,706 | 2,845 |
| Trade and other payables | | (1,087,016) | (107,480) |
| Deferred revenue | | (11,784) | 663,920 |
| Other liabilities | | 777,025 | 783,567 |
| | | <hr/> | <hr/> |
| Cash generated from operations | | 4,582,265 | 6,164,932 |
| Less: Income taxes and zakat paid | | (1,269) | (5,326) |
| Less: Payments of employee end of service benefits | | (22,964) | (26,041) |
| | | <hr/> | <hr/> |
| Net cash from operating activities | | 4,558,032 | 6,133,565 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Additions to property, plant and equipment | 4 | (1,888,360) | (1,637,233) |
| Additions to intangible assets | 5 | (464,159) | (512,585) |
| Proceeds from sale of property, plant and equipment | | 844 | 533 |
| Purchase of interest in an associate | 10 | (375,095) | - |
| Dividends received from associates | | 65,987 | 13,805 |
| Proceeds from finance income | | 73,309 | 149,601 |
| Payments relating to financial assets | | (6,491,451) | (8,465,318) |
| Proceeds from financial assets | | 4,771,996 | 4,823,584 |
| | | <hr/> | <hr/> |
| Net cash used in investing activities | | (4,306,929) | (5,627,613) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Dividends paid | | (2,246) | (3,560) |
| Acquisition of non-controlling interests in a subsidiary | 10 | (400,000) | (1,619,341) |
| Repayment of borrowings | 11 | (341,086) | (331,459) |
| Finance costs paid | | (31,817) | (45,722) |
| | | <hr/> | <hr/> |
| Cash used in financing activities | | (775,149) | (2,000,082) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | (524,046) | (1,494,130) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD | | 3,631,202 | 4,487,827 |
| Net foreign exchange difference | | (542) | 3,282 |
| | | <hr/> | <hr/> |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD | | 3,106,614 | 2,996,979 |
| | | <hr/> <hr/> | <hr/> <hr/> |

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2017

All Amounts in Saudi Riyals Thousands

| | <i>Notes</i> | <i>Attributable to equity holders</i> | | | | <i>Total equity holders</i> | <i>Non-controlling interests</i> | <i>Total equity</i> |
|---|--------------|---------------------------------------|---------------------------|-----------------------|--------------------------|-----------------------------|----------------------------------|---------------------|
| | | <i>Issued capital</i> | <i>Statutory reserves</i> | <i>Other reserves</i> | <i>Retained earnings</i> | | | |
| <i>As at 1 January 2017</i> | | 20,000,000 | 10,000,000 | (1,935,833) | 31,877,188 | 59,941,355 | 1,336,976 | 61,278,331 |
| Net income for the period | | - | - | - | 2,527,154 | 2,527,154 | 56,632 | 2,583,786 |
| Other comprehensive income | | - | - | (11,782) | - | (11,782) | (584) | (12,366) |
| Total comprehensive income | | - | - | (11,782) | 2,527,154 | 2,515,372 | 56,048 | 2,571,420 |
| Dividends | 19 | - | - | - | (2,000,000) | (2,000,000) | - | (2,000,000) |
| Acquisition of non-controlling interest | 10 | - | - | 106,827 | - | 106,827 | (506,827) | (400,000) |
| Dividends paid to non-controlling interests | | - | - | - | - | - | (29,595) | (29,595) |
| <i>Balance at 31 March 2017</i> | | 20,000,000 | 10,000,000 | (1,840,788) | 32,404,342 | 60,563,554 | 856,602 | 61,420,156 |
| <i>As at 1 January 2016</i> | | 20,000,000 | 10,000,000 | (709,624) | 30,978,331 | 60,268,707 | 1,420,842 | 61,689,549 |
| Net income for the period | | - | - | - | 2,396,578 | 2,396,578 | 87,815 | 2,484,393 |
| Other comprehensive income | | - | - | 132,065 | - | 132,065 | 1,210 | 133,275 |
| Total comprehensive income | | - | - | 132,065 | 2,396,578 | 2,528,643 | 89,025 | 2,617,668 |
| Dividends | 19 | - | - | - | (2,000,000) | (2,000,000) | - | (2,000,000) |
| Acquisition of non-controlling interest | 10 | - | - | (1,312,850) | - | (1,312,850) | (306,491) | (1,619,341) |
| <i>Balance at 31 March 2016</i> | | 20,000,000 | 10,000,000 | (1,890,409) | 31,374,909 | 59,484,500 | 1,203,376 | 60,687,876 |

Saudi Telecom Company
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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
31 MARCH 2017

All Amounts in Saudi Riyals Thousands (unless stated otherwise)

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 authorized 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, that include, among other things:

- a- Establish, manage, operate and maintain fixed and mobile telecommunication networks and systems.
- b- Deliver, provide, maintain and manage diverse telecommunication services to customers.
- c- Prepare the required plans and studies to develop, execute and provide telecommunication services from all technical, financial and managerial aspects. In addition, to prepare and execute training plans in the telecommunication field, provide or obtain consulting services which are directly or indirectly related to its business and activities.
- d- Expand and develop telecommunication networks and systems by utilizing the updated modern devices and equipment in telecom technology, especially in the field of providing and managing services.
- e- Provide information, technologies and systems that depend on customers’ information, including preparing, printing and distributing phone and commercial directories, brochures, information, data and providing the required communication means to transfer (internet) services that do not conflict with the Council of Ministers’ Resolution No. 163 dated 23 Shawwal 1418H, the general computer services, and any telecommunication activities or services the Company provides whether for media, trade, advertising or any other purposes the Company considers appropriate.
- f- Wholesale and retail trade, import, export, purchase, own, lease, manufacturing, marketing, selling, developing, design, setup and maintenance of devices, equipment, and components of different telecommunication networks including fixed, moving and special networks, computer programs and the other intellectual properties, in addition to providing services and contracting works that are related to the different telecom networks.
- g- Invest in the Company’s real estate properties and the resulting activities, such as selling, buying, leasing, managing, developing and maintenance.

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

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
31 MARCH 2017

All Amounts in Saudi Riyals Thousands (unless stated otherwise)

2. BASIS OF PREPARATION

These interim condensed consolidated financial statements 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"). This is the first time that the Group has issued its interim condensed consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") for a part of the period covered by the first annual financial statements to be prepared in accordance with IFRS and IFRS 1 (First-time application of IFRS) endorsed in Saudi Arabia and other standards, publication and pronouncements endorsed by SOCPA.

These interim condensed consolidated financial statements do not include all the notes required in the annual financial statements prepared in accordance with IFRS. These interim condensed consolidated financial statements should be read in conjunction with the supplementary document, which provides the significant accounting policies as well as the notes relating to opening statement of financial position as at 1 January 2016 and comparative statement of financial position as at 31 December 2016. Note 20 provides an explanation of the impact of the first-time application of IFRS following the adoption of IFRS as endorsed by SOCPA in order to comply with the requirements of IFRS 1, "Adoption of International Financial Reporting Standards for the First Time" for periods of financial reporting beginning on 1 January 2017.

3. SEGMENT INFORMATION

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

| | <i>For the three-month period ended</i> | | |
|---|---|-----------------|--------------------|
| | <i>31 March</i> | | |
| | <i>2017</i> | <i>2016</i> | |
| <u>Revenues (1)</u> | | | |
| Saudi Telecom Company (Kingdom of Saudi Arabia) | 10,818,196 | 11,140,700 | |
| Sale Advanced Co. | 666,166 | 864,252 | |
| Other operating segments (2) | 1,898,451 | 1,976,627 | |
| Eliminations / Adjustments | (552,901) | (752,957) | |
| Total Revenues | 12,829,912 | 13,228,622 | |
| Cost of operations (excluding depreciation and amortisation) | (8,222,667) | (8,410,209) | |
| Depreciation and amortization | (2,002,637) | (1,961,987) | |
| Cost of early retirement | (150,000) | (38,494) | |
| Finance income | 182,706 | 153,508 | |
| Finance cost | (90,345) | (90,805) | |
| Other income and expenses | 73,506 | (220,856) | |
| Share of gains from investments in associates and joint ventures, net | 86,316 | 71,171 | |
| Other gains and losses, net | 54,888 | (51,819) | |
| Zakat and income tax | (177,893) | (194,738) | |
| Net income for the period | 2,583,786 | 2,484,393 | |
| | | <i>31 March</i> | <i>31 December</i> |
| | | <i>2017</i> | <i>2016</i> |
| | | | <i>1 January</i> |
| | | | <i>2016</i> |
| <u>Assets</u> | | | |
| Saudi Telecom Company (Kingdom of Saudi Arabia) | 110,950,260 | 108,468,698 | 102,021,056 |
| Sale Advanced Co. | 2,146,837 | 2,192,516 | 2,273,889 |
| Other operating segments (2) | 16,864,650 | 16,666,130 | 16,143,335 |
| Eliminations / Adjustments | (25,989,432) | (25,550,456) | (23,654,877) |
| Total Assets | 103,972,315 | 101,776,888 | 96,783,403 |

Saudi Telecom Company
A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
31 MARCH 2017

All Amounts in Saudi Riyals Thousands (unless stated otherwise)

3. SEGMENT INFORMATION (CONTINUED)

Liabilities

| | | | |
|---|--------------------|-------------|-------------|
| Saudi Telecom Company (Kingdom of Saudi Arabia) | 38,033,588 | 35,885,233 | 30,085,267 |
| Sale Advanced Co. | 907,695 | 926,047 | 1,022,660 |
| Other operating segments (2) | 8,924,381 | 8,893,552 | 8,876,595 |
| Eliminations / Adjustments | (5,313,505) | (5,206,275) | (4,890,668) |
| Total Liabilities | 42,552,159 | 40,498,557 | 35,093,854 |

(1) Segment revenue reported above represents revenue generated from external and internal customers. There were SR 552,901 thousand (31 March 2016: 752,957 thousand) inter-segment (i.e. intergroup) sales in the current period eliminated at consolidation.

(2) Others include: Viva Kuwait, Viva Bahrain, Intigral, Bravo and STC Solutions.

Please see note 5 of the supplementary document for IFRS disclosures for the year ended 31 December 2016.

4. PROPERTY, PLANT AND EQUIPMENT

During the three-month period ended 31 March 2017, the Group acquired assets with a cost of SR 1,519,895 thousand (31 March 2016: SAR 1,647,840 thousand).

Capital work in progress includes network expansion projects amounting to SR 1,066,740 thousands (31 December 2016: SR 1,077,773 thousand, 1 January 2016: SR 716,138 thousand).

During the period, the Group disposed of assets with a net book value of SR 30,076 thousand (31 March 2016: SR 79,767 thousand) resulting in a loss on sale of property, plant and equipment amounting to SR 29,232 thousand (31 March 2016: Loss SR 79,234 thousand).

During the three-month period ended March 31, 2017, the depreciation expense amounted to SR 1,453,491 thousand (31 March 2016: SR 1,484,535 thousand). The depreciation expense if classified by function is as follows: Cost of revenues: SR 1,227,248 thousand (31 March 2016: SR 1,263,176 thousand), Selling and marketing expenses SR 9,344 thousand (March 31, 2016: SR 9,999 thousand), General and administration expenses SR 216,899 thousand (31 March 2016: SR 211,360 thousand).

Please see note 6 of the supplementary document for IFRS disclosures for the year ended 31 December 2016.

5. INTANGIBLE ASSETS AND GOODWILL

During the three-month period ended 31 March 2017, the Group capitalised intangible assets amounting to SR 464,159 thousand (31 March 2016: SR 512,585 thousand).

The amortization expense for the three-month period ended 31 March 2017 amounted to SR 549,146 thousand (31 March 2016: SR 477,452 thousand). The amortization expense if classified by function is as follows: Cost of revenues: SR 312,623 thousand (31 March 2016: SR 298,567 thousand), Selling and marketing expenses of SR 25,528 thousand (31 March 2016: SR 16,922 thousand), General and administrative expenses SR 210,995 thousand SR (31 March 2016: SR 161,963 thousand).

Please see note 7 of the supplementary document for IFRS disclosures for the year ended 31 December 2016.

6. OTHER NON-CURRENT ASSETS

| | <i>31 March 2017</i> | <i>31 December 2016</i> | <i>1 January 2016</i> |
|------------------|--------------------------|-----------------------------|---------------------------|
| Financial assets | 7,481,519 | 7,401,557 | 7,319,729 |
| Other assets | 211,676 | 250,638 | 414,147 |
| | 7,693,195 | 7,652,195 | 7,733,876 |

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All Amounts in Saudi Riyals Thousands (unless stated otherwise)

7. OTHER CURRENT ASSETS

| | <i>31 March</i> <i>2017</i> | <i>31 December</i> <i>2016</i> | <i>1 January</i> <i>2016</i> |
|------------------|--------------------------------|-----------------------------------|---------------------------------|
| Financial assets | 629,709 | 492,812 | 706,429 |
| Other assets | 1,046,953 | 1,200,636 | 1,618,053 |
| | 1,676,662 | 1,693,448 | 2,324,482 |

8. FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

The fair value of investments available for sale for the three-month period ended 31 March 2017 decreased by SR 10,191 thousand (31 March 2016: SR 1,526 thousand).

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

Please see note 22 of the supplementary document for IFRS disclosures for the year ended 31 December 2016.

9. RELATED PARTY TRANSACTIONS

9.1 Trading transactions and balances with related parties

During the period, the Group entered into the following transactions with related parties:

| | <i>For the three-month period ended</i> <i>31 March</i> | |
|--|--|-------------|
| | <i>2017</i> | <i>2016</i> |
| Telecommunication services provided | | |
| Associates | 96,589 | 45,751 |
| Joint Ventures | 5,090 | 4,313 |
| | 101,679 | 50,064 |
| Telecommunication services received | | |
| Associates | 2,068 | 557 |
| Joint Ventures | 4,810 | 11,415 |
| | 6,878 | 11,972 |

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

| | <i>Amounts owed by related parties</i> | | | <i>Amounts owed to related parties</i> | | |
|----------------|--|-----------------------------------|---------------------------------|--|-----------------------------------|---------------------------------|
| | <i>31 March</i> <i>2017</i> | <i>31 December</i> <i>2016</i> | <i>1 January</i> <i>2016</i> | <i>31 March</i> <i>2017</i> | <i>31 December</i> <i>2016</i> | <i>1 January</i> <i>2016</i> |
| Associates | 202,747 | 158,902 | 44,568 | 33,692 | 32,702 | 12,449 |
| Joint ventures | 9,576 | 6,458 | 3,376 | 96,017 | 81,911 | 2,215 |
| | 212,323 | 165,360 | 47,944 | 129,709 | 114,613 | 14,664 |

9.2 Government and government related entities

The revenues and expenses related to Governmental entities for the three-month period ended 31 March 2017, (including Government charges) amounted to SR 1,583,526 thousand (31 March 2016: SR 1,204,717 thousand) and SR 1,033,293 thousand (31 March 2016: SR 1,083,989 thousand) respectively.

9. RELATED PARTY TRANSACTIONS (CONTINUED)

9.2 Government and government related entities (continued)

As at 31 March 2017, accounts receivable from Government entities totalled SR 13,146 million (31 December 2016: SR 12,534 million, 1 January 2016: SR 6,546 million) and as at 31 March 2017, accounts payable to Government entities totalled SR 4,577 million (31 December 2016: SR 3,784 million, 1 January 2016: SR 2,010 million).

Please see notes 9 and 13 of the supplementary document for IFRS disclosures for the year ended 31 December 2016.

10. SUBSIDIARIES AND ASSOCIATES

In January 2017, the purchase and transfer of the remaining shares in Saleco representing 40% of Saleco's outstanding shares for SR 400 million was completed. Starting from the date of completion, Saleco is a wholly-owned subsidiary of the Company. As a result of this purchase, the non-controlling interest decreased by SR 506,827 thousand and other reserves increased by SR 106,827 thousand.

In January 2017, the Company completed the purchase of a 10% stake in Careem for an amount of USD 100 million (equivalent to SR 375 million). Careem was founded in July 2012 and is a transportation network company with car hire services for everyday use through the company's website and smartphones application.

Please see note 12 of the supplementary document for IFRS disclosures for the year ended 31 December 2016.

11. BORROWINGS

Total loans paid during the three-month period ended 31 March 2017 amounted to SR 341,086 thousand (31 March 2016: SR 331,459 thousand).

Please see note 16 of the supplementary document for IFRS disclosures for the year ended 31 December 2016.

12. PROVISION FOR END OF SERVICE BENEFIT

The provision for end of service benefit as at 31 March 2017 is calculated using the latest actuarial valuation as at 31 December 2016. During the period there have not been any significant fluctuations or events that would require adjustment to the actuarial assumptions made at 31 December 2016.

Please see note 18 of the supplementary document for IFRS disclosures for the year ended 31 December 2016.

13. OTHER NON-CURRENT LIABILITIES

| | <i>31 March 2017</i> | <i>31 December 2016</i> | <i>1 January 2016</i> |
|-----------------------|--------------------------|-----------------------------|---------------------------|
| Financial liabilities | 178,494 | 201,643 | 358,344 |
| Other liabilities | 90,600 | 90,887 | 59,697 |
| | 269,094 | 292,530 | 418,041 |

14. ZAKAT AND TAXES

• **ZAKAT:**

Final zakat assessments were submitted for the years since inception through 2015. Effective from the year 2009, the Company started the submission of one zakat declaration for the Company and its wholly owned subsidiaries (whether directly or indirectly) in accordance with the Ministerial Decree No.1005 dated 28/4/1428H.

The Company calculates zakat due 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 interim condensed

14. ZAKAT AND TAXES (CONTINUED)

• **ZAKAT (CONTINUED):**

consolidated financial statements. On 28/2/1438H, the Appeals Committee passed its decision No. (1642)/1438H; upholding the Company's appeal for the year 2007 which cancels the process of GAZT comparison between the Zakat base and the adjusted profit whichever is higher, reinforcing the position of the Company in the objections for subsequent years pending before the Appeals Committee. Accordingly, the Company reversed an amount of SR 294 million. The differences resulting from comparison between the Zakat base and the adjusted profit 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 assessment for the years 2012 to 2015 are still pending with the Authority until the date of preparation of these interim condensed consolidated financial statements.

• **TAXES:**

During 2016, the Company received from the GAZT a withholding tax assessment on international operator's networks rentals outside Saudi Arabia for the years 2004 to 2015 for an amount of SR 3,1 billion. As the Saudi tax regulations does not cover withholding tax on the rental of international operators' networks as well as a recognition of source of income outside Saudi Arabia, management believes that this service should not be subject to taxation. Accordingly, the Company has submitted its objection to the withholding tax assessment.

15. OTHER CURRENT LIABILITIES

| | <i>31 March 2017</i> | <i>31 December 2016</i> | <i>1 January 2016</i> |
|-----------------------|--------------------------|-----------------------------|---------------------------|
| Financial liabilities | 2,079,448 | 51,458 | 103,721 |
| Other liabilities | 4,614,957 | 3,819,367 | 2,047,284 |
| | 6,694,405 | 3,870,825 | 2,151,005 |

16. 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 3,424 million as at 31 March, 2017 (31 December 2016: SR 4,424 million, 1 January 2016: SR 3,501 million).
- (b) One of the subsidiaries has an agreement to invest in a fund aiming to improve the telecommunication and internet environment for USD 300 million (equivalent to SR 1,125 billion).

17. CONTINGENT LIABILITIES

- (a) The Group has outstanding letters of guarantee amounting to SR 3,254 as at 31 March 2017 (31 December 2016: SR 3,224 million, 1 January 2016: SR 1,955 million).
- (b) On 18 January 2017, the Company received a confirmation request letter from the CITC for an amount of SR 8,987 million. This amount includes government charges required to be paid by the Company on a regular basis in addition to other material amounts that are under dispute between the Company and CITC in relation to the calculation method of government charges. The dispute relates to the telecommunications sector as a whole in the Kingdom and does not pertain to the Company only. Based on independent legal opinions and similar judicial rulings in the telecommunications sector in the Kingdom, the Company's management believes that the CITC claim will not be sustained upon judicial examination. Furthermore, the Company is currently claiming to refund of material government fees paid for previous years to CITC that is also related to the same method of calculation of government charges. Accordingly, the Company's management does not believe that this dispute will result in any additional material outflow in the future.
- (c) The Group has outstanding letters of credit as at 31 March 2017 amounting to SR 455 (31 December 2016: SR 505 million, 1 January 2016: SR 536 million).

17. CONTINGENT LIABILITIES(CONTINUED)

- (d) One of the subsidiaries of the Group has an agreement with one of its key customers to construct a fibre optic network for which capital work completed amounted to SR 577 (31 December 2016: SR 577 million) and amounts received from the key customer amounted SR 742 million (31 December 2016: SR 742 million) and recorded as 'deferred revenues' in the Group's statement of financial position. On 21 December 2016, the Company received a letter from the customer requesting a refund for all paid balances. Based on the independent legal opinions obtained, the management believes that the customer's claims have no merit and therefore this dispute has no material impact on the financial results of the Group.
- (e) The 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.

18. SUBSEQUENT EVENTS

In April 2017, the Group completed the procedures necessary for purchase and ownership transfer of the remaining shares in Intigral Holding Company (Intigral) representing 29% of Intigral's outstanding shares for SR 37.5 million. Hence, starting from the date of completion, Intigral is now a wholly-owned subsidiary (100%) of Saudi Telecom Company.

19. 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 2017 amounting to SR 2,000 million representing SR 1 per share.

20. TRANSITION TO IFRS

A. Basis of preparation of IFRS financial information

The Group has prepared and issued its audited consolidated financial statements for all prior periods, including the year ended 31 December 2016, in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia ("SOCPA standards"). These interim condensed consolidated financial statements are the first financial statements prepared by the Group in accordance with IAS 34 and IFRS 1 that are endorsed in the Kingdom of Saudi Arabia (see the basis of preparations in Note 2).

Upon transition to IFRS, the Group has made adjustments to the opening consolidated statement of financial position as at 1 January 2016, the comparative consolidated statement of financial position as at 31 December 2016, consolidated statement of profit or loss and consolidated statement of comprehensive income for the three-month period ended 31 March 2016, previously presented in accordance with SOCPA standards. The following paragraphs explain the impact of this transition.

B. IFRS 1 exemptions

IFRS 1 provides certain exemptions from retrospective application of IFRS requirements. Accordingly, the Group has applied the following exemptions:

Goodwill

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

20. TRANSITION TO IFRS (CONTINUED)

B. IFRS 1 exemptions (continued)

Property, plant and equipment

On transition to IFRS, the Group elected to apply the optional exemption to use the fair value of property, plant and equipment received free of cost recorded in accordance with SOCPA standards amounting to SR 127,796 thousand as at 1 January 2016 as the deemed cost of these assets.

Prior to 2 May 1998, the operations of the Company were part of the telegraphs and telephones division of MoPTT. Under SOCPA standards, at the time of transfer of the division to the Company, all property, plant and equipment was transferred at fair value as the MoPTT did not maintain sufficient detailed information to ascertain the historical cost basis of the property, plant and equipment transferred. On transition to IFRS, the Group elected to apply the optional exemption to use event-driven fair value as deemed cost under IFRS. The aggregate fair value of property, plant and equipment at 2 May 1998 was SR 15,137,288 thousand. This exemption had no impact on the opening consolidated statement of financial position and the comparative statement of profit or loss for the year ended 31 December 2016.

Leases

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

Foreign currency translation differences

On transition to IFRS, the Group elected to apply the optional exemption to offset all of the cumulative translation differences for all foreign operations to retained earnings amounting to SR 2,564,989.

Designation of previously recognised financial instruments

On transition to IFRS, the Group elected to apply the optional exemption, to designate its diversified investment portfolio at FVTPL. This investment was carried at amortised cost under SOCPA.

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

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

C. Impact of transition to IFRS

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

| | <i>For the year ended 31 December 2016</i> | <i>For the three- month period ended 31 March 2016</i> |
|---|--|--|
| <u>Net income before non-controlling interests under SOCPA</u> | 8,757,805 | 2,451,560 |
| <i>Adjustments</i> | | |
| - Provision for end of service benefit, net | 1 92,860 | 4,306 |
| - Carrying value of an investment in associate | 2 315,920 | 42,943 |
| - Property, plant and equipment – free of cost assets | 3 28,346 | (435) |
| - Liabilities for decommissioning of assets | 4 (33,505) | (9,349) |
| - Revenue recognition | 5 (18,707) | (15,095) |
| - Other adjustments | 6 (16,887) | 10,463 |
| Net income under IFRS | 9,125,832 | 2,484,393 |

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All Amounts in Saudi Riyals Thousands (unless stated otherwise)

20. TRANSITION TO IFRS (CONTINUED)

C. Impact of transition to IFRS(continued)

Adjustments for measurement and recognition differences

| | | | |
|---|---|----------|----------|
| Re-measurement of end of service benefit obligation | 1 | (64,011) | 837 |
| Equity accounting share adjustment in associate | 2 | 170,736 | (13,416) |

Differences in the presentation of other comprehensive income items

| | | | |
|---|--|------------------|------------------|
| Foreign currency translation differences foreign | | (169,422) | 209,277 |
| Fair value changes on available-for-sale financial assets | | 196,241 | (1,526) |
| Fair value changes from cash flow hedges | | (56,307) | (61,897) |
| Total comprehensive income under IFRS | | 9,203,069 | 2,617,668 |

| | | <i>31 December 2016</i> | <i>31 March 2016</i> | <i>1 January 2016</i> |
|---|---|-----------------------------|--------------------------|---------------------------|
| Total equity under SOCPA | | 61,076,395 | 60,927,582 | 61,962,243 |
| <i>Adjustments</i> | | | | |
| - Provision for end of service benefit | 1 | 426,184 | 399,627 | 397,335 |
| - Carrying value of an investment in associate | 2 | - | (457,129) | (486,656) |
| - Property, plant and equipment – free of cost assets | 3 | 156,142 | 127,362 | 127,796 |
| - Liabilities for decommissioning of assets | 4 | (173,193) | (149,036) | (139,688) |
| - Revenue recognition | 5 | (139,982) | (144,634) | (121,275) |
| - Other adjustments | | (67,215) | (15,896) | (50,206) |
| Total equity under IFRS | | 61,278,331 | 60,687,876 | 61,689,549 |

There were no significant differences between IFRS and SOCPA standards on the Group's cash flow statement for the period ended 31 March 2016.

1) Provision for end of service benefit

Under SOCPA, the Group recognised the cost related to its provision for end of service benefit based upon the undiscounted amount of the benefit expected to be paid. Under IFRS, provision for end of service benefit are recognised on an actuarial basis.

The impact arising from this change is a decrease in provision and an increase in equity amounting to SR 399,627 thousand as at 31 March 2016 (31 December 2016: SR 426,184 thousand, 1 January 2016: SR 397,335 thousand). A decrease in expense of SR 4,306 thousand (31 December 2016: SR 92,860 thousand) have been recognised in the consolidated profit or loss for the three-month period ended 31 March 2016 and an increase in consolidated other comprehensive income of SR 837 thousand for the three-month period ended 31 March 2016 (31 December 2016: decrease by SR 64,011 thousand).

2) Adjustment to the carrying value of an investment in associate

On transition to IFRS, the Group re-calculated its share in the net assets of Oger Telecom, taking into account its share in the service concession agreement, resulting in a decrease in the carrying value of the investment in Oger Telecom amounting to SR 486,656 thousand, with a corresponding reduction in equity as at 1 January 2016. As Oger Telecom's share of losses exceeded the Group's interest in Oger Telecom, the Group discontinued accounting for its investment using the equity method, resulting in an increase in the consolidated profit or loss of SR 42,943 thousand for the three-month period ended 31 March 2016 (31 December 2016: SR 315,920 thousand) and a decrease in other comprehensive income of SR 13,416 thousand for the three-month period ended 31 March 2016 (31 December 2016: increase by SR 170,736 thousand).

20. TRANSITION TO IFRS (CONTINUED)

C. Impact of transition to IFRS(continued)

3) Property, plant and equipment – free of cost assets

The Group receives certain items of property, plant and equipment free of cost from vendors. Under SOCPA, the Group recorded such items of property, plant and equipment at fair value with a corresponding credit to deferred income.

From the date of transition to IFRS, the Group adopted an accounting policy to recognise such assets received free of cost at a nominal value of SR 1 and released the amount of deferred income under SOCPA. As a result of adoption of this policy, equity increased by SR 127,362 thousand as at 31 March 2016 (31 December 2016: SR 156,142 thousand, 1 January 2016: SR 127,796 thousand).

This resulted in decrease in the consolidated profit or loss by SR 435 thousand for the three-month period ended 31 March 2016 (31 December 2016: increase by SR 28,346 thousand).

4) Liabilities for decommissioning of assets

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

The impact arising from this change is a decrease in equity of SR 149,036 thousand as at 31 March 2016 (31 December 2016: SR 173,193 thousand, 1 January 2016: SR 139,688 thousand) and a decrease in the consolidated profit or loss for the three-month period ended 31 March 2016 by SR 9,349 thousand (31 December 2016: SR 33,505 thousand) due to increase in depreciation arising from the provision for decommissioning of assets and unwinding of the discount on the decommissioning provision.

5) Revenue recognition

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

The impact arising from this change is a decrease in equity of SR 144,634 thousand as at 31 March 2016 (31 December 2016: SR 139,982 thousand, 1 January 2016: SR 121,275 thousand). This resulted in a reduction in revenues from services of SR 15,095 thousand (31 December 2016: SR 18,707 thousand) recognised in the consolidated profit or loss for the three-month period ended 31 March 2016.

6) Other adjustments

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

7) Reclassification

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



**Saudi Telecom Company
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**SUPPLEMENTARY INFORMATION AND DISCLOSURES
FOR ALL INTERIM PERIODS OF THE FINANCIAL YEAR 2017
("SUPPLEMENTARY DOCUMENT")**

SUPPLEMENTARY INFORMATION AND DISCLOSURES

For all interim periods of the financial year 2017

All amounts in Saudi Riyals thousands (unless stated otherwise)

1. SUPPLEMENTARY DOCUMENT

As stated in note 2 to the interim condensed consolidated financial statements, this document is a supplement to all interim condensed consolidated financial statements for the financial year 2017. The objective is to present the significant accounting policies and disclosures relating to the consolidated opening statement of financial position as at 1 January 2016 and for the year ended 31 December 2016 following the adoption of the International Financial Reporting Standards endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants (“SOCPA”), as well as to comply with the requirements of IFRS 1 First-time Adoption of International *Financial Reporting Standards*.

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

New and revised IFRSs in issue but not yet effective

The Group has not applied the following new IFRSs that have been issued but are not yet effective. The Group plans to adopt these standards when they become applicable:

| | |
|---------|--|
| IFRS 9 | <i>Financial Instruments</i> ¹ |
| IFRS 15 | <i>Revenue from Contracts with Customer</i> ¹ |
| IFRS 16 | <i>Leases</i> ² |

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

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

IFRS 9 Financial Instruments

IFRS 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities and introduces new rules for hedge accounting. The Group is currently assessing the impact of the application of IFRS 9 on the consolidated financial statements of the Group.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 is based on the principle that revenue is recognised when control of a good or service transfers to the customer. The notion of control replaces the existing notion of risk and rewards. The standard permits either a full retrospective or modified retrospective approach for the adoption. The Group is currently assessing the impact of the application of IFRS 15 on the consolidated financial statements of the Group.

IFRS 16 Leases

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

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

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

SUPPLEMENTARY INFORMATION AND DISCLOSURES

For all interim periods of the financial year 2017

All amounts in Saudi Riyals thousands (unless stated otherwise)

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

Effective 1 January 2017, the Group started to prepare consolidated financial statements under IFRS endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the SOCPA.

These supplementary information and disclosures have been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair value at the end of each reporting period, as explained in the accounting policies below.

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

3.2 Basis of consolidation

The consolidated financial statements of the Group comprises the financial information of the Company and its subsidiaries (refer to note 12 of this supplementary document). Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

SUPPLEMENTARY INFORMATION AND DISCLOSURES

For all interim periods of the financial year 2017

All amounts in Saudi Riyals thousands (unless stated otherwise)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Basis of consolidation (continued)

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3.3 Business combinations

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

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

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

Goodwill is initially measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date fair values of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a gain on bargain purchase.

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

SUPPLEMENTARY INFORMATION AND DISCLOSURES

For all interim periods of the financial year 2017

All amounts in Saudi Riyals thousands (unless stated otherwise)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Business combinations (continued)

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to the present value as at the date of exchange. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in the consolidated statement of profit or loss.

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

3.4 Investments in associates and joint ventures

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

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

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

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

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Investments in associates and joint ventures (continued)

Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment.

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

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. The carrying amount of the investment in an associate or a joint venture is tested for impairment in accordance with the policy described in note 3.14.

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

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

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

3.5 Revenue recognition

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

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

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Revenue recognition (continued)

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

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

When an arrangement contains a lease, the lease is accounted for in accordance with the policy described in note 3.7 below.

The Group's policy for recognition of revenue from long-term service contracts is described in note 3.6 below.

3.5.1 Dividend and interest income

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

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3.5.2 Customer loyalty scheme

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

3.6 Long-term service contracts

When the outcome of a long-term service contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Long-term service contracts (continued)

representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

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

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

3.7 Leasing

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

Finance leases that transfer to the Group substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and a reduction in the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance cost in the statement of profit or loss.

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

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

3.8 Foreign currencies

The supplementary information and disclosures are presented in Saudi Riyals, which is also the parent company's functional currency. For each entity, the Group determines the functional currency, which is the currency of the primary economic environment in which the entity operates, and items included in the financial statements of each entity are measured using that functional currency.

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Foreign currencies (continued)

items that are measured in terms of historical cost in a foreign currency are not retranslated. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item to which it relates.

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

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

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

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

3.9 Government grants

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

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

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

3.10 Employee benefits

3.10.1 Retirement benefit costs and end of service benefits

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

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Employee benefits (continued)

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

Provision for employees' end of service benefits is made in accordance with the projected unit credit method as per IAS 19 *Employee Benefits* taking into consideration the labour law of the respective country in which the subsidiary operates. The provision is recognised based on the present value of the defined benefit obligations.

The present value of the defined benefit obligations is calculated using assumptions on the average annual rate of increase in salaries, average period of employment and an appropriate discount rate. The assumptions used are calculated on a consistent basis for each period and reflect management's best estimate. The discount rates are set in line with the best available estimate of market yields currently available at the reporting date with reference Saudi Arabia interest rate swap curve or other basis, if applicable.

3.10.2 Short-term employee benefits

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

3.11 Zakat and Taxation

3.11.1 Zakat

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

3.11.2 Current and deferred taxes

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

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets of foreign entities are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized. This involves a judgement relating to the future financial performance of the foreign entity in which the deferred tax assets have been recognised. Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized.

3.12 Property, plant and equipment

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

Cost of telecommunication network and equipment comprises all expenditures up to the customer connection point, including contractors' charges, direct materials and labour costs up to

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Property, plant and equipment (continued)

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

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

Depreciation is charged so as to write off the cost of assets, other than land, using the straight-line method, over their estimated useful lives, as indicated in Note 6.

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

3.13 Intangible assets other than goodwill

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

3.13.1 Software

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

3.13.2 Licence and spectrum fees

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Intangible assets other than goodwill (continued)

3.13.3 Subscriber acquisition cost

Incremental costs of obtaining contracts with customers is capitalised and amortised over the contract period on a straight-line basis from the commencement of services.

3.13.4 Indefeasible Rights of Use (“IRU”)

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

3.13.5 Derecognition of intangible assets

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

3.14 Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of other assets.

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

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

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

3.15 Inventories

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

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Provisions

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

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

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

3.17 Financial instruments

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

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

3.18 Financial assets

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

3.18.1 Effective interest method

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 Financial assets (continued)

3.18.2 Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 *Business combination* applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item.

3.18.3 Held-to-maturity investments and loans and receivables

Subsequent to initial recognition, held-to-maturity investments and loans and receivables are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term loans and receivables when the effect of discounting is immaterial.

3.18.4 Available-for-sale financial assets

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

AFS investments are stated at fair value at the end of each reporting period. Fair value is determined in the manner described in note 22. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates (see below), interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Changes other than due to foreign currency, interest and dividend in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated as part of other reserves. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in other reserves is reclassified to profit or loss.

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

3.18.5 Impairment of financial assets

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

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 Financial instruments (continued)

3.18.5 Impairment of financial assets (continued)

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

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

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

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

3.18.6 Derecognition of financial assets

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

3.19 Financial liabilities and equity instruments

3.19.1 Classification as debt or equity

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

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Financial liabilities and equity instruments (continued)

3.19.2 Equity instruments

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

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

3.19.3 Financial liabilities

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

3.19.3.1 Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

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

3.19.3.2 Other financial liabilities

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

3.19.3.3 Derecognition of financial liabilities

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

3.19.3.4 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

3.20 Derivative financial instruments

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

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Derivative financial instruments (continued)

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

3.21 Hedge accounting

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

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.

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

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

3.22 Cash and cash equivalents

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

3.23 Fair values

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

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.23 Fair values (continued)

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

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

4.1 Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see note 4.2 below), that the management have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial information.

4.1.1 Revenue recognition

Principal versus agent presentation

When the Group sells goods or services as a principal, income and payments to suppliers are reported on a gross basis in revenue and operating costs. If the Group sells goods or services as an agent, revenue and payments to suppliers are recorded in revenue on a net basis, representing the margin earned.

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

4.1 Critical judgements in applying accounting policies (continued)

4.1.1 Revenue recognition (continued)

Whether the Group is considered to be the principal or an agent in the transaction depends on analysis by management of both the legal form and substance of the agreement between the Group and its business partners; such judgements impact the amount of reported revenue and operating expenses but do not impact reported assets, liabilities or cash flows.

4.1.2 Impairment of non-financial assets

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

4.2 Key sources of estimation uncertainty

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

4.2.1 Arrangements with multiple deliverables

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

4.2.2 Customer activation service fees

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

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

4.2 Key sources of estimation uncertainty (continued)

4.2.3 Financial instruments designated at FVTPL

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

4.2.4 Provisions

In respect of provisions including decommissioning provision, the Group provides for anticipated outflows of resources considered probable. Estimates are used in assessing the likely amount of the settlement. The ultimate liability may vary from the amounts provided and would be dependent on the eventual outcome. See note 17 for details.

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

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

4.2.6 Allowance for doubtful debts

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

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

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

5. SEGMENT INFORMATION

The Group's operating segments are identified based on internal reports that are regularly reviewed by the Group's chief operating decision maker ("CODM") to assess their performance.

Product and service for which reportable segments derive their revenues and results

The Group is engaged in a single line of business, being the supply of telecommunications services and related products. Majority of the Group's revenues, profits and assets relate to its operations in the Kingdom (STC KSA and Saleco). Outside of the Kingdom, the Group operates through its subsidiaries and associates in several countries.

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5. SEGMENT INFORMATION (CONTINUED)

Revenue is attributed to an operating segment based on the legal entity of the Group reporting the revenue. Inter-segment revenues are charged at arms-length prices.

The two reportable operating segments disclosed exceed the 75% threshold such that all of the other operating segments are combined and disclosed as “Other segments”.

The following is an analysis of the revenue, assets and liabilities by reportable segment:

| | <i>31 December 2016</i> |
|--|-------------------------|
| <i>Revenue 1</i> | |
| Saudi Telecom Company (KSA) | 46,198,023 |
| Sale Co | 3,389,086 |
| Other operating segments ² | 8,206,062 |
| Eliminations / Adjustments | (4,114,833) |
| Total revenue | 53,678,338 |
| Operating cost (excluding depreciation and amortisation) | (35,649,129) |
| Depreciation and amortisation | (8,078,118) |
| Cost of early retirement program | (401,703) |
| Finance income | 722,732 |
| Finance cost | (379,062) |
| Other income and expenses, net | (62,565) |
| Gains from investments in associates and joint ventures | 116,246 |
| Other gains and losses, net | (70,110) |
| Zakat and income tax | (750,797) |
| Net income | 9,125,832 |

(1) Segment revenue reported above represents revenue generated from external and internal customers. There were SR 4,114,833 thousand inter-segment (i.e. intergroup) sales in the current year eliminated at consolidation.

(2) Others include: Viva Kuwait, Viva Bahrain, Intigral, Bravo and STC Solutions.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3.

Segment assets and liabilities

For the purposes of monitoring segment performance between segments:

- all assets are allocated to reportable segments. There are no assets used jointly by reportable segments; and
- all liabilities are allocated to reportable segments. There are no liabilities for which reportable segments are jointly liable.

Other segment information

| | <i>For the year ended 31 December 2016</i> |
|---|--|
| <i>Additions to non-current assets</i> | |
| STC KSA | 8,385,931 |
| Sale Co | 48,793 |
| Other operating segments | 1,563,834 |
| | 9,998,558 |

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5. SEGMENT INFORMATION (CONTINUED)

Revenue from major products and services

The following is an analysis of the Group's revenue from operations from its major products and services:

| | <i>STC KSA</i> | <i>Saleco</i> | <i>Others</i> | <i>Eliminations/ Adjustments</i> | <i>Total</i> |
|----------------------------------|-------------------|------------------|------------------|--------------------------------------|---------------------|
| <i>For the year ended</i> | | | | | |
| <i>31 December 2016</i> | | | | | |
| GSM | 28,784,490 | - | 3,244,500 | (3,957,857) | 28,071,133 |
| Data | 5,184,039 | - | 928,610 | 2,625,743 | 8,738,392 |
| Fixed Network Landline | 6,326,890 | - | - | - | 6,326,890 |
| Managed services & others | 5,902,604 | 3,389,086 | 4,032,952 | (2,782,719) | 10,541,923 |
| | <u>46,198,023</u> | <u>3,389,086</u> | <u>8,206,062</u> | <u>(4,114,833)</u> | <u>53,678,338</u> |

Information about major customers

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

Information about geographical areas

As at and for the year ended 31 December 2016, geographical segmentation of revenues and non-current assets are as follows:

| | <i>Revenues for the year ended 31 December 2016</i> | <i>Non-current assets as at*</i> | |
|-------------------------|--|---|------------------------------|
| | | <i>31 December 2016</i> | <i>1 January 2016</i> |
| Kingdom of Saudi Arabia | 48,783,768 | 57,471,635 | 55,685,394 |
| Others | 4,894,570 | 3,741,198 | 3,818,320 |
| | <u>53,678,338</u> | <u>61,212,833</u> | <u>59,503,714</u> |

*Includes property, equipment and intangible assets.

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6. PROPERTY, PLANT AND EQUIPMENT

| | <i>Land and buildings</i> | <i>Telecommunication network and equipment</i> | <i>Other assets</i> | <i>Capital work in progress</i> | <i>Total</i> |
|--|---------------------------|--|-------------------------|-------------------------------------|--------------------------|
| Cost | | | | | |
| As at 1 January 2016 | 14,167,478 | 67,103,276 | 6,785,133 | 3,493,149 | 91,549,036 |
| Additions | 99,968 | 22,866 | 55,221 | 7,405,598 | 7,583,653 |
| Disposals | (63,577) | (598,204) | (112,604) | - | (774,385) |
| Transfers | 336,076 | 6,466,903 | 727,406 | (7,530,385) | - |
| Effect of foreign currency exchange differences and others | 75 | (18,115) | (306) | (2,710) | (21,056) |
| Balance as at 31 December 2016 | <u>14,540,020</u> | <u>72,976,726</u> | <u>7,454,850</u> | <u>3,365,652</u> | <u>98,337,248</u> |
| Depreciation | | | | | |
| Balance at 1 January 2016 | 7,710,678 | 41,217,253 | 4,660,585 | - | 53,588,516 |
| Depreciation | 450,116 | 5,115,492 | 385,661 | - | 5,951,269 |
| Disposals | (48,498) | (466,402) | (96,383) | - | (611,283) |
| Effect of foreign currency exchange differences and others | 76 | (9,601) | (283) | - | (9,808) |
| Balance as at 31 December 2016 | <u>8,112,372</u> | <u>45,856,742</u> | <u>4,949,580</u> | <u>-</u> | <u>58,918,694</u> |
| Net book value as at 31 December 2016 | <u>6,427,648</u> | <u>27,119,984</u> | <u>2,505,270</u> | <u>3,365,652</u> | <u>39,418,554</u> |
| Net book value as at 1 January 2016 | <u>6,456,800</u> | <u>25,886,023</u> | <u>2,124,548</u> | <u>3,493,149</u> | <u>37,960,520</u> |

The following useful lives are used in the calculation of depreciation:

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

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6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

6.1 Assets pledged as security

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

6.2 Capital work in progress

Capital work in progress includes network expansion projects amounting to SR 1,078 million (1 January 2016: SR 716 million) that are expected to become operational from periods beginning in the fourth quarter 2016 through to the year 2019. In addition, capital work in progress also includes SR 537 million related to construction of assets from cash received from a customer that will be used to connect the customer and provide ongoing access to the service. The contract with the customer has been suspended pending resolution of the dispute with the customer and an impairment of SR 40 million was recognised in 2013 due to technological obsolescence and efflux of time. Capital work in progress also includes certain projects under construction related to telecommunication network in certain under-developed areas in the Kingdom.

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7. INTANGIBLE ASSETS AND GOODWILL

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

*Others relate to contractual-based intangible assets, for example under-sea cable network, franchise agreements and goodwill of SR 75,612 thousand as of 31 December 2016 (1 January 2016: SR 75,612 thousand).

The following useful lives are used in the calculation of amortisation:

| | |
|------------------------------|----------------|
| Computer software | 5 years |
| Subscriber acquisition costs | 12 – 18 months |
| Telecommunication licenses | 20 – 30 years |
| Others | 3-5 years |

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7. INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

The net book value as at 31 December 2016 and End of amortization period of the most significant telecommunication licences are as follows:

| <i>Country</i> | <i>End of amortisation period</i> | <i>31 December 2016</i> | <i>1 January 2016</i> |
|----------------|-----------------------------------|--------------------------------|------------------------------|
| Kuwait | December 2033 | 2,194,189 | 2,324,537 |
| Bahrain | February 2034 | 723,386 | 747,964 |
| Saudi Arabia | May 2026 | 354,891 | 400,889 |
| | | 3,272,466 | 3,473,390 |

8. INVENTORIES

| | <i>31 December 2016</i> | <i>1 January 2016</i> |
|--------------------------------|--------------------------------|------------------------------|
| Goods held for resale | 793,460 | 1,173,030 |
| Less: Allowance for write-down | (326,694) | (249,816) |
| | 466,766 | 923,214 |

The movement analysis for allowance for write down is as follows:

| | <i>For the year ended 31 December 2016</i> |
|--|---|
| Balance at the beginning of the current year | 249,816 |
| Reversal of write downs | (53,627) |
| Provision for the year | 130,505 |
| | 326,694 |

9. TRADE AND OTHER RECEIVABLES

| | <i>31 December 2016</i> | <i>1 January 2016</i> |
|------------------------------|--------------------------------|------------------------------|
| Trade receivables | 16,761,826 | 10,462,146 |
| Allowance for doubtful debts | (3,006,368) | (2,732,088) |
| | 13,755,458 | 7,730,058 |
| <i>Other receivables:</i> | | |
| - Unbilled revenue | 5,325,082 | 4,343,056 |
| - Non trade receivables | 679,384 | 659,408 |
| - Others | 8,225 | 8,223 |
| | 19,768,149 | 12,740,745 |

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9. TRADE AND OTHER RECEIVABLES (CONTINUED)

9.1 Trade receivables

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

The Group has recognised an allowance for doubtful debts of 100% against all receivables except related parties over 360 days because historical experience has shown that receivables that are past due beyond 360 days are not recoverable.

Of the trade receivables balance at the end of the year, SR 12,534 million (1 January 2016: SR 6,546 million) is due from the Government of Saudi Arabia and its related entities, the Group's largest customer. There are no other customers that represent more than 10% of the total balance of trade receivables.

Unimpaired trade receivables pertaining to external customers from within the Kingdom of Saudi Arabia, Bahrain and Kuwait amounted to SR 18,930 million, SR 535 million and SR 303 million (1 January 2016: SR 12,272 million, SR 194 million and SR 275 million), respectively.

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

Ageing analysis of trade receivables follows:

| | <i>31 December 2016</i> | <i>1 January 2016</i> |
|-----------------------------------|-------------------------|-----------------------|
| Neither past due nor impaired | 5,091,982 | 4,343,056 |
| <i>Past due but not impaired:</i> | | |
| 1 – 30 days | 1,300,985 | 628,050 |
| 31 – 90 days | 1,708,370 | 892,875 |
| 91 – 150 days | 1,615,773 | 951,366 |
| 151 – 270 days | 2,466,817 | 2,360,911 |
| 271 – 365 days | 1,899,677 | 924,661 |
| > 365 days | 5,684,545 | 2,639,826 |
| Total | 19,768,149 | 12,740,745 |

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9. TRADE AND OTHER RECEIVABLES (CONTINUED)

9.1 Trade receivables (continued)

Movement in the allowance for impairment for the year ended 31 December 2016 follows:

| | <i>For the year ended 31 December 2016</i> |
|--|--|
| Balance at beginning of the year | 2,732,088 |
| Impairment losses recognised on receivables | 775,050 |
| Amounts written off during the year as uncollectible | (500,770) |
| | <hr/> |
| Balance at end of the year | 3,006,368 |
| | <hr/> <hr/> |

9.2 Government and government related entities

The accounts receivable from Government entities totalled 12,534 million and 6,546 million as at 31 December 2016 and 1 January 2016 respectively. The accounts payable to Government entities totalled SR 3,784 million and SR 2,010 million as at 31 December 2016 and 1 January 2016 respectively. The existing ageing with government as follows:

| | <i>31 December 2016</i> | <i>1 January 2016</i> |
|---------------------------------|-------------------------|-----------------------|
| Less than a year | 6,724,186 | 3,861,571 |
| More than one year to two years | 4,108,432 | 2,684,397 |
| More than two years | 1,701,086 | - |
| | <hr/> | <hr/> |
| | 12,533,704 | 6,545,968 |
| | <hr/> <hr/> | <hr/> <hr/> |

10. OTHER ASSETS

| | <i>31 December 2016</i> | <i>1 January 2016</i> |
|-------------------|-------------------------|-----------------------|
| Prepaid expenses | 499,766 | 351,778 |
| Advances | 495,202 | 1,080,052 |
| Deferred expenses | 451,152 | 596,797 |
| Others | 5,154 | 3,573 |
| | <hr/> | <hr/> |
| | 1,451,274 | 2,032,200 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Current | 1,200,636 | 1,618,053 |
| Non-current | 250,638 | 414,147 |
| | <hr/> | <hr/> |
| | 1,451,274 | 2,032,200 |
| | <hr/> <hr/> | <hr/> <hr/> |

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11. FINANCIAL ASSETS

| | <i>31 December 2016</i> | <i>1 January 2016</i> |
|---|-------------------------|-----------------------|
| <i>Financial assets carried at fair value through profit or loss (“FVTPL”)</i> | | |
| Derivative products (i) | 3,077 | 11,713 |
| Financial assets designated as FVTPL (ii) | 3,983,027 | 3,975,949 |
| | 3,986,104 | 3,987,662 |
| <i>Loans and receivables carried at amortised cost</i> | | |
| Sukuk (vi) | 1,422,602 | 1,407,623 |
| Murabahas (iii) (iv) | 1,163,996 | 1,254,626 |
| Loans to employees (v) | 625,390 | 651,674 |
| Others loans and receivables (vii)(viii) | 281,272 | 552,685 |
| | 3,493,260 | 3,866,608 |
| <i>Available for sale investment</i> (ix) | 415,005 | 171,888 |
| | 7,894,369 | 8,026,158 |
| Current | 492,812 | 706,429 |
| Non-current | 7,401,557 | 7,319,729 |
| | 7,894,369 | 8,026,158 |

- (i) VIVA Bahrain has entered into a profit rate swaps (“PRS”) as part of its economic hedging strategy. The PRS are carried at fair value on the statement of financial position.
- (ii) The Company established a diversified investment portfolio with high credit rated local and international banks with an amount of SR 4 billion for a period that does not exceed five years and with full principal protection. The portfolio has been structured by a mix of Murabaha’s (fixed profit payable at maturity), Sukuk’s (paying fixed coupons) and derivative financial instruments. The portfolio provides a minimum guaranteed return and additional upside return based on performance of the derivative financial instruments. The portfolio has been designated at FVTPL upon transition to IFRS as the Company manages and reports the performance of the portfolio on a fair value basis.
- (iii) The Company has invested SR 1 billion in long term Murabahas with a local bank for a five-year term with an annual profit margin of 3%. The counter party has a high credit rating. None of these assets had been past due or impaired at the end of the year. The carrying value as at 31 December 2016 is SR 1,156,418 thousand (1 January 2016: SR 1,087,017 thousand).
- (iv) VIVA Bahrain has invested in long term cash Murabaha with an international bank for a period of two years with an annual profit margin of 2.25%. The counterparties have a minimum A credit rating. None of these assets had been past due or impaired at the end of the end of the year. The carrying value as at 31 December 2016 is SR 7,578 thousand (1 January 2016: SR 167,610 thousand).

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11. FINANCIAL ASSETS (CONTINUED)

- (v) The Company has provided its employees interest-free loans to acquire residential housing and motor vehicles for a period of 25 years and 4 years, respectively. The repayment is made in equal instalments over the term of the loan duration while the employee remains in service, otherwise, they are required to be repaid in full upon the employee leaving the Company. Any new loans provided to an employee after June 2016 are being funded through a local commercial bank and are secured by a guarantee issued by the Company. The Company bears 100% of the loan's finance cost.
- (vi) On 31 December 2007, STC Asia Holdings Limited, invested Malaysian Ringgit ("MR") 1,508 million in Sukuk for 50 years (callable after 10 years) with an annual profit margin of 10.75%. The Sukuk investment was financed by a floating rate, 10 years term loan denominated in MR, for an equivalent amount (see note 23). The counterparties have a minimum A credit rating. None of these assets had been past due or impaired at the end of the reporting period. The value as at 31 December 2016 is SR 1,422,602 thousand (1 January 2016: SR 1,407,623 thousand).
- (vii) A Group subsidiary, Sale International LLC has placed a bank deposit amounting to SR 2,045 thousand (1 January 2016: 7,554 thousand) with a local commercial bank in Oman.
- (viii) A Group subsidiary, Telecom Commercial Investment Company, has supplier retentions amounting to SR 79,950 thousand (1 January 2016: SR 79,950 million).
- (ix) The available for sale investment primarily represents the Company's investment in units of STC Ventures Fund which is a fund investing in emerging, small and medium-sized companies operating in the field of Communications and Information Technology in Saudi and other global markets. Investment units owned by the Company were valued at SR 409.4 million as at 31 December 2016 (1 January 2016: SR 166.3 million). Currently, the Company is the sole investor in this fund. During the year, the Company made a further investment amounting to SR 46.9 million.

Available for sale investment also includes the Company's investments in Saudi Media Measurement Company, which started its operations in early 2014 and engaged in the business of providing Television Audience Measurement (TAM) in Saudi Arabia. The Company owns 10.42% of its SR 54 million share capital which is equivalent to approximately SR 5.6 million as at 31 December 2016 (1 January 2016: SR 5.6 million).

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12. SUBSIDIARIES

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

| <i>Name of direct subsidiary</i> | <i>Country of incorporation and operation</i> | <i>Group effective shareholding percentage</i> | |
|--|---|--|-----------------------|
| | | <i>31 December 2016</i> | <i>1 January 2016</i> |
| Arabian Internet and Communications Services Company Limited ("STC Solutions") | a Saudi Arabia | 100% | 100% |
| Telecom Commercial Investment Company Limited ("TCIC") | b Saudi Arabia | 100% | 100% |
| VIVA Bahrain ("Viva Bahrain") | c Bahrain | 100% | 100% |
| Aqalat Company Limited ("Aqalat") | d Saudi Arabia | 100% | 100% |
| Public Telecommunication Company ("BRAVO") | e Saudi Arabia | 100% | 100% |
| Safayer Company Limited ("Safayer") | f Saudi Arabia | 100% | 100% |
| STC Turkey Holdings Limited ("STC Turkey") | g British Virgin Islands | 100% | 100% |
| STC Asia Holdings Limited ("STC Asia") | h British Virgin Islands | 100% | 100% |
| STC Gulf Investment Holding S.P.C. ("STC Gulf") | i Bahrain | 100% | 100% |
| Sale Advanced Company Limited ("Saleco") | j Saudi Arabia | 60% | 60% |
| Kuwait Telecom Company ("Viva Kuwait") | k Kuwait | 51.8% | 26% |

- a. STC Advanced Solutions was established in the Kingdom in April 2002 and is engaged in providing internet services, operation of communications projects and transmission and processing of information in the Saudi market. In December 2007, the Group acquired 100% of share capital of the Company.
- b. TCIC was established in the Kingdom in October 2007 and was established for the purpose of operation and maintenance of telecommunication networks, computer systems' networks and internet networks, maintenance, operation and installation of telecommunication and information technology systems and programs.
- c. Viva Bahrain was established in the Kingdom of Bahrain in February 2009 and operates in the field of all mobile telecommunication services, international telecommunications, broadband and other related services in the Bahraini market, and commenced its commercial operation on 3 March 2010.
- d. Aqalat was established in the Kingdom in March 2013 and operates in the field of establishing, owning, investing, managing of real estate and contracting, and providing consulting services, and importing and exporting services to the benefit of the Company. Aqalat has not yet commenced commercial operations.
- e. Bravo was established in February 2002 in the Kingdom. The Company acquired 100% of Bravo's SR 200 million share capital in January 2014. Bravo operates in the electrical business and communication networks, wholesale and retail trade in fixed telecommunications equipment, electrical appliances, import, marketing, installation and maintenance of fixed and mobile telecommunications and information technology licensed devices.

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12. SUBSIDIARIES (CONTINUED)

f. Safayer was established in the Kingdom in June 2014 and operates in the retail and wholesale trade of computer systems and devices, fixed and mobile telecommunication, internet equipment, advertising and publicity material, spare parts, electrical equipment, automatic payment equipment, automatic points of sale equipment, selling of telecommunication operator's services, establish telecom and sales centers, and services' sales.

g. STC Turkey is a special purpose vehicle that invests in companies operating primarily in the telecommunications sector in Turkey and South Africa. STC Turkey is a limited liability company incorporated under the BVI Business Companies Act 2004 of the British Virgin Islands ("BVI"). The principal activity of STC Turkey is to provide services and support required in respect of investment activities on behalf of the Company.

STC Turkey acquired 35% of Oger Telecom Limited's ("OTL") US\$ 3.6 billion share capital, equivalent to approximately SR 13.5 billion, in April 2008 at the exchange rate as at that date.

During 2016, the share of losses in OTL exceeded the Group's interest in OTL and the Group discontinued recognising its share of further losses. The cumulative share of unrecognised losses amounted to SR 1,439 million as at 31 March 2017 (31 December 2016: SR 1,331 million). OTL is currently facing financial difficulties to settle its current borrowings dues and its ability to comply with the financial covenants agreed with lenders. This has cast doubt over OTL ability to continue as a going concern. The Group is currently studying the available options for this investment in line with the Group's strategy.

h. STC Asia is a limited liability company incorporated under the BVI Business Companies Act 2004 of the British Virgin Islands ("BVI") on 24 July 2007 and is a special purpose vehicle that invests in companies operating primarily in the Malaysia. It holds an investment in STC Malaysia Holdings Limited ("STC Malaysia"), a wholly-owned subsidiary, which is also a limited liability company incorporated under the BVI Companies Act 2004 of the "BVI". STC Malaysia Holdings Limited in turn holds the Group's 25% stake in Binariang GSM Holdings ("BGSM"). The principal activity of STC Asia and its subsidiaries is to act as special purpose entities in order to provide services and support required in respect of investment activities on behalf of the Company.

The principal activity of both STC Asia and STC Malaysia is to provide services and support required in respect of investment activities of the Company.

i. STC Gulf was incorporated in the Kingdom of Bahrain under Commercial Registration No. 68061-1 on 12 March 2008. The primary objective is to provide services and support required in respect of investment activities on behalf of the Company. STC Gulf has the following wholly-owned subsidiaries incorporated in the Kingdom of Bahrain with commercial registrations dated 13 March 2008. The primary objective of these subsidiaries is to provide services and support required in respect of investment activities on behalf of the holding company.

- 1- STC Gulf Investment Holding 1 S.P.C.
- 2- STC Gulf Investment Holding 2 S.P.C.
- 3- STC Gulf Investment Holding 3 S.P.C.

SUPPLEMENTARY INFORMATION AND DISCLOSURES

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12. SUBSIDIARIES (CONTINUED)

STC Gulf 3 holds the investment in Intigral Holding BSC (“Intigral”), a company was established in the Kingdom of Bahrain in June 2009 with a share capital amounting to BHD 28 million which is equivalent to approximately SR 281 million at the exchange rate as at that date. The Group used to own 51% of Intigral’s share capital. In December 2011, the Group increased its shareholding interest by 20% to reach 71%. Intigral is a holding company which owns shares in companies operating in the field of content services and digital media in Gulf countries.

- j. Saleco was established in the Kingdom in January 2008 and operates in the wholesale and retail trade of recharge card services, telecommunication equipment and devices, computer services, sale and re-sale of all fixed and mobile telecommunication services, and commercial centers’ maintenance and operation. Saleco operates in the Saudi Market with branches in Bahrain and Oman. The Company acquired 60% of Saleco SR 100 million share capital in December 2011. On 25 December 2016, the Company’s board of directors provided an offer to acquire Ethad Sale’s stake in Sale Advanced Co. Ltd. (Saleco), which represent 40% of the Saleco's shares, for an amount of SR 400 million. On 17 January 2017 the necessary procedures for the purchase and transfer of ownership of the remaining shares in Saleco was completed, making Saleco a wholly-owned subsidiary of the Company.

Saleco has two subsidiaries, Sale for Distribution and Communication S.P.C., in the Kingdom of Bahrain and Sale International LLC in the Sultanate of Oman. The principal activities of the subsidiaries are similar to those of the Saleco.

- k. In December 2007, the Company acquired 26% of the Kuwaiti Dinar (“KD”) 50 million share capital of the Viva Kuwait, equivalent to approximately SR 687 million at the exchange rate as at that date. Viva Kuwait operates in the field of mobile services in the Kuwaiti market, and commenced its commercial operation on 4 December 2008 and was listed as a joint stock company on the Kuwait Stock Exchange on 14 December 2014. The Group manages Viva Kuwait and treats its investment as a subsidiary due to its control over the Company’s majority representation in Viva Kuwait’s board of directors.

On 27 December 2015, the Company has submitted a voluntary offer to acquire the issued shares of Viva Kuwait not already owned by the Company, which represented 74% of Viva Kuwait issued shares. The offer presented by the Company to Viva Kuwait’s shareholders amounted to KD 1 per share (equivalent to SR 12.37). The offer ended on 31 January 2016 and the number of shares accepted under the offer amounted to 128,860,518 shares which represented 25.8% of total issued shares to Viva Kuwait.

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12. SUBSIDIARIES (CONTINUED)

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

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests as of 31 December 2016:

| Name of subsidiary | Place of incorporation and principal place of business | Proportion of ownership interests and voting rights held by non-controlling interests | Profit (loss) allocated to non-controlling interests | Accumulated non-controlling interests | |
|---|--|---|--|---------------------------------------|------------------|
| | | | | 31 December 2016 | 1 January 2016 |
| Sale Co Limited | KSA | 40% | 6,519 | 507,122 | 500,608 |
| VIVA Kuwait | Kuwait | 48.2% | 247,007 | 786,318 | 850,172 |
| Individually immaterial subsidiaries with non-controlling interests | | | (26,001) | 43,536 | 70,062 |
| | | | <u>227,525</u> | <u>1,336,976</u> | <u>1,420,842</u> |

12.2 Change in the Group's ownership interest in a subsidiary

On 31 January 2016, the allotted time for the voluntary offer submitted by the Company to acquire the remaining 74% issued shares of Viva Kuwait not already owned by the Company, ended. The number of shares accepted under the offer amounted to 128,860,518 shares representing 25.8% of the total issued share capital of Viva Kuwait. The total face value of the acquired shares amounted to KD 128,861 thousand (equivalent to SR 1,619,341 thousand). Upon acquisition of 25.8% of the share capital of Viva Kuwait, the Company's share in Viva Kuwait increased to 51.8% from 26.0%. As a result of this increase, the non-controlling interest decreased by SR 306,491 thousand and other reserves by SR 1,312,850 thousand.

13. RELATED PARTY TRANSACTIONS

13.1 Trading transactions and balances with related parties

During the period, the Group entered into the following trading transactions with related parties:

| | 31 December 2016 |
|--|------------------|
| Telecommunication services provided | |
| Associates | 267,802 |
| Joint Ventures | 15,344 |
| | <u>283,146</u> |
| Telecommunication services received | |
| Associates | 16,042 |
| Joint Ventures | 66,968 |
| | <u>83,010</u> |

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13. RELATED PARTY TRANSACTIONS (CONTINUED)

13.1 Trading transactions and balances with related parties (continued)

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

| | <i>Amounts owed by related parties</i> | | <i>Amounts owed to related parties</i> | |
|----------------|--|-----------------------|--|-----------------------|
| | <i>31 December 2016</i> | <i>1 January 2016</i> | <i>31 December 2016</i> | <i>1 January 2016</i> |
| Associates | 158,902 | 44,568 | 32,702 | 12,449 |
| Joint ventures | 6,458 | 3,376 | 81,911 | 2,215 |
| | 165,360 | 47,944 | 114,613 | 14,664 |

13.2 Loans to related parties

| | <i>31 December 2016</i> | <i>1 January 2016</i> |
|-----------------------------------|-------------------------|-----------------------|
| Loans to key management personnel | 9,903 | 2,241 |

13.3 Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the year was as follows:

| | <i>31 December 2016</i> |
|--------------------------------------|-------------------------|
| Short-term benefits | 95,737 |
| Provision for end of service benefit | 22,767 |
| | 118,504 |

14. ISSUED CAPITAL

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

15. OTHER RESERVES

Movement and breakdown of other reserves as at and for the year ended 31 December 2016 follows:

| | <i>Others</i> | <i>Cash flow hedge</i> | <i>Investment revaluation</i> | <i>Foreign currency translation</i> | <i>Total</i> |
|--|------------------|------------------------|-------------------------------|-------------------------------------|------------------|
| As at 1 January 2016 | 603,070 | 132,187 | (25,633) | - | 709,624 |
| Acquisition of non-controlling interest in a subsidiary | 1,312,850 | - | - | - | 1,312,850 |
| Fair value of AFS assets | - | - | (196,241) | - | (196,241) |
| Re-measurement of end of service benefit obligation | 64,011 | - | - | - | 64,011 |
| Exchange difference on translation of foreign operations | - | - | - | 41,965 | 41,965 |
| Net gains (losses) on cash flow hedges | - | 8,678 | - | - | 8,678 |
| Others | (5,054) | - | - | - | (5,054) |
| As at 31 December 2016 | 1,974,877 | 140,865 | (221,874) | 41,965 | 1,935,833 |

SUPPLEMENTARY INFORMATION AND DISCLOSURES

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16. BORROWINGS

| | <i>31 December 2016</i> | <i>1 January 2016</i> |
|--------------------------------------|-------------------------|-----------------------|
| <i>Unsecured – at amortised cost</i> | | |
| Murabahas (i) (ii) (iii) | 2,536,589 | 4,236,725 |
| Sukuk (iv) | 2,000,796 | 2,000,728 |
| | 4,537,385 | 6,237,453 |
| <i>Secured – at amortised cost</i> | | |
| Murabahas (v) (vi) | 1,347,066 | 1,412,105 |
| | 5,884,451 | 7,649,558 |
| Current | 1,867,220 | 1,905,482 |
| Non-current | 4,017,231 | 5,744,076 |
| | 5,884,451 | 7,649,558 |

- (i) The Company has obtained Murabahas that have a term of ten years and carry a floating rate of 3 months SAIBOR plus 25 basis points. Average finance cost of 2.25% was paid by the Company during the year. The Murabahas are repayable in quarterly instalments with the final instalment due in April 2018. One of the Murabahas has a covenant under which the ratio of total liabilities to tangible equity, should not exceed a maximum of two. Tangible equity is defined as shareholders' equity minus intangible assets. As at 31 December 2016, the Company is in compliance with this covenant. The carrying value of the Murabahas is SR 1,584,062 thousand as of 31 December 2016 (1 January 2016: SR 2,637,779 thousand).
- (ii) Viva Bahrain has obtained Murahahas that have a terms ranging from seven to ten years. The profit payable on the Murahahas is one month BIBOR + 0.75%. The Murahahas mature in the period beginning December 2017 through March 2021. The outstanding amount as at 31 December 2016 is SR 373,315 thousand (1 January 2016: SR 703,999 thousand).
- (iii) Viva Kuwait has obtained Murabahas that have terms ranging from five to seven years. The profit payable on Murabahas ranges from 3.10% to 3.25%. As at 31 December 2016, SR 579,212 thousand (1 January 2016: SR 894,947 thousand) has been drawn from these facilities.
- (iv) The Board has approved a Sukuk issuance program up to a maximum of SR 5 billion. As of 31 December 2016 an amount of SR 2 billion is issued. The Sukuk certificates have a face value of SR 1 million each and were issued at face value with a term of ten years. The Sukuk certificates are profit bearing and are calculated on the basis of three months SAIBOR plus 70 basis points payable every three months. The Sukuk certificates mature on 9 June 2024. The carrying value of the Sukuk is SR 2,000,796 thousand as at 31 December 2016 (1 January 2016: SR 2,000,728 thousand).
- (v) STC Malaysia obtained financing facilities in the form of Murabaha deals from a branch of a local bank in Malaysia based on the Kuala Lumpur Inter-Bank Offered Rate ("KLIBOR") plus 45 basis points and a maturity year of 10 years. The Murabaha is secured against a letter of guarantee provided by the Company. The amounts utilised of the facilities as at 31 December 2016 amounted to SR 1,261,145 thousand (1 January 2016: SR 1,315,486 thousand).

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16. BORROWINGS (CONTINUED)

(vi) VIVA Bahrain has building Murabaha facilities secured against its land and building. A substantial portion of the Murabaha facilities has been hedged for profit rate risk. Subject to certain exceptions, materiality tests and carve-outs, the significant covenants of these facilities are as follows:

- Restriction of financial indebtedness
- Limitation on disposal of assets
- Limitations on granting of loans and guarantees

Additional covenants under these loans relate to certain specific financial ratios and satisfaction of financial condition tests. The carrying values of the Murabaha facilities are not materially different from their fair values as the impact of discounting is not considered significant by management. The outstanding amount as at 31 December 2016 is SR 85,921 thousand (1 January 2016: SR 96,619 thousand).

17. PROVISIONS

| | <i>31 December 2016</i> | <i>1 January 2016</i> |
|---|--------------------------------|--|
| Legal and regulatory provisions | 6,417,649 | 2,183,616 |
| Decommissioning provisions | 389,881 | 416,899 |
| Other provisions | 1,021 | 1,007 |
| | <hr/> 6,808,551 <hr/> | <hr/> 2,601,522 <hr/> |
| Current | 5,682,808 | 1,551,492 |
| Non-current | 1,125,743 | 1,050,030 |
| | <hr/> 6,808,551 <hr/> | <hr/> 2,601,522 <hr/> |
| <i>For the year ended 31 December 2016</i> | <i>Legal provision (i)</i> | <i>Decommissioning provisions (ii)</i> |
| Balance as at 1 January 2016 | 2,183,616 | 417,906 |
| Additional provisions recognised | 4,666,749 | 23,050 |
| Reductions resulting from re-measurement or settlement without cost | (33,468) | (55,287) |
| Payment / others | (399,248) | 5,233 |
| Balance as at 31 December 2016 | <hr/> 6,417,649 <hr/> | <hr/> 390,902 <hr/> |

- (i) The Company is involved in a number of legal and other disputes, including notification of possible claims. The management of the Company, after taking legal advice, has established provisions after taking into account the facts for each case. The timing of the cash outflows associated with the majority of the legal claims are typically more than one year, however, for some legal claims the timing of cash flows may be short term in nature.
- (ii) In the course of Company's activities, a number of sites and other assets are utilised which are expected to have costs associated with de-commissioning. The associated cash outflows are expected to occur primarily in years up to 10 years from the date when the assets are brought in use.

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18. RETIREMENT BENEFIT PLANS

18.1 *Defined contribution plans*

The Group makes contributions towards the pension scheme for its local employees (nationals of the respective country) administered by the respective local government organisation. The amount recognised as an expense for defined contribution plans for the year ended 31 December 2016 is SR 376,827 thousand.

18.2 *End of service benefit plans*

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

The plan typically exposes the Group to actuarial risks such as: discount rate, salary risk and withdrawal risk.

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

The most recent actuarial valuation of the present value of the end of service benefit obligation was carried out as at 31 December 2016.

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

The principal assumptions in determining the end of service benefit provision represents a discount rate of 3.7% - 5% and expected rate of salary increase of 3.2% - 5%.

Movements in the present value of the end of service benefit obligation in the current year were as follows:

| | <i>For the year ended 31 December 2016</i> |
|--|--|
| Opening balance as at 1 January 2016 | 3,678,290 |
| Current service cost | 321,570 |
| Interest cost | 164,157 |
| <i>Re-measurement (gains)/losses:</i> | |
| Actuarial gains and losses | 63,771 |
| Benefits paid | (452,120) |
| Closing balance as at 31 December 2016 | <u>3,775,668</u> |

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18. RETIREMENT BENEFIT PLANS (CONTINUED)

18.2 End of service benefit plans (continued)

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

- If the discount rate is 50 basis points higher (lower), the end of service benefit obligation would decrease by SR 200 million (increase by SR 200 million) (1 January 2016: decrease by SR 210 million (increase by SR 210 million).
- If the expected salary growth increases (decreases) by 0.5%, the end of service benefit obligation would increase by SR 190 million (decrease by SR 190 million) (1 January 2016: increase by SR 230 million (decrease by SR 230 million).

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

19. TRADE AND OTHER PAYABLES

| | <i>31 December 2016</i> | <i>1 January 2016</i> |
|---|-------------------------|-----------------------|
| Accrued expenses | 8,541,701 | 7,982,571 |
| Trade payables | 2,138,113 | 1,885,024 |
| Other trade payables | 1,502,043 | 1,242,867 |
| Employee accruals | 1,180,360 | 1,435,566 |
| Capital equipment suppliers dues and retentions | 413,091 | 512,124 |
| Customer refundable deposits | 131,651 | 75,803 |
| Others | 11,513 | 66,321 |
| | <u>13,918,472</u> | <u>13,200,276</u> |

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

20. FINANCIAL LIABILITIES

| | <i>31 December 2016</i> | <i>1 January 2016</i> |
|---|-------------------------|-----------------------|
| Long term trade payables | 198,985 | 355,070 |
| Dividends payable | 37,662 | 69,130 |
| Profit rate swaps (not designated as hedging instruments) | 16,454 | 37,865 |
| | <u>253,101</u> | <u>462,065</u> |
| Current | 51,458 | 103,721 |
| Non-current | 201,643 | 358,344 |
| | <u>253,101</u> | <u>462,065</u> |

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21. EARNINGS PER SHARE

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

| | <i>For the year ended 31 December 2016</i> |
|---|--|
| Profit for the year attributable to owners of the Company | 8,898,857 |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 2,000,000 |
| | <hr/> |
| Basic and Diluted earnings per share (In Saudi Riyal) | <u>4.45</u> |

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

22. FINANCIAL INSTRUMENTS

22.1 Capital management

The Group manages its capital to ensure that:

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

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

The capital structure of the Group consists of net cash and shareholder's equity. Net cash comprises of cash and cash equivalents and highly liquid short term investments duly offset by borrowings. Shareholder's equity of the Group comprises issued capital, reserves and retained earnings.

The Group's Capital Management Department reviews the capital structure of the company on annual basis to evaluate the cost of capital and the risks associated with capital. The Group has the following target ratios:

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

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22. FINANCIAL INSTRUMENTS (CONTINUED)

22.1 Capital management (continued)

The ratio at the end of the reporting period was as follows:

| | <i>For the year ended 31 December 2016</i> |
|-------------------------|--|
| Debt (i) | 5,884,451 |
| Adjusted EBITDA (ii) | 17,627,506 |
| | <hr/> |
| Debt to EBITDA | 33.38% |
| | <hr/> <hr/> |
| Debt | 5,884,451 |
| Debt + Equity (iii) | 67,162,782 |
| | <hr/> |
| Debt to (Debt + Equity) | 8.76% |
| | <hr/> <hr/> |

- i. Debt is defined as current and non-current borrowings
- ii. Adjusted EBITDA is defined as net income for the year adjusted for depreciation, amortization, other expenses, finance income, finance cost, other income, share of gains from investments accounted for under equity method, net and other gains and losses, net.
- iii. Equity is defined as total equity including issued capital, reserves, non-controlling interest and retained earnings

Categories of financial instruments

| | <i>31 December 2016</i> | <i>1 January 2016</i> |
|--|-------------------------|-----------------------|
| <i>Financial assets</i> | | |
| <i>Loans and receivables</i> | | |
| Trade and other receivables | 19,768,149 | 12,740,745 |
| Short term Murabahas (maturity more than 90 days) | 15,004,490 | 16,803,421 |
| Cash and cash equivalents | 3,631,202 | 4,487,827 |
| Other loans and receivables | 3,493,260 | 3,866,608 |
| | <hr/> | <hr/> |
| Total loans and receivables | 41,897,101 | 37,898,601 |
| <i>Financial assets at fair value through profit or loss</i> | | |
| Financial asset | 3,986,104 | 3,987,662 |
| <i>Financial assets at fair value through other comprehensive income</i> | | |
| Available for sale financial assets | 415,005 | 171,888 |
| | <hr/> | <hr/> |
| | 46,298,210 | 42,058,151 |
| | <hr/> <hr/> | <hr/> <hr/> |

SUPPLEMENTARY INFORMATION AND DISCLOSURES

For all interim periods of the financial year 2017

All amounts in Saudi Riyals thousands (unless stated otherwise)

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.1 Capital management (continued)

Financial liabilities

Financial liabilities at amortised cost

| | | |
|--|-------------|-------------|
| Trade and other payables | 12,937,097 | 11,764,710 |
| Borrowings | 5,884,451 | 7,649,558 |
| Dividends payable | 37,662 | 69,130 |
| | <hr/> | <hr/> |
| | 18,859,210 | 19,483,398 |
| <i>Derivative instruments not designated as hedge accounting relationships</i> | | |
| Profit rate derivative instruments | 16,454 | 37,865 |
| | <hr/> | <hr/> |
| | 18,875,664 | 19,521,263 |
| | <hr/> <hr/> | <hr/> <hr/> |

Loans and receivables are non-derivative financial assets carried at amortised cost which generate a fixed or variable interest income for the Group. The carrying value may be affected by changes in the credit risk of the counterparties.

At the end of the reporting period, loans and receivables designated at FVTPL were recoverable from counterparties with a high credit rating. The Group's maximum exposure to credit risk for such loans and receivables amounted to SR 633 million (1 January 2016: SR 1,277 million). The Group does not use any credit derivatives or similar instruments to mitigate its exposure to credit.

The maximum exposure to credit risk of the other financial assets is the carrying amount of each categories mentioned above.

22.2 Financial risk management objectives

The Group's Financial Risk Management Department ("FRM Department") manages the financial risks relating to the operations of the Group under guidelines approved by the board of directors. The Group manages the risks affecting its statement of financial position; cash flows and material forecast transactions including profit rate risk, credit risk and liquidity risk.

The Group seeks to minimise these risks and respective risk exposures by using internal and external hedging strategies including use of financing strategies, appropriate derivative and non-derivative financial instruments. The use of financial derivatives is governed by the Group's guidelines approved by the board of directors, which provide written principles on foreign exchange risk, profit rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments and the investment of excess liquidity. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The FRM department reports to the Group's financial risk management committee and Group CFO, who monitor risks and policies implemented to mitigate risk exposures.

22.3 Profit rate risk

The Group's main profit rate risk arises from borrowings and financial assets with variable interest rates. The Group's fixed rate borrowings are carried at amortised cost and therefore not subject to profit rate risk, since neither the carrying amount nor the future cash flows will fluctuate because of a change in profit rate. The Group through the use of profit swap contracts manages the profit rate risk.

SUPPLEMENTARY INFORMATION AND DISCLOSURES

For all interim periods of the financial year 2017

All amounts in Saudi Riyals thousands (unless stated otherwise)

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.3 Profit rate risk (continued)

There has been no change to the Group's exposure to profit risks or the manner in which these risks are managed and measured.

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

If profit rates had been 20 basis points higher and all other variables were held constant, the impact on profit of the Group would have been lower by SR 7,163 million. This hypothetical effect on profit of the Group primarily arises from potential effect of variable profit financial liabilities.

A decrease in profit rates would have broadly the same impact in the opposite direction.

22.4 Foreign currency risk management

The Saudi Riyal which is the functional currency of the Group is pegged against the United States Dollar. Therefore, the Group is only exposed to exchange rate fluctuations from transactions denominated in foreign currencies other than United States Dollar. As most of the foreign currency assets and liabilities are denominated in United States Dollar the impact of foreign currency risk is minimal on the Group.

22.5 Credit risk management

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

Other than the concentration of credit risk disclosed in note 9, concentration of credit risk with respect to trade receivables are limited given that the Group's customer consist of a large number of unrelated customers. Payment terms and credit limits are set in accordance with industry norms. On-going evaluation is performed on the financial condition of trade receivable and management believes there is no further credit risk provision required in excess of the normal provision for bad and doubtful receivables (see note 9).

The Group's maximum exposure in this respect is the maximum amount the Group may have to pay if the guarantee is called on. There is no indication that the Group will incur any loss with respect to its financial guarantees as at the consolidated financial statements reporting date.

The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

SUPPLEMENTARY INFORMATION AND DISCLOSURES

For all interim periods of the financial year 2017

All amounts in Saudi Riyals thousands (unless stated otherwise)

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.6 Liquidity risk management

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

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

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

Liquidity is reviewed on a monthly basis for the Group and stress tested using various assumptions relating to capital expenditure, dividends, trade receivable collections, repayment of loans without refinancing etc. The additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk are detailed further below in this note.

The following tables detail the Group's remaining contractual maturity for financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both profit and principal cash flows. To the extent that profit flows are floating rate, the undiscounted amount is derived from profit rate curves at the end of the reporting period.

| | <i>1 year</i> | <i>2 – 5 years</i> | <i>More than 5 years</i> | <i>Total contractual cash flows</i> | <i>Carrying amount</i> |
|--------------------------|-------------------|--------------------|------------------------------|---|----------------------------|
| 31 December 2016 | | | | | |
| Trade and other payables | 12,738,112 | 198,985 | - | 12,937,097 | 12,937,097 |
| Borrowings | 2,845,175 | 826,568 | 2,152,608 | 5,824,351 | 5,884,451 |
| Dividends payable | 37,662 | - | - | 37,662 | 37,662 |
| Derivative liabilities | 12,924 | 3,530 | - | 16,454 | 16,454 |
| | <u>15,633,873</u> | <u>1,029,083</u> | <u>2,152,608</u> | <u>18,815,564</u> | <u>18,875,664</u> |
| 1 January 2016 | | | | | |
| Trade and other payables | 11,409,640 | 355,070 | - | 11,764,710 | 11,764,710 |
| Borrowings | 2,025,581 | 3,956,416 | 2,142,604 | 8,124,601 | 7,649,558 |
| Dividends payable | 69,130 | - | - | 69,130 | 69,130 |
| Derivative liabilities | 38,158 | 5,194 | - | 43,352 | 37,865 |
| | <u>13,542,509</u> | <u>4,316,680</u> | <u>2,142,604</u> | <u>20,001,793</u> | <u>19,521,263</u> |

The Group has access to financing facilities of SR 13,617 million including Sukuk, of which SR 542 million were unused at the end of the reporting period. The Group expects to meet its other obligations from operating cash flows, cash and cash equivalents and proceeds of maturing financial assets.

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

SUPPLEMENTARY INFORMATION AND DISCLOSURES

For all interim periods of the financial year 2017

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22. FINANCIAL INSTRUMENTS (CONTINUED)

22.6 Liquidity risk management (continued)

22.6.1 Fair value measurement

The management assessed that the fair values of trade and other receivables, short term Murabahas, cash and cash equivalents, other loans and receivables, trade and other payables, dividends payable, and other liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair value of financial assets has been determined based on quoted prices for Sukuk's and the future cash flows estimated based on contracted rates and forward rates of commodities from observable forward curves at the end of the reporting period for other assets in the portfolio which have been discounted at a rate that reflects the credit risk of various counterparties. The fair value is within level 2 of the fair value hierarchy. There were no transfers between Level 1 and 2 in the year. The Group's policy is to recognise transfers into and transfers out of the fair value hierarchy levels as at the end of the reporting period.

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

The reconciliation from the opening balances to the closing balances is as follows:

| | <i>For the year ended 31 December 2016</i> |
|---|--|
| Opening balance | 171,888 |
| Additions | 46,876 |
| Re-measurement recognised in other comprehensive income | 196,241 |
| | <hr/> |
| Closing balance | 415,005 |
| | <hr/> <hr/> |

The management consider that the carrying amounts of other financial assets and financial liabilities approximate their fair values.

SUPPLEMENTARY INFORMATION AND DISCLOSURES

For all interim periods of the financial year 2017

All amounts in Saudi Riyals thousands (unless stated otherwise)

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.6 Liquidity risk management (continued)

22.6.1 Fair value measurement (continued)

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset, as at 31 December 2016 and 1 January 2016.

| | <i>Effect of offsetting in the statement of financial position</i> | | |
|------------------------------|--|------------------------|--------------------|
| | <i>Gross amounts</i> | <i>Amounts set off</i> | <i>Net amounts</i> |
| At 31 December 2016 | | | |
| Financial assets | | | |
| Trade and other receivables | 21,311,690 | (1,543,541) | 19,768,149 |
| Financial liabilities | | | |
| Trade payables | 14,480,638 | (1,543,541) | 12,937,097 |
| At 1 January 2016 | | | |
| Financial assets | | | |
| Trade and other receivables | 13,807,368 | (1,066,623) | 12,740,745 |
| Financial liabilities | | | |
| Trade payables | 12,831,333 | (1,066,623) | 11,764,710 |

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

Agreements with derivative counterparties are based on an ISDA Master Agreement. Under the terms of these arrangements, only where certain events occur (such as default), all arrangements will be terminated and the parties will settle the amounts on a net basis. As the Group does not presently have a legally enforceable right of set-off, these amounts have not been offset in the statement of financial position, but have been presented separately in the table above.