# Saudi Telecom Company
## A Saudi Joint Stock Company

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THREE AND NINE-MONTH PERIODS ENDED
30 SEPTEMBER 2017
(Unaudited)**

**Third Quarter
2017**

## INDEX

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

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT 30 SEPTEMBER 2017
### All Amounts in Saudi Riyals Thousands

| | Notes | 30 September 2017 (UNAUDITED) | 31 December 2016 AUDITED (Note 19) | 1 January 2016 AUDITED (Note 19) |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **NON-CURRENT ASSETS** | | | | |
| Property, plant and equipment | 4 | **39,081,564** | 39,418,554 | 37,960,520 |
| Intangible assets and goodwill | 5 | **7,665,500** | 7,840,443 | 7,555,857 |
| Investments in associates and joint ventures | | **6,917,688** | 6,301,641 | 6,253,461 |
| Other non-current assets | 6 | **8,506,420** | 7,652,195 | 7,733,876 |
| **TOTAL NON-CURRENT ASSETS** | | **62,171,172** | 61,212,833 | 59,503,714 |
| **CURRENT ASSETS** | | | | |
| Inventories | | **594,341** | 466,766 | 923,214 |
| Trade and other receivables | 9 | **23,477,796** | 19,768,149 | 12,740,745 |
| Short term Murabahas | | **14,417,875** | 15,004,490 | 16,803,421 |
| Other current assets | 7 | **1,268,898** | 1,693,448 | 2,324,482 |
| Cash and cash equivalents | | **3,067,598** | 3,631,202 | 4,487,827 |
| **TOTAL CURRENT ASSETS** | | **42,826,508** | 40,564,055 | 37,279,689 |
| **TOTAL ASSETS** | | **104,997,680** | 101,776,888 | 96,783,403 |
| **EQUITY AND LIABILITIES** | | | | |
| **EQUITY** | | | | |
| Issued capital | | **20,000,000** | 20,000,000 | 20,000,000 |
| Statutory reserves | | **10,000,000** | 10,000,000 | 10,000,000 |
| Other reserves | 19 | **(1,734,619)** | (1,935,833) | (709,624) |
| Retained earnings | | **33,402,166** | 31,877,188 | 30,978,331 |
| **Equity attributable to the holders of the Parent Company** | | **61,667,547** | 59,941,355 | 60,268,707 |
| Non-controlling interests | | **932,811** | 1,336,976 | 1,420,842 |
| **TOTAL EQUITY** | | **62,600,358** | 61,278,331 | 61,689,549 |
| **LIABILITIES** | | | | |
| **NON-CURRENT LIABILITIES** | | | | |
| Long term borrowings | 11 | **3,673,446** | 4,017,231 | 5,744,076 |
| Provisions | | **1,190,107** | 1,125,743 | 1,050,030 |
| Provision for end of service benefit | 12 | **3,749,055** | 3,775,668 | 3,678,290 |
| Deferred revenue | | **1,461,456** | 1,445,777 | 1,590,681 |
| Other non-current liabilities | 13 | **157,151** | 292,530 | 418,041 |
| **TOTAL NON-CURRENT LIABILITIES** | | **10,231,215** | 10,656,949 | 12,481,118 |
| **CURRENT LIABILITIES** | | | | |
| Trade and other payables | | **13,000,301** | 13,918,472 | 13,200,276 |
| Short term borrowings | 11 | **1,367,389** | 1,867,220 | 1,905,482 |
| Provisions | | **7,547,672** | 5,682,808 | 1,551,492 |
| Zakat and tax liabilities | 14 | **1,707,495** | 1,685,442 | 1,877,704 |
| Deferred revenue | | **2,377,841** | 2,816,841 | 1,926,777 |
| Other current liabilities | 15 | **6,165,409** | 3,870,825 | 2,151,005 |
| **TOTAL CURRENT LIABILITIES** | | **32,166,107** | 29,841,608 | 22,612,736 |
| **TOTAL LIABILITIES** | | **42,397,322** | 40,498,557 | 35,093,854 |
| **TOTAL EQUITY AND LIABILITIES** | | **104,997,680** | 101,776,888 | 96,783,403 |

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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)**
**FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2017**
**All Amounts in Saudi Riyals Thousands**

| | | *For the three-month period ended 30 September* | | *For the nine-month period ended 30 September* | |
|---|---|---|---|---|---|
| | *Notes* | ***2017*** | *2016* | ***2017*** | *2016* |
| Revenues | | **12,835,249** | 14,025,790 | **38,867,863** | 40,667,386 |
| Cost of revenues | | **(5,184,851)** | (6,908,400) | **(16,900,903)** | (19,003,082) |
| **GROSS PROFIT** | | **7,650,398** | 7,117,390 | **21,966,960** | 21,664,304 |
| **OPERATING EXPENSES** | | | | | |
| Selling and marketing | | **(1,659,549)** | (1,756,736) | **(4,668,563)** | (4,520,060) |
| General and administration | | **(1,005,691)** | (968,839) | **(3,069,850)** | (3,065,366) |
| Depreciation and amortisation | 4 & 5 | **(2,031,040)** | (1,988,993) | **(6,067,398)** | (5,956,328) |
| **TOTAL OPERATING EXPENSES** | | **(4,696,280)** | (4,714,568) | **(13,805,811)** | (13,541,754) |
| **OPERATING PROFIT** | | **2,954,118** | 2,402,822 | **8,161,149** | 8,122,550 |
| **OTHER INCOME AND EXPENSES** | | | | | |
| Cost of early retirement | | **(150,000)** | (52,851) | **(450,000)** | (249,083) |
| Finance income | | **133,368** | 190,003 | **459,366** | 527,586 |
| Finance costs | | **(78,958)** | (99,108) | **(248,086)** | (286,842) |
| Other income/ (expenses), net | | **35,216** | 34,709 | **82,133** | (451,648) |
| Share of gain / (losses) from investments in associates and joint ventures, net | | **70,966** | 69,019 | **250,371** | (5,391) |
| Other losses, net | | **(117,200)** | (73,624) | **(36,304)** | (120,921) |
| **TOTAL OTHER INCOME AND EXENSES** | | **(106,608)** | 68,148 | **57,480** | (586,299) |
| **NET INCOME BEFORE ZAKAT, TAXES AND NON-CONTROLLING INTEREST** | | **2,847,510** | 2,470,970 | **8,218,629** | 7,536,251 |
| Zakat and income tax | 14 | **(172,955)** | (202,867) | **(527,472)** | (542,114) |
| **NET INCOME FOR THE PERIOD** | | **2,674,555** | 2,268,103 | **7,691,157** | 6,994,137 |
| *Net income for the period attributable to:* | | | | | |
| Equity holders of the Parent Company | | **2,621,278** | 2,216,937 | **7,524,978** | 6,815,702 |
| Non-controlling interests | | **53,277** | 51,166 | **166,179** | 178,435 |
| | | **2,674,555** | 2,268,103 | **7,691,157** | 6,994,137 |
| Basic and diluted earnings per share (In Saudi Riyals) | | **1.31** | 1.11 | **3.76** | 3.41 |

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)**
**FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2017**
**All Amounts in Saudi Riyals Thousands**

| | | *For the three-month period ended 30 September* | | *For the nine-month period ended 30 September* | |
|---|---|---|---|---|---|
| | *Notes* | ***2017*** | *2016* | ***2017*** | *2016* |
| **NET INCOME FOR THE PERIOD** | | **2,674,555** | 2,268,103 | **7,691,157** | 6,994,137 |
| **OTHER COMPREHENSIVE INCOME FOR THE PERIOD** | | | | | |
| ***Items that will not be reclassified subsequently to profit or loss:*** | | | | | |
| Re-measurement of end of service benefit provision | 12 | **(3,922)** | (33,264) | **4,245** | (219,032) |
| ***Items that may be reclassified subsequently to profit or loss:*** | | | | | |
| Foreign currency translation differences | | **(1,038)** | (13,461) | **(40,962)** | 70,339 |
| Fair value changes on available-for-sale financial assets | 8 | **48,482** | (2,649) | **36,940** | (6,271) |
| Fair value changes from cash flow hedges | | **(2,258)** | (16,032) | **(1,293)** | (26,917) |
| ***Total items that may be reclassified subsequently to profit or loss*** | | **45,186** | (32,142) | **(5,315)** | 37,151 |
| **TOTAL OTHER COMPREHENSIVE INCOME FOR THE PERIOD** | | **41,264** | (65,406) | **(1,070)** | (181,881) |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | | **2,715,819** | 2,202,697 | **7,690,087** | 6,812,256 |
| *Total comprehensive income for the period attributable to:* | | | | | |
| Equity holders of the Parent Company | | **2,660,084** | 2,150,682 | **7,517,882** | 6,630,745 |
| Non-controlling interests | | **55,735** | 52,015 | **172,205** | 181,511 |
| | | **2,715,819** | 2,202,697 | **7,690,087** | 6,812,256 |

Saudi Telecom Company
A Saudi Joint Stock Company

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)**
**FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2017**
**All Amounts in Saudi Riyals Thousands**

| | Notes | *For the nine-month period ended 30 September* 2017 | 2016 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net income for the period before zakat, taxes and non-controlling interests | | **8,218,629** | 7,536,251 |
| *Adjustments for:* | | | |
| Depreciation and amortisation | 4 & 5 | **6,067,398** | 5,956,328 |
| Impairment on trade receivables | | **777,510** | 708,029 |
| Finance income | | **(459,366)** | (527,586) |
| Finance costs | | **248,086** | 286,842 |
| Provision for employee end of service benefits and other provisions | | **2,290,302** | 3,398,841 |
| Share of (gain) losses from investments in associates and joint ventures, net | | **(250,371)** | 5,391 |
| Loss on sale of property, plant and equipment | 4 | **215,020** | 113,525 |
| Net gain on derivatives | | **(3,323)** | (889) |
| Net gain on financial assets classified at fair value | | **(163,229)** | 19,043 |
| Net gains on currency exchange rates | | **(12,164)** | (10,759) |
| | | **16,928,492** | 17,485,016 |
| ***Movements in working capital:*** | | | |
| Trade and other receivables | | **(4,353,558)** | (5,194,954) |
| Inventories | | **(127,576)** | 366,308 |
| Other assets | | **(358,983)** | 273,422 |
| Trade and other payables | | **(719,299)** | 274,565 |
| Deferred revenue | | **(394,076)** | 256,896 |
| Other liabilities | | **2,147,232** | 626,236 |
| Cash generated from operations | | **13,122,232** | 14,087,489 |
| Less: Income taxes and zakat paid | | **(664,573)** | (618,828) |
| Less: Payments of employee end of service benefits | | **(353,923)** | (249,963) |
| **Net cash from operating activities** | | **12,103,736** | 13,218,698 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Additions to property, plant and equipment | 4 | **(4,621,277)** | (4,793,972) |
| Additions to intangible assets | 5 | **(1,364,325)** | (1,369,785) |
| Proceeds from sale of property, plant and equipment | | **2,098** | 35,632 |
| Purchase of interest in an associate | 10 | **(375,095)** | - |
| Dividends received from associates | | **25,000** | 26,055 |
| Proceeds from finance income | | **554,818** | 576,217 |
| Payments relating to financial assets | | **(21,553,732)** | (21,864,547) |
| Proceeds from financial assets | | **22,149,733** | 20,638,986 |
| **Net cash used in investing activities** | | **(5,182,780)** | (6,751,414) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Dividends paid | | **(6,010,468)** | (6,008,274) |
| Acquisition of non-controlling interests in a subsidiary | 10 | **(437,382)** | (1,619,338) |
| Repayment of borrowings | 11 | **(1,184,195)** | (1,232,547) |
| Proceeds from borrowings | 11 | **247,558** | - |
| Finance costs paid | | **(105,666)** | (106,444) |
| **Net cash used in financing activities** | | **(7,490,153)** | (8,966,603) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | | **(569,197)** | (2,499,319) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD** | | **3,631,202** | 4,487,827 |
| Net foreign exchange difference | | **5,593** | (1,704) |
| **CASH AND CASH EQUIVALENTS AT END OF THE PERIOD** | | **3,067,598** | 1,986,804 |

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**
**FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2017**
**All Amounts in Saudi Riyals Thousands**

| | | *Attributable to equity holders of the Parent Company* | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | *Notes* | *Issued capital* | *Statutory reserves* | *Other reserves* | *Retained earnings* | *Total equity holders* | *Non-controlling interests* | *Total equity* |
| ***As at 1 January 2017*** | | **20,000,000** | **10,000,000** | **(1,935,833)** | **31,877,188** | **59,941,355** | **1,336,976** | **61,278,331** |
| Net income for the period | | **-** | **-** | **-** | **7,524,978** | **7,524,978** | **166,179** | **7,691,157** |
| Other comprehensive income | | **-** | **-** | **(7,096)** | **-** | **(7,096)** | **6,026** | **(1,070)** |
| Total comprehensive income | | **-** | **-** | **(7,096)** | **7,524,978** | **7,517,882** | **172,205** | **7,690,087** |
| Dividends | 18 | **-** | **-** | **-** | **(6,000,000)** | **(6,000,000)** | **-** | **(6,000,000)** |
| Acquisition of non-controlling interest | 10 | **-** | **-** | **67,477** | **-** | **67,477** | **(546,772)** | **(479,295)** |
| Dividends paid to non-controlling interests | | **-** | **-** | **-** | **-** | **-** | **(29,598)** | **(29,598)** |
| Other reserves | 10 | **-** | **-** | **140,833** | **-** | **140,833** | **-** | **140,833** |
| ***As at 30 September 2017*** | | **20,000,000** | **10,000,000** | **(1,734,619)** | **33,402,166** | **61,667,547** | **932,811** | **62,600,358** |
| *As at 1 January 2016* | | 20,000,000 | 10,000,000 | (709,624) | 30,978,331 | 60,268,707 | 1,420,842 | 61,689,549 |
| Net income for the period | | - | - | - | 6,815,702 | 6,815,702 | 178,435 | 6,994,137 |
| Other comprehensive income | | - | - | (184,957) | - | (184,957) | 3,076 | (181,881) |
| Total comprehensive income | | - | - | (184,957) | 6,815,702 | 6,630,745 | 181,511 | 6,812,256 |
| Dividends | 18 | - | - | - | (6,000,000) | (6,000,000) | - | (6,000,000) |
| Acquisition of non-controlling interest | 10 | - | - | (1,312,848) | - | (1,312,848) | (306,490) | (1,619,338) |
| *As at 30 September 2016* | | 20,000,000 | 10,000,000 | (2,207,429) | 31,794,033 | 59,586,604 | 1,295,863 | 60,882,467 |

## 1. GENERAL INFORMATION

### A) ESTABLISHMENT OF THE COMPANY

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

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

### B) GROUP ACTIVITIES

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

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

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

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

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

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

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

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

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

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

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

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

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

**All Amounts in Saudi Riyals Thousands (unless stated otherwise)**

## 1. GENERAL INFORMATION (CONTINUED)

### B) GROUP ACTIVITIES(CONTINUED)

m- Provide supply chain services and other related services.

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

## 2. BASIS OF PREPARATION

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA"). These interim condensed consolidated financial statements are prepared for part of the first annual financial statements to be prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS 1 *First-time application of IFRS* endorsed in Saudi Arabia and other standards, publication and pronouncements endorsed by SOCPA.

These interim condensed consolidated financial statements do not include all the notes required in the annual consolidated financial statements prepared in accordance with IFRS. These interim condensed consolidated financial statements should be read in conjunction with the attached supplementary document, which provides the significant accounting policies as well as the notes relating to opening statement of financial position as at 1 January 2016 and comparative statement of financial position as at 31 December 2016. Note 19 provides an explanation of the impact of the first-time application of IFRS following the adoption of IFRS as endorsed by SOCPA in order to comply with the requirements of IFRS 1 *Adoption of International Financial Reporting Standards for the First Time* for periods of financial reporting beginning on 1 January 2017.

## 3. SEGMENT INFORMATION

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

| | *For the three-month period ended 30 September* | | *For the nine-month period ended 30 September* | |
|---|---|---|---|---|
| | ***2017*** | ***2016*** | ***2017*** | ***2016*** |
| **Revenues (1)** | | | | |
| Saudi Telecom Company | **9,851,100** | 11,578,657 | **31,797,454** | 34,479,275 |
| STC Channels (Previously: Sale Advanced Co.) | **710,084** | 694,597 | **2,118,360** | 2,372,951 |
| Other operating segments (2) | **2,086,383** | 2,148,236 | **5,985,692** | 6,217,140 |
| Eliminations / Adjustments | **187,682** | (395,700) | **(1,033,643)** | (2,401,980) |
| **Total Revenues** | **12,835,249** | 14,025,790 | **38,867,863** | 40,667,386 |
| Cost of operations (excluding depreciation and amortisation) | **(7,850,091)** | (9,633,975) | **(24,639,316)** | (26,588,508) |
| Depreciation and amortisation | **(2,031,040)** | (1,988,993) | **(6,067,398)** | (5,956,328) |
| Cost of early retirement | **(150,000)** | (52,851) | **(450,000)** | (249,083) |
| Finance income | **133,368** | 190,003 | **459,366** | 527,586 |
| Finance cost | **(78,958)** | (99,108) | **(248,086)** | (286,842) |
| Other income / (expenses) | **35,216** | 34,709 | **82,133** | (451,648) |
| Share of gain / (losses) from investments in associates and joint ventures, net | **70,966** | 69,019 | **250,371** | (5,391) |
| Other losses, net | **(117,200)** | (73,624) | **(36,304)** | (120,921) |
| Zakat and income tax | **(172,955)** | (202,867) | **(527,472)** | (542,114) |
| Net income for the period | **2,674,555** | 2,268,103 | **7,691,157** | 6,994,137 |

**All Amounts in Saudi Riyals Thousands (unless stated otherwise)**

## 3. SEGMENT INFORMATION (CONTINUED)

| | ***30 September 2017*** | *31 December 2016* | *1 January 2016* |
|---|---|---|---|
| **Assets** | | | |
| Saudi Telecom Company | **111,860,288** | 108,468,698 | 102,021,056 |
| STC Channels (Previously: Sale Advanced Co.) | **2,339,095** | 2,192,516 | 2,273,889 |
| Other operating segments (2) | **17,557,836** | 16,666,130 | 16,143,335 |
| Eliminations / Adjustments | **(26,759,539)** | (25,550,456) | (23,654,877) |
| **Total Assets** | **104,997,680** | 101,776,888 | 96,783,403 |
| **Liabilities** | | | |
| Saudi Telecom Company | **38,099,769** | 35,885,233 | 30,085,267 |
| STC Channels (Previously: Sale Advanced Co.) | **1,321,348** | 926,047 | 1,022,660 |
| Other operating segments (2) | **8,878,459** | 8,893,552 | 8,876,595 |
| Eliminations / Adjustments | **(5,902,254)** | (5,206,275) | (4,890,668) |
| **Total Liabilities** | **42,397,322** | 40,498,557 | 35,093,854 |

*(1) Segment revenue reported above represents revenue generated from external and internal customers. There were SR 187,682 thousand and SR 1,033,644 thousand respectively for the three-month and nine-month periods ended 30 September 2017 (for the three and nine-month periods ended 30 September 2016:SR 395,700 thousand and SR 2,401,980 thousand, respectively) inter-segment (i.e. intergroup) sales and adjustments in the current period eliminated at consolidation.*
*(2) Others include: Viva Kuwait, Viva Bahrain, Intigral, Bravo and STC Solutions, Safayer and Aqalat.*

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

## 4. PROPERTY, PLANT AND EQUIPMENT

During the nine-month period ended 30 September 2017, the Group acquired assets with total cost of SR 4,370,794 thousand (30 September 2016: SAR 4,547,087 thousand).

Capital work in progress incudes network expansion projects amounting to SR 1,144,816 thousand (31 December 2016: SR 1,077,773 thousand, 1 January 2016: SR 716,138 thousand).

During the period, the Group disposed of assets with a net book value of SR 217,118 thousand (30 September 2016: SR 149,157 thousand) resulting in a loss on sale of property, plant and equipment amounting to SR 177,232 thousand and SR 215,020 thousand, respectively, for the three-month and nine-month periods ended 30 September 2017 (loss for the three and nine months periods ended 30 September 2016: SR 40,786 and SR 113,525 thousand respectively).

Depreciation expense during the three-month and nine-month periods ended 30 September 2017 amounted to SR 1,456,612 thousand and SR 4,390,458 thousand, respectively (three and nine months periods ended 30 September 2016: to SR 1,539,424 thousand and SR 4,469,752 thousand, respectively). Following is the allocation of depreciation expense among operating costs items:

| | ***For the three-month period ended 30 September*** | | ***For the nine-month period ended 30 September*** | |
|---|---|---|---|---|
| | ***2017*** | *2016* | ***2017*** | *2016* |
| Cost of revenues | **1,208,637** | 1,268,984 | **3,675,610** | 3,807,494 |
| Selling and distribution | **6,456** | 10,507 | **25,124** | 30,531 |
| General and administration | **241,519** | 259,933 | **689,724** | 631,727 |
| | **1,456,612** | 1,539,424 | **4,390,458** | 4,469,752 |

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

**All Amounts in Saudi Riyals Thousands (unless stated otherwise)**

## 5. INTANGIBLE ASSETS AND GOODWILL

During the nine-month period ended 30 September 2017, the Group capitalised intangible assets amounting to SR 1,405,240 thousand (30 September 2016: SR 1,475,453 thousand).

Amortisation expense during the three-month and nine-month periods ended 30 September 2017 amounted to SR 574,428 thousand and SR 1,676,940 thousand, respectively (periods ended 30 September 2016: SR 449,569 thousand and SR 1,486,576 thousand, respectively). Following is the allocation of amortisation expense on operating costs items:

| | *For the three-month period ended 30 September* | | *For the nine-month period ended 30 September* | |
|---|---|---|---|---|
| | ***2017*** | *2016* | ***2017*** | *2016* |
| Cost of revenues | **315,819** | 298,983 | **934,033** | 894,173 |
| Selling and distribution | **48,814** | 6,766 | **100,910** | 40,388 |
| General and administration | **209,795** | 143,820 | **641,997** | 552,015 |
| | **574,428** | 449,569 | **1,676,940** | 1,486,576 |

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

## 6. OTHER NON-CURRENT ASSETS

| | ***30 September 2017*** | *31 December 2016* | *1 January 2016* |
|---|---|---|---|
| Financial assets | **7,610,571** | 7,401,557 | 7,319,729 |
| Other assets | **895,849** | 250,638 | 414,147 |
| | **8,506,420** | 7,652,195 | 7,733,876 |

## 7. OTHER CURRENT ASSETS

| | ***30 September 2017*** | *31 December 2016* | *1 January 2016* |
|---|---|---|---|
| Financial assets | **395,367** | 492,812 | 706,429 |
| Other assets | **873,531** | 1,200,636 | 1,618,053 |
| | **1,268,898** | 1,693,448 | 2,324,482 |

## 8. FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

**All Amounts in Saudi Riyals Thousands (unless stated otherwise)**

## 8. FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The fair value of available for sale investments is obtained from the net asset value report received from the Fund Manager. Fair value is within level 3 of the fair value hierarchy. Following the movement of investments available for sale during the period:

| | ***For the nine-month period ended 30 September*** | |
|---|---|---|
| | ***2017*** | *2016* |
| Balance at beginning of the period | **415,005** | 171,888 |
| Additions | **-** | 46,876 |
| Re-measurement recognised in other comprehensive income | **36,940** | (6,271) |
| Balance at end of the period | **451,945** | 212,493 |

The following table presents the recognised financial instruments that are offset or are subject to enforceable master netting agreements and other similar agreements as at:

| | *Effect of offsetting in the statement of financial position* | | |
|---|---|---|---|
| | *Gross amounts* | *Amounts set off* | *Net amounts* |
| ***30 September 2017*** | | | |
| *Financial assets* | | | |
| Trade and other receivables | **25,613,879** | **(1,294,175)** | **24,319,704** |
| *Financial liabilities* | | | |
| Trade payables | **13,771,868** | **(1,294,175)** | **12,477,693** |
| *31 December 2016* | | | |
| *Financial assets* | | | |
| Trade and other receivables | 21,311,690 | (1,543,541) | 19,768,149 |
| *Financial liabilities* | | | |
| Trade payables | 14,480,638 | (1,543,541) | 12,937,097 |
| *1 January 2016* | | | |
| *Financial assets* | | | |
| Trade and other receivables | 13,807,368 | (1,066,623) | 12,740,745 |
| *Financial liabilities* | | | |
| Trade payables | 12,831,333 | (1,066,623) | 11,764,710 |

In accordance with the terms of the agreements with the operators, commercial debtors and creditors are settled in connection to call routing and roaming fees and only the net amounts are settled or collected. Accordingly, the net amounts are presented in the consolidated statement of financial position.

**All Amounts in Saudi Riyals Thousands (unless stated otherwise)**

## 9. RELATED PARTY TRANSACTIONS (ASSOCIATES AND JOIT VENTURES)

### *9.1 Trading transactions and balances with related parties*

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

| | *For the three-month period ended 30 September* | | *For the nine-month period ended 30 September* | |
|---|---|---|---|---|
| | ***2017*** | *2016* | ***2017*** | *2016* |
| ***Telecommunication services provided*** | | | | |
| Associates | **128,176** | 78,939 | **331,621** | 188,570 |
| Joint Ventures | **312** | 4,036 | **12,001** | 12,165 |
| | **128,488** | 82,975 | **343,622** | 200,735 |

| | *For the three-month period ended 30 September* | | *For the nine-month period ended 30 September* | |
|---|---|---|---|---|
| | ***2017*** | *2016* | ***2017*** | *2016* |
| ***Telecommunication services received*** | | | | |
| Associates | **14,960** | 356 | **18,372** | 4,013 |
| Joint Ventures | **1,179** | 33,733 | **12,020** | 59,873 |
| | **16,139** | 34,089 | **30,392** | 63,886 |

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

| | *Amounts owed by related parties* | | | *Amounts owed to related parties* | | |
|---|---|---|---|---|---|---|
| | ***30 September 2017*** | *31 December 2016* | *1 January 2016* | ***30 September 2017*** | *31 December 2016* | *1 January 2016* |
| Associates | **278,372** | 158,902 | 44,568 | **30,036** | 32,702 | 12,449 |
| Joint ventures | **20,561** | 6,458 | 3,376 | **155,084** | 81,911 | 2,215 |
| | **298,933** | 165,360 | 47,944 | **185,120** | 114,613 | 14,664 |

### *9.2 Government and government related entities*

Revenues related to transactions with governmental parties for the three and nine months periods ended 30 September 2017 amounted to SR 961 million and SR 4,130 million, respectively (for the three and nine months periods ended 30 September 2016 amounted to SR 1,376 million and SR 4,217 million, respectively) and expenses related to transactions with governmental parties for the three and nine months periods ended 30 September 2017 (including government charges) amounted to SR 993 million and SR 3,029 million, respectively (for the three and nine months periods ended 30 September 2016 amounted to SR 1,116 million and SR 3,370 million, respectively).

As at 30 September 2017, accounts receivable from Government entities totalled SR 16,588 million (31 December 2016: SR 12,534 million, 1 January 2016: SR 6,546 million), and as at 30 September 2017, accounts payable to Government entities totalled SR 6,064 million (31 December 2016: SR 3,784 million, 1 January 2016: SR 2,010 million). The existing ageing with government as follows:

| | ***30 September 2017*** | *31 December 2016* | *1 January 2016* |
|---|---|---|---|
| Less than a year | **4,054,480** | 6,724,186 | 3,861,571 |
| More than one year to two years | **6,723,845** | 4,108,432 | 2,684,397 |
| More than two years | **5,809,266** | 1,701,086 | - |
| | **16,587,591** | 12,533,704 | 6,545,968 |

**All Amounts in Saudi Riyals Thousands (unless stated otherwise)**

## 9. RELATED PARTY TRANSACTIONS *(CONTINUED)*

### *9.2 Government and government related entities (CONTINUED)*

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

## 10. SUBSIDIARIES , ASSOCIATES AND JOINT VENTURES

In January 2017, the purchase and transfer of the remaining shares in STC Channels representing 40% of STC Channels's outstanding shares for SR 400 million was completed. Starting from the date of completion, STC Channels became a wholly-owned subsidiary of the Company. As a result of this purchase, the non-controlling interest decreased by SR 546,772 thousand and other reserves increased by SR 67,477 thousand.

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

In April 2017, the purchase and transfer of the remaining shares in Intigral holding company (Intigral) representing 29% of Intigral's outstanding shares for SR 37.5 million was completed. Starting from the date of completion, Intigral became a wholly-owned subsidiary of the Company.

During the second quarter of 2017, a subsidiary of Binariang GSM Holdings ("BGSM") (a joint venture) issued new share placements to non-controlling interests. STC Group booked its share of the gain resulting from this issuance, amounting to SR 140,833 thousand, under other reserves.

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

## 11. BORROWINGS

Total loans paid during the nine-month period ended 30 September 2017 amounted to SR 1,184,195 thousand (30 September 2016: SR 1,232,547 thousand) .Total loans recieved during the nine-month period ended 30 September 2017 amounted to SR 247,558 thousand.

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

## 12. PROVISION FOR END OF SERVICE BENEFIT

The provision for end of service benefit as at 30 September 2017 is calculated using the latest actuarial valuation as at 31 December 2016. During the period there have not been any significant fluctuations or events that would require adjustment to the actuarial assumptions made at 31 December 2016.

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

## 13. OTHER NON-CURRENT LIABILITIES

| | ***30 September 2017*** | *31 December 2016* | *1 January 2016* |
|---|---|---|---|
| Financial liabilities | **70,514** | 201,643 | 358,344 |
| Other liabilities | **86,637** | 90,887 | 59,697 |
| | **157,151** | 292,530 | 418,041 |

**All Amounts in Saudi Riyals Thousands (unless stated otherwise)**

## 14. ZAKAT AND TAXES

- **ZAKAT:**

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

The Company calculates zakat due on the Zakat base. The Company received Zakat assessments from inception until 2011. The Company has submitted objections for the years 2008 to 2011. The total Zakat differences for these objections amounted to SR 1 billion. These objections remain with the General Authority for Zakat and Income Tax (GAZT) and the Appeals Committee until the date of preparation of these interim condensed consolidated financial statements. On 28/2/1438H, the Appeals Committee passed its decision No. (1642)/1438H; upholding the Company's appeal for the year 2007 which cancels the process of GAZT comparison between the Zakat base and the adjusted profit whichever is higher, reinforcing the position of the Company in the objections for subsequent years pending before the Appeals Committee. Accordingly, during the fourth quarter 2016, the Company settled the provision amounting to SR 294 million. The differences resulting from comparison between the Zakat base and the adjusted profit represent majority of the Zakat differences objected to. The Company's management believes that the results of these objections will be in its favour and will not result in any additional provisions. Zakat declarations for the years 2012 to 2015 are still pending with the Authority until the date of preparation of these interim condensed consolidated financial statements.

- **TAXES:**

During 2016, the Company received from the GAZT a withholding tax assessment on international operator’s networks rentals outside Saudi Arabia for the years 2004 to 2015 for an amount of SR 3.1 billion. As the Saudi tax regulations do not cover withholding tax on the rental of international operators’ networks as well as a recognition of source of income outside Saudi Arabia, management believes that this service should not be subject to taxation. Accordingly, the Company has submitted its objection to the withholding tax assessment.

## 15. OTHER CURRENT LIABILITIES

| | ***30 September 2017*** | *31 December 2016* | *1 January 2016* |
|---|---|---|---|
| Financial liabilities | **63,821** | 51,458 | 103,721 |
| Other liabilities | **6,101,588** | 3,819,367 | 2,047,284 |
| | **6,165,409** | 3,870,825 | 2,151,005 |

## 16. CAPITAL COMMITMENTS

(a) The Group enters into commitments in the ordinary course of business for major capital expenditures, primarily in connection with its network expansion programs. Outstanding capital expenditure commitments amounted to SR 3,859 million as at 30 September, 2017 (31 December 2016: SR 4,424 million, 1 January 2016: SR 3,501 million).

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

(c) On 12 Ramadan 1438 H (corresponding to 7 June 2017), the Company received a letter from the Communications and Information Technology Commission (CITC) notifying the Company of its winning in the frequency auction organised and supervised by the CTIC. The license for the radio frequencies in the bands range of (700) and (1800) MHz covers a period of (15 years) starting 1 January 2018, for a total value of SR 2,507 million of which 30% (approximately SR 752 million) was paid during the third quarter of 2017 and the remaining to be paid within 10 equal annual instalments starting from 2019.

## 17. CONTINGENT LIABILITIES

(a) The Group has outstanding letters of guarantee amounting to SR 3,297 million as at 30 September 2017 (31 December 2016: SR 3,224 million, 1 January 2016: SR 1,955 million).

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

(c) The Group has outstanding letters of credit as at 30 September 2017 amounting to SR 420 million (31 December 2016: SR 505 million, 1 January 2016: SR 536 million).

(d) One of the subsidiaries of the Group has an agreement with one of its key customers to construct a fibre optic network for which capital work completed amounted to SR 577 million (31 December 2016: SR 577 million) and amounts received from the key customer amounted SR 742 million (31 December 2016: SR742 million) and recorded as 'deferred revenues' in the Group's statement of financial position. On 21 March 2016, the Company received a letter from the customer requesting a refund for all paid balances.

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

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

## 18. DIVIDENDS

In line with the dividend policy for the next three years period which started from the fourth quarter of 2015, as approved by the Company's Board of Directors on 28 Muharram 1437H (corresponding to 10 November 2015), and endorsed by the General Assembly on 4 April 2016. The dividend policy is based on maintaining a minimum dividend of SR 1 per share on a quarterly basis. The Company will distribute cash dividends to the shareholders for the third quarter of year 2017 amounting to SR 2,000 million representing SR 1 per share.

## 19. TRANSITION TO IFRS

### *A. Basis of preparation of IFRS financial information*

The Group has prepared and issued its audited consolidated financial statements for all prior periods, including the year ended 31 December 2016, in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia ("SOCPA standards"). These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, concerning the financial report International Financial Reporting Standards for the First Time adopted in Saudi Arabia (see base of Preparation in Note 2).

Upon transition to IFRS, the Group has made adjustments to the opening consolidated statement of financial position as at 1 January 2016, the comparative consolidated statement of financial position as at 31 December 2016 and the three and nine months periods ended 30 September 2016, previously presented in accordance with SOCPA standards. The following paragraphs explain the impact of this transition.

## 19.TRANSITION TO IFRS (CONTINUED)

### *B. IFRS 1 exemptions*

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

#### *Goodwill*

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

#### *Property, plant and equipment*

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

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

#### *Leases*

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

#### *Foreign currency translation differences*

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

#### *Designation of previously recognised financial instruments*

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

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

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

**All Amounts in Saudi Riyals Thousands (unless stated otherwise)**

## 19.TRANSITION TO IFRS (CONTINUED)

### *C. Impact of transition to IFRS*

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

| | | *For the year ended 31 December 2016* | *For the three-month period ended 30 September 2016* | *For the nine-month period ended 30 September 2016* |
|---|---|---|---|---|
| **Net income before non-controlling interests under SOCPA** | | **8,757,805** | **2,200,001** | **6,566,670** |
| *Adjustments* | | | | |
| - Provision for end of service benefit, net | 1 | 92,860 | (352) | 210,113 |
| - Carrying value of an investment in associate | 2 | 315,920 | 94,395 | 269,714 |
| - Property, plant and equipment – free of cost assets | 3 | 28,346 | 1,089 | 35,892 |
| - Liabilities for decommissioning of assets | 4 | (33,505) | (9,351) | (28,365) |
| - Revenue recognition | 5 | (18,707) | 12,145 | (9,298) |
| - Other adjustments | 6 | (16,887) | (29,824) | (50,589) |
| - | | | | |
| Net income under IFRS | | 9,125,832 | 2,268,103 | 6,994,137 |
| *Adjustments for measurement and recognition differences* | | | | |
| Re-measurement of end of service benefit obligation | 1 | (64,011) | (33,264) | (219,032) |
| Equity accounting share adjustment in associate | 2 | 170,736 | 161,375 | 329,296 |
| *Differences in the presentation of other comprehensive income items* | | | | |
| Foreign currency translation differences foreign | | (169,422) | (229,568) | (211,327) |
| Fair value changes on available-for-sale financial assets | | 196,241 | (2,649) | (6,271) |
| Fair value changes from cash flow hedges | | (56,307) | 38,700 | (74,547) |
| **Total comprehensive income under IFRS** | | **9,203,069** | **2,202,697** | **6,812,256** |

**All Amounts in Saudi Riyals Thousands (unless stated otherwise)**

## 19.TRANSITION TO IFRS (CONTINUED)

### *C. Impact of transition to IFRS (continued)*

| | | *31 December 2016* | *30 September 2016* | *1 January 2016* |
|---|---|---|---|---|
| **Total equity under SOCPA** | | **61,076,395** | **60,775,910** | **61,962,243** |
| *Adjustments* | | | | |
| - Provision for end of service benefit | 1 | 426,184 | 388,416 | 397,335 |
| - Carrying value of an investment in associate | 2 | - | (51,068) | (486,656) |
| - Property, plant and equipment – free of cost assets | 3 | 156,142 | 163,687 | 127,796 |
| - Liabilities for decommissioning of assets | 4 | (173,193) | (168,053) | (139,688) |
| - Revenue recognition | 5 | (139,982) | (122,162) | (121,275) |
| - Other adjustments | | (67,215) | (104,263) | (50,206) |
| **Total equity under IFRS** | | **61,278,331** | **60,882,467** | **61,689,549** |

There were no significant differences between IFRS and SOCPA standards on the Group's cash flow statement for the nine-month period ended 30 September 2016.

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

The impact arising from this change is a decrease in provision and an increase in equity amounting to SR 388,416 thousand as at 30 September 2016 (31 December 2016: SR 426,184 thousand, 1 January 2016: SR 397,335 thousand). Expenses decreased for the three month period ended 30 September 2016 by the amount of SR 352 thousand and increased for the nine month period ended 30 September 2016 by SR 210,113 thousand (31 December 2016: increase by SR 92,860 thousand) have been recognised in the consolidated statement of profit or loss. Also a decrease in the consolidated statement of other comprehensive income for the three and nine months periods ended 30 September 2016 by the amount of SR 33,264 thousand and SR 219,032 thousand, respectively (31 December 2016: decrease by SR 64,011 thousand).

**2)** ***Adjustment to the carrying value of an investment in associate***
On transition to IFRS, the Group re-calculated its share in the net assets of Oger Telecom, taking into account its share in the service concession agreement, resulting in a decrease in the carrying value of the investment in Oger Telecom amounting to SR 486,656 thousand, with a corresponding reduction in equity as at 1 January 2016. As Oger Telecom's share of losses exceeded the Group's interest in Oger Telecom, the Group discontinued accounting for its investment using the equity method, resulting in an increase in the consolidated statement of profit or loss for the three and nine months periods ended 30 September 2016 by the amount of SR 94,395 thousand and SR 269,714 thousand, respectively (31 December 2016: SR 315,920 thousand) and a increase in statement of other comprehensive income for the three and nine months periods ended 30 September 2016 by the amount of SR 161,375 thousand and SR 329,296 thousand, respectively (31 December 2016: increase by SR 170,736 thousand).

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

From the date of transition to IFRS, the Group adopted an accounting policy to recognise such assets received free of cost at a nominal value of SR 1 and released the amount of deferred income under SOCPA. As a result of adoption of this policy, equity increased by SR 163,687 thousand as at 30 September 2016 (31 December 2016: SR 156,142 thousand, 1 January 2016: SR 127,796 thousand).

## 19.TRANSITION TO IFRS (CONTINUED)

### *C. Impact of transition to IFRS (continued)*

This resulted in increase in the consolidated statement of profit or loss for the three and nine months periods ended 30 September 2016 by the amount of SR 1,089 thousand and SR 35,892 thousand (31 December 2016: increase by SR 28,346 thousand).

**4)** ***Liabilities for decommissioning of assets***

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

The impact arising from this change is a decrease in equity of SR 168,053 thousand as at 30 September 2016 (31 December 2016: SR 173,193 thousand, 1 January 2016: SR 139,688 thousand) and a decrease in the consolidated statement of profit or loss for the three and nine months periods ended 30 September 2016 by the amount of SR 9,351 thousand and SR 28,365 thousand (31 December 2016: SR 33,505 thousand) due to increase in depreciation arising from the provision for decommissioning of assets and unwinding of the discount on the decommissioning provision.

**5)** ***Revenue recognition***

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

The impact arising from this change is a decrease in equity of SR 122,162 thousand as at 30 September 2016 (31 December 2016: SR 139,982 thousand, 1 January 2016: SR 121,275 thousand). Also, an increase in the reveneues for the three months ended 30 September 2016 by the amount of SR 12,145 thousand and reduction in revenues from services was recognized for the nine months periods ended 30 September 2016 by the amount of SR 9,298 thousand (revenue reduced in 31 December 2016: SR 18,707 thousand).

**6)** ***Other adjustments***

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

**7)** ***Reclassification***

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