



A Saudi Joint Stock Company

**Interim Consolidated Financial Statements for the Three-
Month Period and the Year Ended December 31, 2015
(Unaudited)**

**Fourth Quarter
2015**

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, 2015 (Unaudited)

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AUDITORS' LIMITED REVIEW REPORT

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

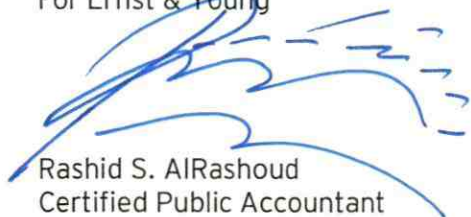
Scope of Review

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 2015, the related interim consolidated statement of income for the three months period and year ended 31 December 2015, and interim consolidated statements 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: 10 Rabi Al Thani 1437H
(20 January 2016)

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

	<u>Note</u>	<u>2015</u> <u>(Unaudited)</u>	<u>2014</u> <u>(Audited)</u>
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents		4,504,046	5,467,121
Short-term investments		16,802,175	14,347,318
Accounts receivable, net		11,870,438	8,514,689
Prepayments and other current assets		4,857,944	3,515,936
Total current assets		38,034,603	31,845,064
Non-current assets:			
Investments accounted for under equity method and others	3	6,923,148	8,518,937
Investments held to maturity	4	6,474,751	6,787,047
Property, plant and equipment, net	5	40,487,522	38,228,697
Intangible assets, net	6	4,783,107	4,523,073
Other non-current assets		1,012,772	966,583
Total non-current assets		59,681,300	59,024,337
Total assets		97,715,903	90,869,401
<u>LIABILITIES AND EQUITY</u>			
Current liabilities:			
Accounts payable		3,286,522	2,070,158
Other credit balances – current		5,474,747	3,250,292
Accrued expenses		11,251,715	7,786,143
Deferred revenues – current portion		1,929,162	1,698,049
Murabahas – current portion	7	1,920,849	2,014,165
Total current liabilities		23,862,995	16,818,807
Non-current liabilities:			
Murabahas – non-current portion	7	3,744,076	5,785,169
Sukuk	8	2,000,000	2,000,000
Provision for end of service benefits		4,075,625	3,768,489
Other credit balances - non-current		1,985,408	1,168,326
Total non-current liabilities		11,805,109	12,721,984
Total liabilities		35,668,104	29,540,791
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		34,729,024	33,394,473
Other reserves		(1,536,234)	(1,153,101)
Financial statements' translation differences		(2,565,951)	(1,819,044)
Total shareholders' equity		60,626,839	60,422,328
Non-controlling interest		1,420,960	906,282
Total equity		62,047,799	61,328,610
Total liabilities and equity		97,715,903	90,869,401

The accompanying notes from 1 to 19 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-Month Period and the Year
Ended December 31, 2015 (Unaudited)
(Saudi Riyals in thousands)

	<u>Note</u>	<u>Three-months ended</u>		<u>Year ended</u>	
		<u>December 31</u>		<u>December 31</u>	
		<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
		<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
Revenues from services		13,246,194	11,848,402	50,836,532	45,825,640
Cost of services	9	(5,235,332)	(4,547,899)	(20,493,496)	(17,670,009)
Gross Profit		8,010,862	7,300,503	30,343,036	28,155,631
Operating Expenses					
Selling and marketing expenses	10	(2,351,095)	(1,716,807)	(7,120,612)	(5,928,975)
General and administrative expenses	11	(1,200,705)	(983,802)	(3,852,429)	(3,166,159)
Depreciation and amortization	12	(1,904,674)	(1,816,910)	(7,434,367)	(7,029,907)
Impairment losses relating to investments	3	-	(399,000)	-	(399,000)
Total Operating Expenses		(5,456,474)	(4,916,519)	(18,407,408)	(16,524,041)
Operating Income		2,554,388	2,383,984	11,935,628	11,631,590
Other Expenses and Income					
Cost of early retirement		(135,824)	-	(405,703)	-
Losses from investments accounted for under equity method		(23,803)	(164,262)	(378,987)	(261,088)
Finance costs		(63,600)	(81,368)	(238,477)	(234,523)
Commissions		115,564	99,594	446,372	389,639
Others, net	13	(193,481)	479,263	(796,707)	637,803
Other expenses and income, net		(301,144)	333,227	(1,373,502)	531,831
Net Income before Zakat, Taxes and Non-controlling interest		2,253,244	2,717,211	10,562,126	12,163,421
Provision for zakat and taxes		(191,141)	(171,985)	(696,771)	(774,695)
Net Income before non-controlling Interest		2,062,103	2,545,226	9,865,355	11,388,726
Non-controlling interest' share		(111,612)	(102,841)	(530,804)	(429,236)
Net Income		1,950,491	2,442,385	9,334,551	10,959,490
Basic earnings per share from Operating Income in Saudi Riyals		1.28	1.19	5.97	5.82
Basic (losses)/earnings per share from income from other operations (Other expenses and income) in Saudi Riyals		(0.15)	0.17	(0.69)	0.27
Basic earnings per share on net Income in Saudi Riyals		0.98	1.22	4.67	5.48

The accompanying notes from 1 to 19 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, 2015
(Unaudited)
(Saudi Riyals in thousands)

	<u>Note</u>	<u>2015</u> <u>(Unaudited)</u>	<u>2014</u> <u>(Audited)</u>
CASH FLOW FROM OPERATING ACTIVITIES			
Net Income before zakat, taxes and non-controlling interest		10,562,126	12,163,421
Adjustments to reconcile net income to net cash flow provided from operating activities:			
Depreciation and amortization		7,434,367	7,029,907
Impairment losses relating to investments	3	-	399,000
Provision for doubtful debts	10	1,640,103	1,293,219
Losses from investments accounted for under the equity method		378,987	261,088
Commissions		(446,372)	(389,639)
Finance costs		238,477	234,523
Losses from foreign exchange fluctuation		17,461	24,548
Provision for end of service benefits		530,189	410,338
Early retirement program cost		405,703	-
Losses/(Gains) on sale/disposal of property, plant and equipment	13	360,193	(402,722)
Gain resulting from subsidiary acquisition	17	(90,748)	-
Change in:			
Accounts receivable		(4,995,852)	(2,306,760)
Prepayments and other current assets		(1,611,677)	391,821
Other non-current assets		(46,189)	(56,731)
Accounts payable		1,216,364	1,051,536
Other credit balances		1,891,897	10,612
Accrued expenses		3,433,758	(1,335,924)
Deferred revenues		993,221	446,771
Zakat and taxes paid		(578,368)	(407,042)
Provision for end of service benefits paid		(223,053)	(37,301)
Paid early retirement program cost		(293,023)	-
Net cash provided from operating activities		<u>20,817,564</u>	<u>18,780,665</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Capital expenditures		(9,248,364)	(6,100,145)
Intangible assets, net		(1,099,973)	(616,305)
Investments in equity and others		40,759	132,633
Acquisition of a new subsidiary	17	-	40,462
Investments held to maturity	4	(59,718)	(5,099,547)
Short-term investments		(2,454,857)	2,481,615
Proceeds from commissions		234,583	264,029
Proceeds from sale of property, plant and equipment		747,930	10,404
Net cash used in investing activities		<u>(11,839,640)</u>	<u>(8,886,854)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends paid		(8,018,959)	(6,469,730)
Murabahas, net		(1,762,395)	(762,279)
Sukuk issuance	8	-	2,000,000
Finance costs paid		(159,645)	(154,755)
Net cash used in financing activities		<u>(9,940,999)</u>	<u>(5,386,764)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		<u>(963,075)</u>	4,507,047
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		<u>5,467,121</u>	960,074
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		<u>4,504,046</u>	<u>5,467,121</u>
Non-cash items:			
Financial statements' translation differences		(746,907)	(18,622)
Other reserves		(383,133)	(121,214)

The accompanying notes from 1 to 19 form an integral part of the interim consolidated financial statements

Saudi Telecom Company
(A Saudi Joint Stock Company)
Notes to the Interim Consolidated Financial Statements for the Three-Month Period and
the Year Ended December 31, 2015 (Unaudited)

1 GENERAL

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.

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:

<u>Company’s Name</u>	<u>Ownership %</u>		<u>Treatment</u>
	<u>December 31,</u>		
	<u>2015</u>	<u>2014</u>	
<u>Subsidiaries:</u>			
Arabian Internet and Communications Services Co. Ltd. (STC Solutions) (Previously Advanced Solutions) - Kingdom of Saudi Arabia	100%	100%	Full Consolidation
Telecom Commercial Investment Company Ltd. – Kingdom of Saudi Arabia	100%	100%	Full Consolidation
VIVA Bahrain (BSCC) – Kingdom of Bahrain	100%	100%	Full Consolidation
Aqalat Company Limited (Establishing, Owning and managing of Real Estate) – Kingdom of Saudi Arabia	100%	100%	Full Consolidation
Public Telecommunication Company “BRAVO” – Kingdom of Saudi Arabia	100%	100%	Full Consolidation
Safayer Company Ltd., – Kingdom of Saudi Arabia	100%	100%	Full Consolidation (1)
Intigral Holding Company (BSCC) – Kingdom of Bahrain	71%	71%	Full Consolidation
Sale Advanced Co. Ltd. – (Sale Co.) - Kingdom of Saudi Arabia	60%	60%	Full Consolidation (2)
Kuwait Telecom Company (VIVA) (KJC) - Kuwait	26%	26%	Full Consolidation (3)
<u>Associates and joint ventures:</u>			
Oger Telecom Ltd. - U.A.E.	35%	35%	Equity Method
Binariang GSM Holding - 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 – Kingdom of Saudi Arabia	49%	50%	Equity Method (4)
Virgin Mobile Saudi Consortium LCC – Kingdom of Saudi Arabia	10%	10%	Equity Method (5)

Saudi Telecom Company
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Notes to the Interim Consolidated Financial Statements for the Three-Month Period and
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1 GENERAL (continued)

(1) Safayer Company Ltd. was established in the Kingdom of Saudi Arabia in June 2014 with share capital amounting to SR 100 million. The Group owns 100% of share capital of Safayer Company. The commercial registration of the company has been issued on January 14, 2015; therefore, Safayer Company Ltd. has been consolidated in the Group consolidated financial statements starting from the first quarter of year 2015. The company has not started its commercial operations yet.

(2) On December 25, 2015, the Company's board of directors have agreed to provide an offer to acquire Ethad Sale's stake in Sale Advanced Co. Ltd. (Saleco), which represent 40% of the Saleco's shares, for an amount of SR 400 million. The Company is still waiting for a response regarding this offer from the owners of Ethad Sale.

(3) During the fourth quarter of year 2015, the Company has submitted a voluntary offer to acquire the issued shares of Kuwait Telecom Company (VIVA) not already owned by STC, which represents 74% of VIVA, issued shares. The offer presented by the Company to VIVA other shareholders amounted to Kuwaiti Dinar 1 per share (equivalent to SR 12.37). The period of this offer will end on January 31, 2016, after which the number of shares the Company was able to acquire from the other shareholders will be quantified.

(4) During the fourth quarter of year 2015, the Company sold 1% of its stake in Contact Centers Company to the other partners according to the terms of the partners' agreement.

(5) The partners' agreement and the article of association of Virgin Mobile Saudi Consortium LCC was amended because of the joining of a new partner during the year of 2015. This resulted into a reclassification of this investment from investment available for sale to investment in associate company accounted for using the equity method.

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.

Saudi Telecom Company
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Notes to the Interim Consolidated Financial Statements for the Three-Month Period and
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1 GENERAL (continued)

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.

2 SIGNIFICANT ACCOUNTING POLICIES

The accompanying interim 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 interim 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 interim consolidated financial statements mentioned below are in conformity with the accounting policies detailed in the interim audited consolidated financial statements for the year ended December 31, 2014.

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

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

The significant accounting policies are summarized below:

2-1 Consolidation basis

Subsidiaries

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

2-2 Period of the interim consolidated financial statements

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

2-3 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.

2-4 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.

Saudi Telecom Company
(A Saudi Joint Stock Company)
Notes to the Interim Consolidated Financial Statements for the Three-Month Period and
the Year Ended December 31, 2015 (Unaudited)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2-5 Accounts receivable

Accounts receivable are stated at their net realizable value, which represents billings plus the unbilled usage revenues net of allowance for doubtful debts.

2-6 Offsetting of accounts

The Group has agreements with international network operators and other parties which include periodical offsetting with those parties whereby receivables and payables of the same operator or other parties are subject to offsetting.

2-7 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.

2-8 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.

2-9 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 has been recorded based on the valuation performed by the Company with the assistance of independent 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 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:

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

Saudi Telecom Company

(A Saudi Joint Stock Company)

Notes to the Interim Consolidated Financial Statements for the Three-Month Period and the Year Ended December 31, 2015 (Unaudited)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2-9 Property, plant and equipment and depreciation (Continued)

- 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 interim consolidated statement of income.
- 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.

2-10 Computer 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.

2-11 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 interim 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 to provide various telecommunication services

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.

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Notes to the Interim Consolidated Financial Statements for the Three-Month Period and
the Year Ended December 31, 2015 (Unaudited)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2-12 Impairment in value 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 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 interim 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 interim consolidated statement of income of the financial period in which such reversal is determined, which does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in previous financial periods.

2-13 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 interim 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 interim 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 interim 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 interim consolidated statement of income.

Saudi Telecom Company

(A Saudi Joint Stock Company)

Notes to the Interim Consolidated Financial Statements for the Three-Month Period and the Year Ended December 31, 2015 (Unaudited)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2-13 Investments (continued)

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

2-14 Zakat

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

2-15 Taxes

Tax relating to entities invested in 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 of these foreign entities 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.

2-16 Provision for end of service benefits

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

2-17 Foreign currency transactions

Functional and presentation currency

Items included in the interim 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 interim consolidated financial statements are presented in Saudi Riyals.

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Notes to the Interim Consolidated Financial Statements for the Three-Month Period and the Year Ended December 31, 2015 (Unaudited)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2-17 Foreign currency transactions (continued)

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 interim 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 interim consolidated statement of income.

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 interim consolidated statement of income less declared dividends within the period translated at the exchange rate prevailing on the date of declaration.
- Interim consolidated statement of income's items 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 interim consolidated statement of income as part of the gains or losses on sale.

2-18 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 interim consolidated financial statements.

2-19 Revenue recognition

Revenue is recognized, net of discounts, when services are rendered based on the access to, or usage of, the switches' network and facilities. Usage revenues are based upon fractions of traffic minutes processed, according to approved rates.

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2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2-19 Revenue recognition (continued)

- Charges billed in advance are deferred and recognized over the period in which the services are rendered.
- Unbilled service revenues are recognized in the period to which it relates.
- Service revenue is recognized upon collection when collectability is highly uncertain.
- Prepaid service revenue is recognized based on the actual usage of the sold prepaid cards. The unused portion is recognized as deferred revenue until utilized by the customer or the expiration of the validity period of the remaining balance.

Customer loyalty program

The Group has a customer loyalty program for which the customers are awarded credit “points” balances based on the usage of products and services. The customers are then entitled to exchange these accumulated points through certain means.

The allocated amount of the “points” 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 amount allocated for the points is deferred and included under deferred revenues.

The deferred revenues are recognized to revenues when those points are exchanged or when the points exchange grace period is expired. The Group estimates the fair value of points awarded under customer loyalty program by estimating the weighted average of the value of the points redeemed.

2-20 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 periods of relevant calls, including:-

- Government charges which are the costs incurred by the Group for the rights to provide the telecommunications services in the Kingdom and the investees countries, including the use of the frequency spectrum.
- Access charges represent the costs to connect to foreign and domestic carriers’ networks related to telecommunications services for the Group’s clients.

2-21 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.

2-22 General and administrative expenses

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

2-23 Earnings per share

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

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2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2-24 Financial derivatives

The Group uses derivative financial instruments to manage its exposure to interest rate and foreign exchange rates risk, including forward currency contracts and interest rate swaps. 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 interim consolidated statement of income immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the interim 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 interim 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 interim 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 interim consolidated statement of income when the transaction is no longer expected to occur.

2-25 Related parties

During the ordinary course of business, the Group deals with related parties. All material transactions with related parties are disclosed regardless of the presence or absence of balances from those transactions by the end of the financial period. Transactions of the same nature are grouped, together 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)	<u>2015</u> (Unaudited)	<u>2014</u> (Audited)
Investments accounted for under equity method:		
Associates	1,687,321	1,638,963
Joint Ventures	5,061,934	6,799,151
Total investments accounted for under equity method	<u>6,749,255</u>	<u>8,438,114</u>
Other investments	173,893	80,823
	<u>6,923,148</u>	<u>8,518,937</u>

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

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3 INVESTMENTS ACCOUNTED FOR UNDER EQUITY METHOD AND OTHERS (continued)

During the year 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 such review, the Group signed an amendment to the BGSM shareholders' agreement with the remaining shareholders of BGSM group with respect to its operational rights of the Aircel group (a subsidiary of BGSM holding group). Accordingly, it has been concluded that the Group shall stop to account for its investment in Aircel group using the equity method effective from the second quarter of 2013.

4 INVESTMENT HELD TO MATURITY

During the second quarter of 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. During the fourth quarter of year 2014, the Company invested an amount of SR 1 billion as long term deposits (Murabaha) with an international bank for a five-year term with an annual profit margin of 3%.

One of the Group' subsidiaries has an investment amount of Bahraini Dinar (BHD) 10 million equivalent to SR 99.5 million (2014: SR 99.5 million) with an international bank as long-term cash deposits (murabahas) for a period of three years, starting from the third quarter of year 2014, with an annual profit margin of 3.1%. Also, during the third quarter of 2015, an amount of Bahraini Dinar (BHD) 6 million equivalent to SR 59.7 million was invested with an international bank as long term cash deposit (murabahs) for a period of two years with an annual profit margin of 2.25%.

Also, the group has a Sukuk investment held by one of its subsidiaries in December 2007 with an amount of 1,508 Malaysian Ringgit (equivalent to SR 1,315 million) (2014: SR 1,687 million) 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 Malaysian Ringgit, 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 Q3 2015, the hedge agreement was unwound, and since Sukuk and term loan principle amounts are naturally hedged for foreign exchange risk as both are dominated in Malaysian Ringgit, there is no effect on the income statement from the exchange rate fluctuations.

5 PROPERTY, PLANT, AND EQUIPMENT, NET

During the second quarter of the year 2014, the Company has received a resolution from the Ministry of Finance 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 the Ministry of Finance amounted to SR 726 million. Since the net book value of the land and buildings established on it is SR 131 million, the Company has recognized a gain of SR 595 million during the fourth quarter of the year 2014. However, the Company objected to the compensation amount since the land assessed value is considered to be less than its estimated fair value.

On 1/12/2015, Riyadh Administrative Court issued a primary ruling to accept the Company's objection to the appreciation value in consideration for 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.

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6 INTANGIBLE ASSETS, NET

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

(Thousands of Saudi Riyals)	<u>2015</u> <u>(Unaudited)</u>	<u>2014</u> <u>(Audited)</u>
Licenses	3,835,861	3,786,708
Others	947,246	736,365
	<u>4,783,107</u>	<u>4,523,073</u>

7 MURABAHAS

Murabahas consist of:

(Thousands of Saudi Riyals)	<u>2015</u> <u>(Unaudited)</u>	<u>2014</u> <u>(Audited)</u>
Current portion	1,920,849	2,014,165
Non-current portion	3,744,076	5,785,169
	<u>5,664,925</u>	<u>7,799,334</u>

The non-current portion of murabahas facilities includes murabahas amounting to SR 97 million that are secured against fixed assets.

8 SUKUK

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

<u>Issuance type</u>	<u>Issuance Date</u>	<u>Sukuk Face</u> <u>Value</u>	<u>Issuance Total</u> <u>Value</u>	<u>Maturity Date</u>
Telecom Sukuk	9 June 2014	SR 1 Million	SR 2 Billion	9 June 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.

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9 COST OF SERVICES

Cost of services consists of the following:

	<u>Three-months ended</u>		<u>Year ended</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
External networks' usage charges	1,371,256	1,648,620	6,383,330	7,259,085
Government charges (*)	1,164,637	1,066,021	4,435,478	4,233,751
Repair and maintenance	849,502	625,364	2,929,784	2,466,896
Employees' costs	501,688	466,882	2,067,184	1,883,061
Cards recharge cost	454,079	461,341	1,786,726	1,246,996
Rents of equipment, property and vehicles	340,038	146,865	994,583	510,438
Others	554,132	132,806	1,896,411	69,782
	<u>5,235,332</u>	<u>4,547,899</u>	<u>20,493,496</u>	<u>17,670,009</u>

“Others” comprises various items, the main ones are: consultancy, telecommunication expenses, postage, courier, security and safety expenses, and premises expenses.

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

(Thousands of Saudi Riyals)	<u>Three-months ended</u>		<u>Year ended</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
Commercial service provisioning fees	958,266	881,810	3,631,415	3,478,364
License fees	77,499	69,792	295,195	274,161
Frequency Spectrum fees	128,872	114,419	508,868	481,226
	<u>1,164,637</u>	<u>1,066,021</u>	<u>4,435,478</u>	<u>4,233,751</u>

(Thousands of Saudi Riyals)	<u>Three-months ended</u>		<u>Year ended</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
The Company	1,096,444	985,852	4,147,445	3,887,189
Other Group companies	68,193	80,169	288,033	346,562
	<u>1,164,637</u>	<u>1,066,021</u>	<u>4,435,478</u>	<u>4,233,751</u>

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10 SELLING AND MARKETING EXPENSES

Selling and marketing expenses consist of the following:

(Thousands of Saudi Riyals)	<u>Three-months ended</u>		<u>Year ended</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
Employees' costs	528,390	562,286	2,347,335	2,195,224
Provision for doubtful debts	548,928	445,647	1,640,103	1,293,219
Advertising and publicity	223,946	189,103	798,085	673,598
Call center expenses	146,961	25,169	366,531	125,901
Sales commission	74,517	174,236	362,174	334,501
Printing of telephone cards and office equipment	34,379	36,623	187,996	136,777
Repair and maintenance	37,445	110,402	134,347	304,377
Consultancies, legal and professional fees	55,312	55,943	89,016	128,163
Others	701,217	117,398	1,195,025	737,215
	<u>2,351,095</u>	<u>1,716,807</u>	<u>7,120,612</u>	<u>5,928,975</u>

“Others” comprise various items, the main ones being: rents of equipment, property, and motor vehicles, security and safety, telecommunication expenses, postage, courier, and utilities expenses.

11 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses consist of the following:

(Thousands of Saudi Riyals)	<u>Three-months ended</u>		<u>Year ended</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
Employees' costs	592,919	428,400	2,069,768	1,651,532
Repair and maintenance	162,130	162,614	548,479	496,300
Consultancies, legal and professional fees	136,251	124,665	336,378	301,937
Rents of equipment, property and vehicles	78,838	69,305	307,923	308,208
Security and safety expenses	37,050	24,740	92,014	86,706
Premises expenses	26,423	12,234	55,914	51,191
Others	167,094	161,844	441,953	270,285
	<u>1,200,705</u>	<u>983,802</u>	<u>3,852,429</u>	<u>3,166,159</u>

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

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12 DEPRECIATION AND AMORTIZATION

Depreciation and amortization consist of the following:

(Thousands of Saudi Riyals)	<u>Three-months ended</u>		<u>Year ended</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
Depreciation	1,638,493	1,681,200	6,321,195	6,141,566
Amortization	266,181	135,710	1,113,172	888,341
	<u>1,904,674</u>	<u>1,816,910</u>	<u>7,434,367</u>	<u>7,029,907</u>

13 OTHERS, NET

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

(Thousands of Saudi Riyals)	<u>Three-months ended</u>		<u>Year ended</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
Miscellaneous revenues	205,670	294,000	757,441	868,869
(Losses)/Gains on sale / disposal of property, plant and equipment	(79,963)	449,791	(360,193)	402,722
Miscellaneous expenses	(319,188)	(264,528)	(1,193,955)	(633,788)
	<u>(193,481)</u>	<u>479,263</u>	<u>(796,707)</u>	<u>637,803</u>

- Miscellaneous revenues for the year ended December 31, 2015 include several items, mainly: gains resulting from the acquisition of a subsidiary with an amount of SR 91 million (See Note 17) and suppliers delay penalties amounting to SR 178 million (2014: SR 107 million).
- Gains/(Losses) on sale/disposal of property, plant, and equipment for the three-month period and year ended 31 December 2015 includes a gain amount of SR 595 million resulting from the compensation that was assessed against the expropriation of the land owned by the Company located in Alfaisaliah district in Riyadh (see Note 5).
- Miscellaneous expenses for the year ended December 31, 2015 include several items mainly: two-month salary of SR 395 million paid to the Company's employees following a Royal Decree.

14 COMMITMENTS AND CONTINGENCIES

Commitments

- (a) The Group enters into commitments during the ordinary course of business for major capital expenditures, primarily in connection with its network expansion programs. Outstanding capital expenditure commitments amounted to SR 3,395 million as at December 31, 2015 (2014: SR 2,880 million).

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14 COMMITMENTS AND CONTINGENCIES (continued)

- (b) Certain lands and buildings, for use in the Group's operations, are leased under operating lease commitments expiring at various future dates. The total rent expense under operating leases contracts during the fourth quarter and the year ended December 31, 2015 are SR 400 million and SR 1,225 million, respectively (the fourth quarter and the year ended December 31, 2014 amounted to SR 194 million and SR 725 million, respectively).
- (c) The Company has an investment in a Venture Capital Fund, which is specialized in investing in start-up, small and medium-sized companies working in the field of communication and information technology in the Saudi market and other global markets. The Company has committed a total investment in the fund for an amount of USD 50 million out of which USD 37.5 million was paid (2014: USD 25 million) and the remaining amount of USD 12.5 million will be paid upon the request by the fund manager.

Contingencies

- The Group has outstanding letters of guarantee amounting to SR 3,656 million as at December 31, 2015 (2014: SR 4,012 million) which include a letter of guarantee amounting to USD 142 million (equivalent to SR 533 million) (2014: USD 142 million equivalent to SR 533 million) issued in favor of XL Axiata in relation to PT Axis value added tax (VAT) pending case with the Indonesian tax authorities. Based on existing facts and technical tax opinions obtained, the result of the pending case is expected to be in favor of PT Axis. Also, the Group's share of the outstanding guarantee letters of its investments in joint ventures amounts to SR 556 million (2014: an amount of SR 539 million).
- The Company received confirmation request letter from the Communications and Information Technology Commission (CITC) for an amount of SR 5.4 billion. This amount includes government charges paid by the Company on a regular basis in addition to other material amounts that are under dispute between the Company and CITC in relation to calculation method of government charges. Such dispute is relating to the telecommunications sector in the Kingdom as part of its normal operations and does not pertain to the Company only. However, based on independent legal opinions and similar judicial rulings in the telecommunication market in the Kingdom, the Company's management believes that these amounts are invalid. Furthermore, the Company are currently claiming to refund material government fees paid during the previous years to CITC which is also relating to the same method of government charges. Accordingly, and based on the nature of these disputes and provisions that are recorded, the Company's management does not believe that this dispute will result in any additional material provisions in the future.
- The Group has outstanding letters of credit as at December 31, 2015 amounting to SR 188 million (2014: an amount of SR 188 million).
- The Company, in its ordinary course of business, is subject to proceedings, lawsuits and other claims. However, these matters are not expected to have a material impact neither on the Company's financial position nor on the results of its operations as reflected in these interim consolidated financial statements.

15 FINANCIAL INSTRUMENTS

Fair value

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

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15 FINANCIAL INSTRUMENTS (continued)

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.

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

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16 SEGMENTAL INFORMATION (continued)

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

(Thousands of Saudi Riyals)	<u>GSM</u>	<u>PSTN</u>	<u>DATA</u>	<u>Un-allocated /adjusted</u>	<u>TOTAL</u>
Revenue from services	37,518,388	5,859,544	7,463,463	(4,863)	50,836,532
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	<u>33,479,508</u>	<u>12,269,908</u>	<u>5,091,979</u>	<u>(4,863)</u>	<u>50,836,532</u>
Depreciation and amortization	3,152,428	3,281,579	725,708	274,652	7,434,367
Net income/(loss)	10,875,743	(1,885,030)	1,173,992	(830,154)	9,334,551
Total assets	34,425,177	26,256,980	14,460,364	22,573,382	97,715,903
Total liabilities	18,037,491	9,196,390	5,370,288	3,063,935	35,668,104

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

(Thousands of Saudi Riyals)	<u>GSM</u>	<u>PSTN</u>	<u>DATA</u>	<u>Un-allocated /adjusted</u>	<u>TOTAL</u>
Revenue from services	33,191,005	5,950,385	6,689,979	(5,729)	45,825,640
Interconnect revenues	1,354,452	8,956,264	1,211,874	-	11,522,590
Interconnect expenses	(5,078,480)	(1,747,944)	(4,696,166)	-	(11,522,590)
Net revenue from services	<u>29,466,977</u>	<u>13,158,705</u>	<u>3,205,687</u>	<u>(5,729)</u>	<u>45,825,640</u>
Depreciation and amortization	3,499,816	2,587,559	706,200	236,332	7,029,907
Net income/(loss)	10,902,010	(516,524)	634,030	(60,026)	10,959,490
Total assets	29,818,533	25,484,826	11,492,048	24,073,994	90,869,401
Total liabilities	13,182,095	6,818,589	4,208,064	5,332,043	29,540,791

- 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:

(Thousands of Saudi Riyals)	<u>2015</u>	
	<u>Domestic Operations</u>	<u>International Operations</u>
Operating revenues (*)	46,866,097	5,180,040
Total assets (**)	110,686,621	5,998,891

*The financial statements consolidation adjustments relating to the revenues amounted to SR (1,209,605) thousand.

** The financial statements consolidation adjustments relating to the assets amounted to SR (18,969,609) thousand.

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16 SEGMENTAL INFORMATION (continued)

	2014 (Audited)	
(Thousands of Saudi Riyals)	<u>Domestic Operations</u>	<u>International Operations</u>
Operating revenues (*)	42,919,001	4,816,247
Total assets (**)	101,558,425	5,709,632

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

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

17 PUBLIC TELECOMMUNICATION COMPANY LIMITED “BRAVO”

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

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

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

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

	(Millions of Saudi Riyals)
Consideration amount	(202)
Fair value of identified net assets as of the acquisition date	293
Gains from acquisition (See Note 13)	<u><u>91</u></u>

18 SUBSEQUENT EVENTS

In accordance with the dividend policy for three years starting from the 4th quarter 2015 (as approved by the Board of Directors in its meeting held on 28 Muharram 1437H - corresponding to 10 November 2015), the Board of Directors recommended interim dividends for the 4th quarter 2015 amounting to SR 2,000 million, representing SR 1 on each outstanding share.

19 COMPARATIVE FIGURES

For the period ended December 31, 2014, some of the comparative figures have been reclassified to conform with the classification used for the period ended December 31, 2015.