A Saudi Joint Stock Company

Interim Consolidated Financial Statements for the Three-Month Period and the Year Ended December 31, 2016 (Unaudited)

Fourth Quarter 2016

Saudi Telecom Company (A Saudi Joint Stock Company)
Index to the Interim Consolidated Financial Statements for the Three-Month Period and the Year Ended December 31, 2016 (Unaudited)

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AUDITORS' LIMITED REVIEW REPORT

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

Scope of Review

We have reviewed the accompanying interim consolidated balance sheet of Saudi Telecom Company - A Saudi Joint Stock Company and its subsidiaries (the "Company" or the "Group") as at 31 December 2016, the related interim consolidated statements of income for the three month period and year ended 31 December 2016, and interim consolidated statement of cash flows for the year then ended. These interim consolidated financial statements are the responsibility of the Group's management and have been prepared by them and submitted to us together with all the information and explanations which we required. We conducted our limited review in accordance with the Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A limited review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Conclusion

Based on our limited review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia.

For Ernst & Young

Rashid S. AlRashoud
Certified Public Accountant
Registration No. 366

Riyadh: 21 Rabi Al Thani 1438H
(19 January 2017)

Saudi Telecom Company (A Saudi Joint Stock Company)
Interim Consolidated Statement of Financial Position as at December 31, 2016 (Unaudited)
(Saudi Riyals in thousands)

	Note	2016	2015
ASSETS		(Unaudited)	(Audited)
Current assets:			
Cash and cash equivalents		**3,594,470**	4,504,046
Short-term investments		**15,002,113**	16,802,175
Accounts receivable, net		**18,482,619**	11,796,090
Prepayments and other current assets		**3,558,822**	3,886,566
Total current assets		**40,638,024**	36,988,877
Non-current assets:			
Investments accounted for under equity method and others	3	**6,714,675**	6,914,011
Investments held to maturity	4	**6,261,145**	6,474,751
Property, plant and equipment, net	5	**43,023,052**	40,487,591
Intangible assets, net	6	**4,393,562**	4,783,107
Other non-current assets		**823,731**	1,012,772
Total non-current assets		**61,216,165**	59,672,232
Total assets		**101,854,189**	96,661,109
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable		**5,831,155**	3,796,511
Other credit balances – current		**4,992,674**	4,861,815
Accrued expenses and other liabilities		**17,609,618**	12,152,978
Murabahas – current	7	**1,864,027**	1,903,087
Total current liabilities		**30,297,474**	22,714,391
Non-current liabilities:			
Murabahas – non-current	7	**2,017,231**	3,744,076
Sukuk	8	**2,000,000**	2,000,000
Provision for end of service benefits		**4,214,023**	4,075,625
Other credit balances - non-current		**2,251,624**	2,164,774
Total non-current liabilities		**10,482,878**	11,984,475
Total liabilities		**40,780,352**	34,698,866
Equity			
Shareholders' equity:			
Authorized, issued and outstanding share capital: 2 billion shares, par value SR 10 per share		**20,000,000**	20,000,000
Statutory reserve		**10,000,000**	10,000,000
Retained earnings		**35,191,489**	34,652,901
Other reserves		**(2,555,879)**	(1,546,576)
Financial statements' translation differences		**(2,892,427)**	(2,564,989)
Total shareholders' equity		**59,743,183**	60,541,336
Non-controlling interests		**1,330,654**	1,420,907
Total equity		**61,073,837**	61,962,243
		101,854,189	96,661,109

The accompanying notes from 1 to 21 form an integral part of the interim consolidated financial statements.

Saudi Telecom Company (A Saudi Joint Stock Company)
Interim Consolidated Statement of Income for the Three Three-Month Period and the Year Ended December 31, 2016 (Unaudited)
(Saudi Riyals in thousands)

	Note	Three-months ended December 31		Year ended December 31	
		2016	2015	**2016**	2015
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Audited)
Revenues from services		**12,012,264**	13,246,194	**51,845,464**	50,650,612
Cost of services	**9**	**(4,595,705)**	(5,235,332)	**(22,780,245)**	(20,305,793)
Gross Profit		**7,416,559**	8,010,862	**29,065,219**	30,344,819
Operating Expenses					
Selling and marketing expenses	**10**	**(1,779,518)**	(2,351,095)	**(6,371,254)**	(7,198,738)
General and administrative expenses	**11**	**(1,335,363)**	(1,200,705)	**(4,438,323)**	(3,852,430)
Depreciation and amortization	**12**	**(2,070,586)**	(1,904,674)	**(8,062,526)**	(7,434,369)
Total Operating Expenses		**(5,185,467)**	(5,456,474)	**(18,872,103)**	(18,485,537)
Operating Income		**2,231,092**	2,554,388	**10,193,116**	11,859,282
Other Income and Expenses					
Cost of early retirement		**(152,620)**	(135,824)	**(401,703)**	(405,703)
Gains / (Losses) from investments accounted for under equity method		**75,543**	(23,803)	**(199,562)**	(378,745)
Finance costs		**(49,684)**	(63,600)	**(203,657)**	(238,410)
Finance income		**202,022**	115,564	**764,258**	446,375
Others, net	**13**	**95,010**	(193,481)	**(642,304)**	(796,777)
Other Income and (Expenses), net		**170,271**	(301,144)	**(682,968)**	(1,373,260)
Net Income before Zakat, Taxes and Non-controlling interest		**2,401,363**	2,253,244	**9,510,148**	10,486,022
Provision for zakat and taxes		**(208,682)**	(191,141)	**(750,797)**	(696,844)
Net Income before non-controlling Interest		**2,192,681**	2,062,103	**8,759,351**	9,789,178
Non-controlling interest' share		**(42,492)**	(111,612)	**(220,765)**	(530,750)
Net Income		**2,150,189**	1,950,491	**8,538,586**	9,258,428
Basic earnings per share from Operating Income in Saudi Riyals		**1.12**	1.28	**5.10**	5.93
Basic earnings / (losses) per share from income / (loss) from other operations (other income and expenses) in Saudi Riyals		**0.09**	(0.15)	**(0.34)**	(0.69)
Basic earnings per share on net income in Saudi Riyals		**1,08**	0.98	**4.27**	4.63

The accompanying notes from 1 to 21 form an integral part of the interim consolidated financial statements

Saudi Telecom Company (A Saudi Joint Stock Company)
Interim Consolidated Statement of Cash Flows for the Year Ended December 31, 2016 (Unaudited)
(Saudi Riyals in thousands)

	Note	2016 (Unaudited)	2015 (Audited)
CASH FLOW FROM OPERATING ACTIVITIES			
Net income before zakat, taxes and non-controlling interest		**9,510,148**	10,486,022
Adjustments to reconcile net income to net cash flow provided from operating activities:			
Depreciation and amortization	**12**	**8,062,526**	7,434,369
Provision for doubtful debts	**10**	**874,728**	1,714,542
Losses from investments accounted for under the equity method		**199,562**	378,745
Finance income		**(764,258)**	(446,375)
Finance costs		**203,657**	238,410
(Gains) / Losses on foreign currency exchange fluctuation		**(4,111)**	17,465
Provision for end of service benefits		**575,258**	530,189
Early retirement program cost		**401,703**	405,703
Losses on sale/disposal of property, plant and equipment	**13**	**125,290**	360,193
Gains resulting from subsidiary acquisition		**-**	(90,748)
Change in:			
Accounts receivable		**(7,561,257)**	(4,995,943)
Prepayments and other current assets		**682,191**	(1,519,506)
Other non-current assets		**189,041**	(46,189)
Accounts payable		**2,034,644**	1,726,353
Other credit balances		**135,580**	1,298,479
Accrued expenses and other liabilities		**5,329,630**	4,325,178
Zakat and taxes paid		**(679,526)**	(585,236)
Provision for end of service benefits paid		**(436,860)**	(223,053)
Paid early retirement program cost		**(359,489)**	(293,023)
Net cash provided from operating activities		**18,518,457**	20,715,575
CASH FLOW FROM INVESTING ACTIVITIES			
Capital expenditures		**(9,556,017)**	(9,248,435)
Intangible assets, net		**(1,004,701)**	(1,099,973)
Investments in equity and others		**(20,820)**	40,266
Investments held to maturity		**159,266**	(59,718)
Short-term investments		**1,800,062**	(2,454,857)
Proceeds from Finance income		**555,023**	234,583
Proceeds from sale of property, plant and equipment		**149,719**	851,326
Net cash used in investing activities		**(7,917,468)**	(11,736,808)
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends paid		**(8,031,468)**	(8,018,959)
Murabahas, net		**(1,711,564)**	(1,763,239)
Acquisition of additional shareholding in a subsidiary	**18**	**(1,619,338)**	-
Finance costs paid		**(148,195)**	(159,644)
Net cash used in financing activities		**(11,510,565)**	(9,941,842)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(909,576)**	(963,075)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**4,504,046**	5,467,121
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**3,594,470**	4,504,046
Non-cash items:			
Financial statements' translation differences		**(327,438)**	(745,945)
Other reserves	**18**	**(1,009,303)**	(393,475)

The accompanying notes from 1 to 21 form an integral part of the interim consolidated financial statements

1 GENERAL

A) ESTABLISHMENT OF THE COMPANY

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

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

B) GROUP ACTIVITIES

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

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

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

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

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

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

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

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

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

1 GENERAL (CONTINUED)

C) INVESTMENTS OF THE COMPANY

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

Company's Name	Ownership % December 31, 2016	Ownership % December 31, 2015	Treatment
Subsidiaries:			
Arabian Internet and Communications Services Co. Ltd. (STC Solutions) (Previously STC Advanced Solutions) - Kingdom of Saudi Arabia	100%	100%	Full Consolidation
Telecom Commercial Investment Company Ltd. – (TCIC) - Kingdom of Saudi Arabia	100%	100%	Full Consolidation
VIVA Bahrain (BSCC) – Kingdom of Bahrain	100%	100%	Full Consolidation
Aqalat Company Limited (Aqalat) – Kingdom of Saudi Arabia	100%	100%	Full Consolidation
Public Telecommunication Company - (BRAVO) – Kingdom of Saudi Arabia	100%	100%	Full Consolidation
Sapphire Company Ltd., – (Sapphire) - Kingdom of Saudi Arabia	100%	100%	Full Consolidation
Intigral Holding Company (Intigral) – Kingdom of Bahrain	71%	71%	Full Consolidation *
Sale Advanced Co. Ltd. – (Sale Co.) - Kingdom of Saudi Arabia (see Note 20)	60%	60%	Full Consolidation
Kuwait Telecom Company (VIVA) (KJC) - Kuwait (see Note 18)	51.8%	26%	Full Consolidation
Joint ventures and associate companies:			
Oger Telecom Ltd. – (OTL) – United Arab Emirates	35%	35%	Equity Method
Binariang GSM Holding – (Binariang) Malaysia	25%	25%	Equity Method
Arab Submarine Cables Company Limited. - Kingdom of Saudi Arabia	50%	50%	Equity Method
Arab Satellite Communications Organization (Arabsat) - Kingdom of Saudi Arabia	36.66%	36.66%	Equity Method
Contact Centers Company – (CCC) Kingdom of Saudi Arabia	49%	50%	Equity Method
Virgin Mobile Saudi Consortium LCC – (VMSC) - Kingdom of Saudi Arabia	10%	-	Equity Method

* On 20/12/1437 (corresponding to 21/09/2016), the Company's board of directors has approved to buy additional 29% of Intigral Holding Company (Intigral) share capital owned by First Asia Digital Media Limited Company (a company owned by Astro Malaysia) for an amount of US$ 10 million (equivalent to SR 37.5 million). Upon completion of transaction, the Company will own 100% of the outstanding shares of Intigral.

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are summarized below:

2-1 Basis of preparation and measurement

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

The significant accounting policies used for the preparation of the consolidated financial statements mentioned below are consistent with the accounting policies detailed in the audited consolidated financial statements for the year ended December 31, 2015.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2-1 Basis of preparation and measurement (continued)

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

2-2 Basis of consolidation

Entities controlled by the Group are classified as subsidiaries. Control is defined as the power to use, or direct the use, of another entity's assets in order to earn economic benefits. The financial statements of

the subsidiaries are included in the consolidated financial statements of the Group effective from the date control commences until the date it ceases.

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

2-3 Use of estimates

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

2-4 Period of the consolidated financial statements

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

2-5 Interim results

The results of operations for the interim period may not represent a proper indication of the annual results of operations.

The interim consolidated financial statements are prepared on the basis of integrated periods, which views each interim financial period as an integral part of the financial year. Accordingly, revenues, gains, expenses and losses for the period are recognized during that period.

2-6 Cash and cash equivalents

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

2-7 Short term investments

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

2-8 Accounts receivable

Accounts receivable are stated at their net realizable value, which represents billed and unbilled revenues net of allowance for doubtful debts.

The Group reviews its accounts receivable for the purpose of providing the required allowances against doubtful debts. When creating the allowance, consideration is given to the type of service rendered (mobile, landlines, data, international settlements, etc.…), customer category, age of the receivable, and the Group's experience in previous debts collection and the general economic situation.

2 SIGNIFICANT ACCOUNTING POLICY (CONTINUED)

2-9 Offsetting of accounts

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

2-10 Inventories

Inventories, which principally comprise cables, spare parts and consumables, are stated at weighted average cost, net of allowances.

Inventory items that are considered an integral part of the network assets, such as emergency spares, which cannot be removed from the switch, are recorded within the property, plant and equipment. Inventory items held by contractor responsible for upgrading and expanding the network are recorded within 'capital work-in- progress'.

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

2-11 Property, plant and equipment and depreciation

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

   The principal bases used for valuation are as follows:

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICY (CONTINUED)

2-11 Property, plant and equipment and depreciation (continued)

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

2-12 Software costs

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

2-13 Intangible assets

Goodwill

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

Spectrum rights and licenses

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

2-14 Impairment of non-current assets

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

2 SIGNIFICANT ACCOUNTING POLICY (CONTINUED)

2-14 Impairment of non-current assets (continued)

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

2-15 Investments

Investments accounted for under the equity method

a- Investments in joint ventures

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

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

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

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

b- Investments in associates

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

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

Other investments

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

2 SIGNIFICANT ACCOUNTING POLICY (CONTINUED)

2-15 Investments (continued)

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

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

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

2-16 Zakat

The Group calculates and records the zakat provision based on the zakat base in its consolidated financial statements in accordance with zakat regulations 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 for Zakat and Tax (GAZT).

2-17 Taxes

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

Deferred taxes

Deferred tax of foreign entities are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized. This involves a judgement relating to the future financial performance of the foreign entity in which the deferred tax assets have been recognised.

2-18 Provision for End of service benefits

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

2-19 Foreign currency transactions

Functional and presentation currency

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

These consolidated financial statements are presented in Saudi Riyals.

Transactions and balances

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

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

2 SIGNIFICANT ACCOUNTING POLICY (CONTINUED)

2-19 Foreign currency transactions (continued)

Entities of the Group (translation of financial statements)

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

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

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

2-20 Contingent liabilities

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

2-21 Revenue recognition

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

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

Revenue is recognized according to the following:

- Revenue for access charges, airtime usage and messaging is recognized as revenue as services are performed. Unbilled revenues resulting from services already provided are accrued at the

2 SIGNIFICANT ACCOUNTING POLICY (CONTINUED)

2-21 Revenue recognition (continued)

end of each period and unearned revenue from services collected in advance but are to be provided in future periods is deferred.

- Prepaid service revenue is recognized based on actual usage of the prepaid credits. The unused prepaid credit is deferred until used by the customer or expired.
- Monthly subscription fees are recognized as revenue on straight-line method over the service period.
- Revenue from arrangements with multiple deliverables is allocated based on the fair value relative to each individual deliverable.
- Revenue from interconnection of voice, roaming, and data traffic with other local and international telecommunications operators is recognized at the time the services are performed based on the actual recorded services and the agreed tariff.
- Revenue from sale of telecommunication equipment and handsets etc. is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.
- Charges billed in advance are deferred and recognized over the period in which the services are rendered.
- Service revenue rendered to customers is recognized upon collection when collectability is highly uncertain.

2-22 Customer loyalty program

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

2-23 Cost of services

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

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

2-24 Selling and marketing expenses

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

2 SIGNIFICANT ACCOUNTING POLICY (CONTINUED)

2-25 General and administrative expenses

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

2-26 Earnings per share

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

2-27 Financial derivatives

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

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

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

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

2-28 Related parties

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

3 INVESTMENTS ACCOUNTED FOR UNDER EQUITY METHOD AND OTHERS

Investments accounted for under equity method and others as at December 31 comprise the following:

(Thousands of Saudi Riyals)	2016 (Unaudited)	2015 (Audited)
Investments accounted for under equity method:		
Associates	**1,859,477**	1,687,321
Joint Ventures	**4,438,189**	5,052,797
Total investments accounted for under equity method	**6,297,666**	6,740,118
Other investments	**417,009**	173,893
	6,714,675	6,914,011

In 2013, the Group conducted a review of its foreign investment in BGSM holding group (a joint venture), including the manner in which this investment is being managed and how joint control has been effectively exercised. As a result of the review, the Group signed an amendment to the BGSM shareholders' agreement with the remaining shareholders of BGSM holding group with respect to its operational rights of the Aircel group (a subsidiary of BGSM holding group). Accordingly, the Group stopped to account for its investment in Aircel group using the equity method effective from the second quarter of 2013.

The Group has an equity investment in Oger Telecom Company Limited (Oger Telecom) of 35% that is accounted for using the equity method. During the fourth quarter 2016 the entire Group's investment balance in Oger Telecom was depleted and the Group has stopped accounting for its investment using the equity method. The Group's share of Oger Telecom losses in excess of the investment carrying value as of 31 December 2016 amounted to SR 404 million. Oger Telecom 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 casted doubt over Oger Telecom ability to continue as a going concern. The Group is currently studying the available options for this investment in line with the Group's investment strategy. Management believes that the existing situation is not expected to have material impact on the financial position of the Group.

4 INVESTMENT HELD TO MATURITY

In the second quarter of year 2014, the Company established diversified investing portfolios with several local and international banks with an amount of SR 4 billion for a period that does not exceed five years and with full capital protection. Further, in the fourth quarter of year 2014, the Company invested SR 1 billion in long term Murabaha with an international bank for a fiveyear term with an annual profit margin of 3%.

In December 2007, one of the subsidiaries of the Group invested 1,508 Malaysian Ringgit ("MR") (equivalent to SR 1,261 million) (2015: SR 1,315 million) in Sukuk for 50 years (callable after 10 years) with an annual profit margin of 10.75% (profit margin has been increased by 1.50% to reach 10.75 starting June 29, 2014). The Sukuk investment was financed by a floating rate, 10 years term loan denominated in MR, for an equivalent amount. At the same time as Sukuk investment and term loan, the underlying Sukuk and loan cash flows (coupons and financing cost only) were hedged for interest rate and foreign exchange risk. In third quarter of 2015, the hedge agreement was unwound, and since Sukuk and term loan principal amounts are naturally hedged for foreign exchange risk as both are dominated in Malaysian Ringgit, there is no effect on the income statement from the exchange rate fluctuations.

Comparative figures include investments amounted to BHD 16 million (equivalent to SR 159 million) for one of the subsidiaries of the Group which has been reclassified as a short term investments during 2016.

5 PROPERTY, PLANT, AND EQUIPMENT, NET

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

6 INTANGIBLE ASSETS, NET

Net intangible assets consist of the following as at December 31:

(Thousands of Saudi Riyals)	2016 (Unaudited)	2015 (Audited)
Licenses	**3,272,780**	3,604,078
Others	**1,120,782**	1,179,029
	4,393,562	4,783,107

7 MURABAHAS

Murabahas consist of:

(Thousands of Saudi Riyals)	2016 (Unaudited)	2015 (Audited)
Current portion	**1,864,027**	1,903,087
Non-current portion	**2,017,231**	3,744,076
	3,881,258	5,647,163

The current and non-current portion of murabahas facilities includes murabahas amounting to SR 91 million that are secured against fixed assets.

8 SUKUK

In the second quarter of year 2014, the Company approved a Sukuk issuance program with a maximum amount of SR 5 billion. The first tranche has been issued as described in the following as at December 31, 2016:

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

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

9 COST OF SERVICES

Cost of services consists of the following:

(Thousands of Saudi Riyals)	Three-months ended December 31,		Year ended December 31,	
	2016	2015	**2016**	2015
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Audited)
External networks' usage charges	**1,175,248**	1,371,256	**7,714,896**	6,387,435
Government charges (*)	**1,085,292**	1,164,637	**4,475,826**	4,435,478
Repair and maintenance	**784,119**	849,502	**2,928,463**	2,929,784
Employees' costs	**557,241**	501,688	**2,217,717**	2,067,184
Cards recharge and printing cost	**410,506**	454,079	**1,765,372**	1,786,726
Rents of equipment, property and vehicles	**186,185**	340,038	**948,171**	994,583
Others	**397,114**	554,132	**2,729,800**	1,704,603
	4,595,705	5,235,332	**22,780,245**	20,305,793

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

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

(Thousands of Saudi Riyals)	Three-months ended December 31,		Year ended December 31,	
	2016	2015	**2016**	2015
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Audited)
Commercial service provisioning fees	**892,344**	958,266	**3,667,257**	3,631,415
Frequency Spectrum fees	**117,957**	128,872	**503,217**	508,868
License fees	**74,991**	77,499	**305,352**	295,195
	1,085,292	1,164,637	**4,475,826**	4,435,478

(Thousands of Saudi Riyals)	Three-months ended December 31,		Year ended December 31,	
	2016	2015	**2016**	2015
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Audited)
Company	**1,014,342**	1,096,444	**4,189,017**	4,147,445
Subsidiaries	**70,950**	68,193	**286,809**	288,033
	1,085,292	1,164,637	**4,475,826**	4,435,478

10 SELLING AND MARKETING EXPENSES

Selling and marketing expenses consist of the following:

(Thousands of Saudi Riyals)	Three-months ended December 31,		Year ended December 31,	
	2016	2015	**2016**	2015
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Audited)
Employees' costs	**603,352**	528,390	**2,450,583**	2,347,319
Sales commission and incentives	**495,210**	320,335	**1,020,686**	820,274
Provision for doubtful debts	**153,798**	548,928	**874,728**	1,714,542
Advertising and publicity	**69,992**	198,061	**586,574**	725,283
Call center managing expenses	**85,679**	146,961	**364,195**	366,531
Repair and maintenance	**79,934**	37,445	**245,176**	134,347
Printing of telephone cards and office equipment	**26,510**	34,379	**128,833**	191,700
Others	**265,043**	536,596	**700,479**	898,742
	1,779,518	2,351,095	**6,371,254**	7,198,738

"Others" mainly comprise: Consultancies, legal and professional fees rent of equipment, property, and motor vehicles, security and safety, telecommunication expenses, postage, courier, utilities expenses and sport activities sponsorship costs.

11 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses consist of the following:

(Thousands of Saudi Riyals)	Three-months ended December 31,		Year ended December 31,	
	2016	2015	**2016**	2015
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Audited)
Employees' costs	**544,368**	592,919	**2,190,045**	2,069,768
Repair and maintenance	**281,214**	162,130	**710,326**	548,479
Rents of equipment, property and vehicles	**92,905**	78,838	**348,454**	307,923
Consultancies, legal and professional fees	**130,854**	136,251	**289,188**	336,378
Premises expenses	**28,093**	26,423	**109,131**	55,914
Security and safety expenses	**25,597**	37,050	**98,050**	92,014
Others	**232,332**	167,094	**693,129**	441,954
	1,335,363	1,200,705	**4,438,323**	3,852,430

"Others" mainly comprise insurance premiums, office supplies, freight, handling, postage, and courier expenses.

12 DEPRECIATION AND AMORTIZATION

Depreciation and amortization consist of the following:

(Thousands of Saudi Riyals)	Three-months ended December 31,		Year ended December 31,	
	2016	2015	**2016**	2015
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Audited)
Depreciation	**1,717,293**	1,638,493	**6,845,912**	6,321,197
Amortization	**353,293**	266,181	**1,216,614**	1,113,172
	2,070,586	1,904,674	**8,062,526**	7,434,369

13 OTHERS, NET

Other income and expenses – others, net consists of the following:

(Thousands of Saudi Riyals)	Three-months ended December 31,		Year ended December 31,	
	2016	2015	**2016**	2015
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Audited)
Miscellaneous revenues	**544,478**	205,670	**932,991**	757,441
Losses on sale or disposal of property, plant and equipment	**(7,114)**	(79,963)	**(125,290)**	(360,193)
Miscellaneous expenses	**(442,354)**	(319,188)	**(1,450,005)**	(1,194,025)
	95,010	(193,481)	**(642,304)**	(796,777)

14 ZAKAT AND TAXATION PROVISION

(a) ZAKAT PROVISION

Final zakat declarations 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 fully-owned subsidiaries (whether directly or indirectly) in accordance with the Ministerial Decree No.1005 dated 28/4/1428H.

Final zakat assessments were received for the years since inception through 2011. The Company submitted objections for the year 2008 through 2011. The total zakat differences for these objections amounted to SR 1billion, These objections are still outstanding with the General Authority of Zakat and Tax and the primary objection and appeal committees as at the reporting date of these interim consolidated financial statements. on 28/02/1438 H, the Appellate Committee of its decision No. (1642) for the year 1438 resumption of the company for the year 2007 and then cancel the comparison process between Zakat declaration and adjusted income, whichever is greater, which enhances the company`s position in the foreseeable objections from the subsequent years, in front of the committees, nothing that the differences resulting from this comparison represents the bulk of the differences zakat objectionable. The Company`s management believes that the result of these objections would be favorable to the Company and will not result in additional provisions.

Zakat assessments for the years from 2012 until 2015 are still under study at the General Authority of Zakat and Tax as at the reporting date of these interim consolidated financial statements.

14 ZAKAT AND TAXATION PROVISION (CONTINUED)

(b) Taxation provision

During 2016, the Company received from the GAZT a withholding tax assessment on international operators networks rentals outside Saudi Arabia for the years from 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. Based on the opinions of specialists, the nature of the services and existing provisions of the Saudi tax regulations, the Company's management believes that the result of these objections will be favorable to the Company and will not result to any additional provision.

15 COMMITMENTS AND CONTINGENCIES

Commitments

(a) The Group enters into commitments in the ordinary course of business for major capital expenditures, primarily in connection with its network expansion programs. Outstanding capital expenditure commitments amounted to SR 4,423 million as at December 31, 2016 (2015: SR 3,501 million).

(b) Certain parcels of land and buildings for use in the Group's operations are leased under operating lease commitments expiring at various future dates.

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

Contingencies

- The Group has outstanding letters of guarantee amounting to SR 3,220 million as at December 31, 2016 (2015: SR 3,158 million).
- On January 18, 2017, the Company received a confirmation request letter from the Communications and Information Technology Commission (CITC) for an amount of SR 8,987 million. This amount includes government charges 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 calculation method of government charges. The dispute relates to the telecommunications sector in the Kingdom as part of the sector's normal operations and does not pertain to the Company only. However, based on independent legal opinions and similar judicial rulings in the telecommunication market in the Kingdom, the Company's management believes that these amounts are invalid. Furthermore, the Company is currently claiming to get refund of material government fees paid during the previous years to CITC which is also relating to the same method of government charges calculation. Accordingly, and based on the nature of these disputes and provisions that are recorded, the Company's management does not believe that this dispute will result in any additional material provisions in the future.
- The Group has outstanding letters of credit as at December 31, 2016 amounting to SR 505 million (2015: SR 536 million).
- One of the subsidiaries of the Group has an agreement with one of its key customers to construct a fiber optic network for which capital work completed amounted to SR 577 million and amounts received from the key customer amounted SR 742 million and recorded as 'deferred revenues' in the Group's balance sheet. On 21/03/2016, the Company received a

15 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Contingencies (continued)

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.

- The Group, in its ordinary course of business, is subject to proceedings, lawsuits and other claims. However, these matters are not expected to have any material impact neither on the Company's financial position nor on the results of its operations as reflected in these consolidated financial statements.

16 FINANCIAL INSTRUMENTS

Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The management does not believe that the fair value of the Group's financial assets and liabilities differ materially from its carrying value as at December 31, 2016 and 2015.

Commission rate risk

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

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Management monitors fluctuations in foreign currency exchange rates and enters into hedging agreements when needed to reduce the foreign currency exchange rates risk. The official currency of the Group is the Saudi Riyal, the base currency dealing by the Group and its price is currently fixed with a minor margin against the U.S. dollar.

Credit risk

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

Liquidity risk

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

17 SEGMENTAL INFORMATION

- According to the main activities of the Group

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

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

The following table shows the information according to the Group`s main activities for the year ended December 31, 2016 (Unaudited):

(Thousands of Saudi Riyals)	GSM	PSTN	DATA	Un-allocated /adjusted	TOTAL
Revenue from services	**35,225,339**	**6,655,295**	**9,737,224**	**227,606**	**51,845,464**
Interconnect revenues	**776,404**	**8,202,069**	**1,553,095**	**-**	**10,531,568**
Interconnect expenses	**(4,813,408)**	**(1,340,949)**	**(4,377,211)**	**-**	**(10,531,568)**
Net revenues from services	**31,188,335**	**13,516,415**	**6,913,108**	**227,606**	**51,845,464**
Depreciation and amortization	**3,165,305**	**4,083,799**	**514,742**	**298,680**	**8,062,526**
Net income / (Loss)	**10,401,734**	**(3,593,547)**	**2,298,411**	**(568,012)**	**8,538,586**
Total assets	**27,331,081**	**29,274,061**	**21,550,905**	**23,698,142**	**101,854,189**
Total liabilities	**18,991,813**	**13,378,406**	**6,393,500**	**2,016,633**	**40,780,352**

The following table shows the information according to the Group`s activities for the year ended December 31, 2015 as follows (Audited):

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

17 SEGMENTAL INFORMATION (CONTINUED)

- According to Group operations

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

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

2016
(Unaudited)

(Thousands of Saudi Riyals)	Domestic Operations	International Operations
Revenues from services (*)	**47,949,873**	**5,193,697**
Total assets (**)	**117,471,217**	**5,788,762**

(*) The financial statements consolidation adjustments relating to the revenues amounted to SR (1,298,106) thousand.
(**) The financial statements consolidation adjustments relating to the assets amounted to SR (21,405,790) thousand.

2015
(Audited)

(Thousands of Saudi Riyals)	Domestic Operations	International Operations
Revenues from services (*)	46,826,158	5,180,040
Total assets (**)	109,647,160	5,998,891

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

18 SUBSIDIARY OWNERSHIP INCREASE (KUWAIT TELECOM COMPANY "VIVA")

On January 31, 2016, the allotted time period for the voluntary offer submitted by the Company to acquire the remaining 74% issued shares of Kuwait Telecom Company (VIVA) not already owned by STC, has ended. The number of shares that accepted the offer accumulated to 128,860,518 shares which represent 25.8% of total issued shares of VIVA. The total value of acquired shares amounted to Kuwaiti Dinar 128,860,518 (equivalent to SR 1,619,338 thousand). Hence the Company's share in VIVA became 51.8% instead of 26.0%. As a result of this increase, the non-controlling minority interest decreased for an amount of SR 306 million and the equity (other reserves) for an amount of SR 1,313 million.

19 DIVIDENDS

In line with the dividends policy for the next three year periods which started from the fourth quarter of year 2015, and which has been 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 dividends representing SR 1 per share on quarterly basis. The Company will distribute cash dividends to the shareholders for the third quarter of year 2016 with an amount of SR 2,000 million representing SR 1 per share. During the year, the Company has distributed cash dividends to shareholders for the first and second quarters of 2016 amounting to SR 2,000 million for each quarter representing SR 1 per share.

20 SUBSEQUENT EVENTS

On January 17, 2017, the completion of the necessary procedures for the purchase and ownership transfer of the remaining shares in Sale Advanced Company (Sale Co.) representing 40% of Sale Co.'s outstanding shares for SR 400 million. Hence, starting the date of completion Sale Co. is now a wholly-owned subsidiary (100%) of Saudi Telecom Company.

21 COMPARATIVE FIGURES

Certain figures for the period ended December 31, 2015 have been reclassified to conform with the presentation used for the period ended December 31, 2016.