

**MOBILE TELECOMMUNICATIONS  
COMPANY SAUDI ARABIA  
(A SAUDI JOINT STOCK COMPANY)**

**REVIEWED INTERIM CONDENSED  
FINANCIAL STATEMENTS  
FOR THE THREE MONTH PERIOD ENDED  
31 MARCH 2018**

**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA**  
(A SAUDI JOINT STOCK COMPANY)

**INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

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<b>INDEX</b>	<b>PAGE</b>
Independent auditors' limited review report	1
Interim condensed statement of financial position	2
Interim condensed statement of profit or loss and other comprehensive income	3
Interim condensed statement of changes in equity	4
Interim condensed statement of cash flows	5 - 6
Notes to the interim condensed financial statements	7 – 26



**Independent auditors' report on review of interim condensed financial information  
To the shareholders of Mobile Telecommunications Company Saudi Arabia  
(A Saudi Joint Stock Company)  
Riyadh, Saudi Arabia**

**Introduction**

We have reviewed the accompanying interim condensed statement of financial position of **Mobile Telecommunications Company Saudi Arabia (a Saudi joint stock company)** ("the Company") as of 31 March 2018 and the related interim condensed statements of profit or loss and other comprehensive income, changes in shareholders' equity and cash flows for the three-month period then ended 31 March 2018 and the related notes 1 to 18 which form an integral part of this interim condensed financial information. Management is responsible for the preparation and presentation of this interim condensed financial information in accordance with International Accounting Standard (IAS) 34 'Interim Financial Reporting', as endorsed in the Kingdom of Saudi Arabia, Our responsibility is to express a conclusion on this interim condensed financial information based on our review.

**Scope of Review**

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity', as endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, as endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial information is not prepared, in all material respects, in accordance with IAS 34, as endorsed in the Kingdom of Saudi Arabia

**Aldar Audit Bureau  
Abdullah Al Basri & Co.**



**Abdullah M. Al Basri  
Certified Public Accountant  
(License No.171)**

**Riyadh, 21 Shaban 1439 H  
Corresponding to 7 May 2018**

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**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA**  
(A SAUDI JOINT STOCK COMPANY)

**INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION (UNAUDITED)**  
**AS AT 31 MARCH 2018**

	Notes	31 March 2018 SR'000	31 December 2017 SR'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	5	6,386,520	6,530,036
Intangible assets		15,682,299	15,122,472
Other assets		527,843	531,122
<b>Total non-current assets</b>		<b>22,596,662</b>	<b>22,183,630</b>
<b>Current assets</b>			
Inventories		53,929	103,959
Trade and other receivables		2,038,120	2,536,730
Cash and cash equivalents		1,331,580	1,115,809
<b>Total current assets</b>		<b>3,423,629</b>	<b>3,756,498</b>
<b>TOTAL ASSETS</b>		<b>26,020,291</b>	<b>25,940,128</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	9	5,837,292	5,837,292
Hedging reserve		193	(2,613)
Other reserves		(8,165)	(8,165)
Accumulated deficit		(2,209,845)	(2,262,953)
<b>Total capital and reserves</b>		<b>3,619,475</b>	<b>3,563,561</b>
<b>Non-current liabilities</b>			
Long-term borrowings	7	4,775,962	4,681,151
Amounts due to related parties	6	6,096,647	5,943,125
Other non-current liabilities		567,910	167,381
Derivative financial instruments		(193)	2,613
Provision for employees' end of service benefits	8	95,034	94,167
<b>Total non-current liabilities</b>		<b>11,535,360</b>	<b>10,888,437</b>
<b>Current liabilities</b>			
Trade and other payables		4,199,910	4,865,537
Current portion of long-term borrowings	7	6,160,811	6,169,722
Deferred revenue		504,735	452,871
<b>Total current liabilities</b>		<b>10,865,456</b>	<b>11,488,130</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>26,020,291</b>	<b>25,940,128</b>

  
Mehdi Khalfaoui  
CFO

  
Peter Kaliaropoulos  
CEO

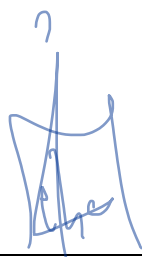
  
Naif bin Sultan bin Mohammed bin Saud Al Kabeer  
Chairman

The accompanying notes (1) to (18) form an integral part of these financial statements

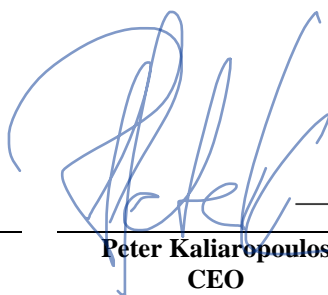
**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA**  
(A SAUDI JOINT STOCK COMPANY)

**INTERIM CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)**  
**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

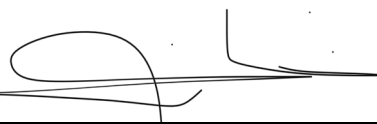
	For the three-month period ended	
	31 March 2018 SR'000	31 March 2017 SR'000
Revenue	1,685,973	1,919,045
Cost of revenue and sales	(528,761)	(628,056)
<b>Gross profit</b>	<b>1,157,212</b>	<b>1,290,989</b>
Distribution and marketing expenses	(541,071)	(555,703)
General and administrative expenses	(45,323)	(70,666)
Depreciation and amortization	(427,381)	(391,919)
<b>Operating profit</b>	<b>143,437</b>	<b>272,701</b>
Finance charges	(215,170)	(229,266)
Finance income	4,414	3,071
Other charges	(10,008)	(1,041)
<b>Net (loss) /profit before Zakat</b>	<b>(77,327)</b>	<b>45,465</b>
Zakat	-	-
<b>Net (loss) /profit for the period</b>	<b>(77,327)</b>	<b>45,465</b>
<b>Other comprehensive income</b>		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Net fair value change in hedging instruments entered into for cash flow hedges	2,806	(5,282)
<b>Total comprehensive (loss) /income for the period</b>	<b>(74,521)</b>	<b>40,183</b>
<b>(Loss) /Earnings per share (in Saudi Riyals)</b>		
Basic	(0.132)	0.078
Diluted	(0.132)	0.078



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**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA**  
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**INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**  
**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

<b>Three month period ended 31 March 2017</b>	<b>Note</b>	<b>Share capital SR'000</b>	<b>Hedging reserve SR'000</b>	<b>Other reserves SR'000</b>	<b>Accumulated deficit SR'000</b>	<b>Total SR'000</b>
Balance as at 1 January 2017 as previously reported		5,837,292	(3,968)	-	(2,258,414)	3,574,910
Impact of adoption of International Financial Reporting Standards		-	-	153	(16,078)	(15,925)
Balance as at 1 January 2017 as restated		5,837,292	(3,968)	153	(2,274,492)	3,558,985
Total comprehensive income / (Loss) for the period		-	(5,282)	-	45,465	40,183
Balance at 31 March 2017		5,837,292	(9,250)	153	(2,229,027)	3,599,168
<hr/>						
<b>Three month period ended 31 March 2018</b>		<b>Share capital SR'000</b>	<b>Hedging reserve SR'000</b>	<b>Other reserves SR'000</b>	<b>Accumulated deficit SR'000</b>	<b>Total SR'000</b>
Balance as at 1 January 2018 as previously reported		5,837,292	(2,613)	(8,165)	(2,262,953)	3,563,561
Impact of adoption of International Financial Reporting Standards	4 & 17	-	-	-	130,435	130,435
Balance as at 1 January 2018 as restated		5,837,292	(2,613)	(8,165)	(2,132,518)	3,693,996
Total comprehensive income / (Loss) for the period		-	2,806	-	(77,327)	(74,521)
Balance at 31 March 2018		5,837,292	193	(8,165)	(2,209,845)	3,619,475

  
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CEO

  
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**Naif bin Sultan bin Mohammed bin Saud Al Kabeer**  
Chairman

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**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA**  
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**INTERIM CONDENSED STATEMENT OF CASH FLOWS UNAUDITED**  
**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

	<b>Three-month period ended</b>	
	<b>31 March 2018 SR'000</b>	<b>31 March 2017 SR'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (loss) / Profit for the period	(77,327)	45,465
<b>Adjustments to reconcile net loss for the period to net cash from operating activities:</b>		
Provision for doubtful receivables and other assets	21,762	8,665
Depreciation and amortization	427,381	391,919
Other provisions	-	(11,131)
Finance charges	215,170	229,266
Loss on currency revaluation	3,166	1,189
Provision for employees' end-of-service benefits, net	867	213
<b>Operating income before changes in working capital</b>	<b>591,019</b>	<b>665,586</b>
<b>Changes in working capital</b>		
Trade and other receivables	(70,177)	(14,001)
Inventories	50,030	2,829
Trade and other payables	(346,275)	(138,132)
Other assets	(8,471)	(13,234)
Deferred revenue	51,864	(12,421)
Other non-current liabilities	1,813	2,086
<b>Cash flows generated from operating activities</b>	<b>269,803</b>	<b>492,713</b>
Financial charges paid	(104,268)	(124,388)
<b>Net cash generated from operating activities</b>	<b>165,535</b>	<b>368,325</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(188,289)	(130,820)
Proceed from disposal of property and equipment	3	240
Purchase of intangible assets	(900)	(3,928)
<b>Net cash (used in) investing activities</b>	<b>(189,186)</b>	<b>(134,508)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Current and noncurrent portion of borrowing facility	121,319	179,625
Amounts due to related parties	118,103	102,490
<b>Net cash generated from financing activities</b>	<b>239,422</b>	<b>282,115</b>
<b>Net change in cash and cash equivalents</b>	<b>215,771</b>	<b>515,932</b>
Cash and cash equivalents at beginning of the period	1,115,809	918,560
<b>Cash and cash equivalents at end of the period</b>	<b>1,331,580</b>	<b>1,434,492</b>

  
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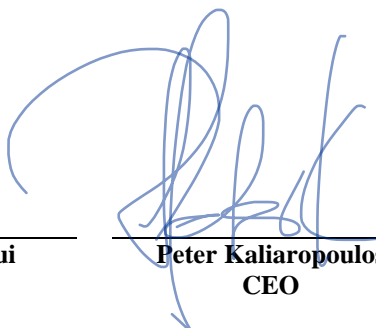
**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA**  
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**INTERIM CONDENSED STATEMENT OF CASH FLOWS UNAUDITED (Continued)**  
**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

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	<b>31 March 2018 SR'000</b>	31 March 2017 SR'000
<b>Non-cash transactions:</b>		
Adjustment to property, equipment and Intangible assets with corresponding effect to accounts payable and other receivables	<b>642,759</b>	63,911
Adjustment to advances from shareholders with corresponding effect to current portion of borrowing facilities	<b>35,419</b>	35,419
Changes in fair value of derivative financial instruments and corresponding debit to shareholders' equity	<b>2,806</b>	5,282

  
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**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA**  
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**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

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**1 ORGANIZATION AND ACTIVITIES**

1.1 Mobile Telecommunications Company Saudi Arabia (the "Company" or "Zain KSA"), provides mobile telecommunication services in the Kingdom of Saudi Arabia in which it operates, purchases, delivers, installs, manages and maintains mobile telephone services.

The Company is a "Saudi Joint Stock Company" established pursuant to the Ministerial Resolutions No. 176 dated 25 Jumada I 1428H (corresponding to 11 June 2007) and No. 357 dated 28 Dhu Al-Hijjah 1428H (corresponding to 7 January 2008), Royal Decree No. 48/M dated 26 Jumada I 1428H (corresponding to 12 June 2007) and Commercial Registration No. 1010246192 issued in Riyadh, Kingdom of Saudi Arabia on 4 Rabi Awal 1429H (corresponding to 12 March 2008) to operate as the 3rd GSM public mobile cellular and technology neutral license in the Kingdom of Saudi Arabia for twenty five (25) years.

The registered address of the Company is P.O. Box 295814, Riyadh 11351, Kingdom of Saudi Arabia.

Based on the High Order dated 30 Dhu Al-Hijjah 1437 H (corresponding to 01 October 2016) which was announced by the Capital Market Authority on 01 Muharram 1438 H (corresponding to 02 October 2016) which directed the Communications and Information Technology Commission (CITC) to coordinate with Mobile Telecommunication Company Saudi Arabia (Zain KSA) to:

- a. Extend its license for an additional 15-years period, bringing the remaining period to 32 years ending on 21/Rabi Al Awwal 1469 H (corresponding to 18 January 2047). (Yearly impact will be reduction in amortization charge of license by approximately SR 433 million and reduction in loss by the same amount);
- b. Grant the Company a Unified License where it can offer all telecommunication services including fixed services; and
- c. Coordinate with the Ministry of Finance to discuss the alternatives regarding the amounts due to the government.

On 23 Jumada first 1438 H (corresponding to 20 February 2017) CITC issued Zain KSA a Unified License to provide all telecommunication services; in line with the High Order dated 30 Dhu Al-Hijjah 1437 H (corresponding to 01 October 2016).

1.2 The Company incurred net loss for the three-month period ended 31 March 2018 of SR (77,33) million, The Company's management believes that the Company will be successful in meeting its obligations in normal course of operations. The management finalized the business plan which was approved by the Board of Directors. The Company has appointed a consultant and has prepared a lender case which was shared with the banks. The Company is at the final stage of refinancing the Syndicated Murabaha Facility (Note 7). The directors of the Company have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA**  
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**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

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**1 ORGANIZATION AND ACTIVITIES**

1.3 The Board of Directors, in their meeting held on October 24, 2017, recommended to restructure the share capital of the Company by reducing it from SR 5,837,291,750 to SR 3,616,110,783 and the total number of shares from 583,729,175 shares to 361,611,078 shares by cancellation of 222,118,097 shares. The purpose of such capital reduction is to absorb the accumulated losses of the Company as at June 30, 2017. Further, the Board has recommended to increase the share capital by SR 6,000,000,000 through the issuance of 600,000,000 new shares (rights issue) which will increase its capital from SAR 3,616,110,783 to SAR 9,616,110,783 and will result in the injection of additional fresh cash which will be used to reduce the Company's debt. The recommendation of the Board is subject to the approval of the relevant authorities including the Capital Market Authority and the relevant extraordinary general assemblies.

1.4 These interim condensed financial statements were approved by the Board of Directors on 7 May 2018.

**2 BASIS OF PREPARATION**

*Statement of compliance*

These interim condensed financial statements (interim condensed financial information) have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting as endorsed in Saudi Arabia.

This is the first set of interim condensed financial statements where IFRS 15 and IFRS 9 have been applied. Changes to significant accounting policies are described (Note 2 and 4).

The Capital Market Authority (CMA) announced the Board of Commissioners resolution dated 16 October 2016 (corresponding to 15 Muharram 1438H), which obligates the listed entities to apply the cost model to measure the property, plant and equipment, investment properties and intangible assets upon adopting the IFRSs for three years period starting from the IFRSs adoption date, while continuing to abide by the IFRSs, that are endorsed in the Kingdom of Saudi Arabia, disclosure requirements, which require or encourage the disclosure of the fair value within the notes to the financial statements. The Company has complied with the requirements in these interim condensed financial statements.

*Basis of measurement*

These interim condensed financial statements have been prepared on the historical cost basis except for the end of service benefits provision, which has been actuarially valued and the measurement of financial assets at fair value through other comprehensive income as explained in the relevant accounting policies.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The Company has used same accounting policies including risk management policies which were used for the year ended 31 December 2017, unless mentioned otherwise (Note 2 and 4).

**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA**  
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)** (Continued)

**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

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**2 BASIS OF PREPARATION** (continued)

*Critical accounting estimates and judgments*

The preparation of interim condensed financial statements in accordance with IFRSs that are endorsed in the Kingdom of Saudi Arabia requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The significant judgments made by management in applying the accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for new significant judgments and key sources of estimation uncertainty related to the application of IFRS 15 and IFRS 9.

The Company has adopted IFRS 15 and IFRS 9 using the cumulative effect method, with the effect of applying this standard recognized at the date of initial application. Accordingly, the information presented for previous year has not been restated,

*Functional and presentation currency*

Saudi Riyal is the functional currency. These Financial Statements are presented in Saudi Riyals (SR), rounded off to the nearest thousand.

*Application of new and revised International Financial Reporting Standards (IFRS)*

The Company has not yet applied the following new and revised IFRSs that have been issued and relevant to the Company but are not yet effective:

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
IFRS 16 Leases	1 January 2019

IFRS 16 will be adopted for the annual year beginning 1 January 2019. The application of IFRS 16 may have a significant impact on amounts reported and disclosures made in the Company's financial statements in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of effects of the application of this standard until the Company performs a detailed review.

### **3 SIGNIFICANT ACCOUNTING POLICIES**

#### ***Property and equipment***

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognized so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of annual reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The Company applies the following annual rates of depreciation to its property and equipment:

Telecommunications equipment	5% to 33.3%
IT systems and servers	20% to 33.3%
Furniture, fixtures and office equipment	20%
Vehicles and other transportation equipment	20%

Capital work in progress is not depreciated.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

#### ***Intangible assets***

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

The Company applies the following annual rates of amortization to its intangible assets:

License fee	2.5%
Computer software	20% to 50%
Spectrum	6.67%

Brands have an indefinite useful life and are assessed for impairment at annual reporting date.

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

**3 SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Property and equipment (continued)*

*Impairment of tangible and intangible assets*

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Company of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

*Inventories*

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined on a weighted average basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

*Cash and cash equivalents*

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand and deposits held with banks, all of which have maturities of 90 days or less and are available for use by the Company unless otherwise stated.

**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA**  
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

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**3 SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Employee benefits*

End of service benefits

The end of service benefits provision, which is a defined benefit plan, is determined using the projected unit credit method, with actuarial valuations being carried out at the end of annual reporting period. Re-measurements, comprising actuarial gains and losses, are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Re-measurements recognized in other comprehensive income are reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- interest expense; and
- re-measurements.

The Company presents the first two components of defined benefit costs in profit or loss in the line item “General and administration expenses”.

The Company has started using actuarial valuation for employees’ end of service benefits obligation from the date of transition to IFRSs, on an annual basis.

Retirement benefits

The Company pays retirement contributions for its Saudi Arabian employees to the General Organization for Social Insurance. This represents a defined contribution plan. The payments made are expensed as incurred.

Short-term employee benefits

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

*Government grants*

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

Government grants related to the property and equipment are recorded as a deduction from the cost of the assets in arriving at the respective carrying amount. Any additional amount received is recorded as deferred grant and adjusted against recorded capital expenditure on assets.

Grant related to income (reimbursement of expenses) are adjusted against the related expenses.

**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA**  
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

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**3 SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Leasing*

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Company does not have any finance leases.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

*Foreign currencies*

Transactions in currencies other than the Company's functional currency (foreign currencies), which is Saudi Riyals, are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

*Zakat*

Zakat is calculated and provided for by the Company in accordance with Saudi Arabian fiscal regulations and is charged to profit or loss. It is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

*Borrowing cost*

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets. Other borrowing costs are charged to the statement of profit or loss.

*Provisions*

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

*Indefeasible Rights of Use ("IRU")*

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

**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA**  
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

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**4 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES**

Except as described below, the accounting policies applied in these interim condensed financial statements are the same as those applied in the financial statements as at 31 December 2017. The changes in accounting policies are also expected to be reflected in the financial statements for the year ending 31 December 2018.

The Company has initially adopted IFRS 15 “Revenue from Contracts with Customers” and IFRS 9 “Financial Instruments” from 1 January 2018.

***IFRS 15 “Revenue from Contracts with Customers”***

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognizing revenue arising from contracts with customers and establishes a five-step model for that. Under IFRS 15 revenue will be recognized as goods and services are transferred, to the extent that the transferor anticipates entitlement to consideration in exchange for those goods and services. The standard also specifies a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

IFRS 15 may be adopted retrospectively, by restating comparatives and adjusting retained earnings at the beginning of the earliest comparative period. – Alternatively, IFRS 15 may be adopted as of the application date, by adjusting retained earnings at the beginning of the first reporting year (the cumulative effect approach). The company adopted the standard using the cumulative effect approach, which means that the company recognized the cumulative effect of initially applying this standard as an adjustment to the opening balance of retained earnings of the reporting period that includes the date of initial application.

The following table summarizes the impact of transition to IFRS 15 on retained earnings as at 1 January 2018.

***Impact of adopting IFRS 15 at 1 January 2018***

***Retained earnings***

	<b>Notes</b>	<b>Amount SR'000</b>
Trade and Other Receivables		<b>136,710</b>
Trade and Other Payables		<b>(14,405)</b>
<b>Net Impact at January 01,2018</b>		<b>122,305</b>



**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA**  
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

**4 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)**

*IFRS 15 “Revenue from Contracts with Customers” (continued)*

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Company’s various goods and services are set out below.

Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgment.

Type of product/service	Nature, timing of satisfaction of performance obligations, significant payment terms	Nature of change in accounting policy
Revenue from mobile telecommunications	<p>Amounts charged to customers in respect of airtime usage, text messaging, the provision of other mobile telecommunications services, including data services and information provision, fees for connecting users of other fixed line and equipment sales and mobile networks to the Company’s network.</p> <p>Airtime used by customers is invoiced and recorded as part of a periodic billing cycle and recognized as revenue over the related access period. Unbilled revenue resulting from services already provided from the billing cycle date to the end of each accounting period is accrued and unearned revenue from services to be provided in periods after each accounting period is deferred. Revenue from the sale of prepaid credit is deferred until such time as the customer uses the airtime, or the credit expires.</p> <p>Revenue from data services and information provision is recognized when the Company has performed the related service and, depending on the nature of the service, is recognized either at the gross amount billed to the customer or the amount receivable by the Company as discount for facilitating the service. The income from provision of content services, is recognized on net basis to record the extent of its own share of income only.</p>	<p>The Company provides subsidized handsets to its customers along with mobile telecommunication services and IFRS 15 requires entities to allocate a contract’s transaction price to each performance obligation based on their relative stand-alone selling price. This will result in a greater amount of revenue on subsidized handsets up-front, a difference between the reported revenue and the amount billed and decrease the average revenue per user for ongoing services.</p> <p>The Company enters into contracts with customers, which have similar characteristics. Under IFRS 15, an entity can choose to apply it to a portfolio of contracts or performance obligations with similar characteristics if the outcome is not materially different than contract-by-contract accounting by:</p> <ul style="list-style-type: none"> <li>• an evaluation of which items constitute a portfolio considering, for example, the impact of different offerings, periods of time, geographic locations and contract modifications;</li> <li>• assessment, on an ongoing basis, whether the portfolio approach gives a materially different result;</li> <li>• exercise of judgment in determining when the portfolio approach may be appropriate, including considering whether any customer-specific agreements would be eligible.</li> </ul> <p>The Company offers early upgrade rights for additional services. This will require the Company to determine the accounting, including whether a material right has been granted to the customer, if the right affects the transaction price, if modification accounting applies or if waived amounts are an incentive to enter into a new contract. A material right is an option to acquire additional goods or services at a price that does not reflect the good’s or service’s stand-alone selling price and is considered a separate performance obligation.</p>

**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA**  
**(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

**4 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)**

*IFRS 15 “Revenue from Contracts with Customers” (continued)*

<b>Type of product/service</b>	<b>Nature, timing of satisfaction of performance obligations, significant payment terms</b>	<b>Nature of change in accounting policy</b>
Revenue from mobile telecommunications	Incentives are provided to customers in various forms as part of a promotional offering. Where such incentives are provided in the context of an arrangement that comprises other deliverables, revenue representing the fair value of the incentive, relative to other deliverables provided to the customer as part of the same arrangement, is deferred and recognized in line with the Company’s performance of its obligations relating to the incentive. In arrangements including more than one deliverable, the arrangement consideration is allocated to each deliverable based on the fair value of the individual element. The Company generally determines the fair value of individual elements based on prices at which the deliverable is regularly sold on a standalone basis.	<p>Even if customer retention discounts aren’t explicit in the contract, customary business practice could mean that fixed consideration is, in substance, variable. Alternatively, such discounts could be viewed as contract modifications. IFRS 15 requires an assessment as to whether the discount is variable consideration or a contract modification. This will require judgment and may impact the timing of revenue recognition. IFRS 15 requires an assessment as to whether promotional offers to current customers are contract modifications or marketing transactions and set up processes and systems capable of tracking and monitoring all discounts, concessions and promotional offers granted to customers.</p> <p>Under IFRS 15, certain incremental costs incurred in acquiring a contract with a customer will be deferred on the statement of financial position and amortized as revenue is recognized under the related contract; this will generally lead to the later recognition of charges for some commissions payable to third party dealers. However, an entity may choose to expense contract acquisition costs if the amortization period of the resulting asset is one year or less.</p>

**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA**  
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

**4 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)**

***IFRS 9 Financial Instruments***

IFRS 9 'Financial Instruments' replaces IAS 39 Financial Instruments: Recognition and Measurement and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 impacts the classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting. The primary impact on the Company relates to the provisioning for future expected credit losses on its financial assets and the requirement of certain additional disclosures.

The Company adopted it from the effective date of 1 January 2018; applied it retrospectively and recognized the cumulative effect of initial application as an adjustment to the opening balance of retained earnings as of 1 January 2018.

The following table summarizes the impact of transition to IFRS 9 on the opening balance of reserves, retained earnings and (for a description of the transition method, see below).

**Retained earnings**

	<b>Notes</b>	<b>Amount SR'000</b>
<b>Recognition of expected credit losses under IFRS 9</b>		
Trade and Other Receivables		<b>8,130</b>
<b>Net Impact at January 01,2018</b>		<b>8,130</b>

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

***I. Classification and measurement of financial assets and financial liabilities***

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities and derivative financial instruments (for derivatives that are used as hedging instruments, see (iii) below).

The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortized cost; Fair value through other comprehensive income (FVTOCI), or Fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA**  
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

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**4 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)**

*IFRS 9 Financial Instruments (continued)*

**I. Classification and measurement of financial assets and financial liabilities (continued)**

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

***Subsequent measurement of financial assets.***

***Financial assets at FVTPL***

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

***Financial assets at amortized cost***

These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses (see (ii) below). Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on de-recognition is recognized in profit or loss.

***Debt investments at FVOCI***

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On de-recognition, gains and losses accumulated in OCI are reclassified to profit or loss.

***Equity investments at FVOCI***

These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements, as described further below.

**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA**  
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

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**4 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)**

*IFRS 9 Financial Instruments (continued)*

**II. Impairment of financial assets**

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

The financial assets at amortized cost consist of trade receivables, cash and cash equivalents, and other receivables. Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured as 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

The Company has elected to measure loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company’s historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held); or
- the financial asset is more than 90 days past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA**  
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

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**4 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)**

*IFRS 9 Financial Instruments (continued)*

**II. Impairment of financial assets (continued)**

***Measurement of ECLs***

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

***Credit-impaired financial assets***

At each reporting date, the Company assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

***Presentation of impairment***

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Impairment losses related to trade and other receivables, including contract assets, are presented under distribution and marketing expenses

**III. Hedging**

***Derivative financial instruments***

The Company uses the same accounting policies as per IAS 39. The company uses derivative financial instruments to hedge its interest rate risk on the floating rate Syndicate Murabaha facility. The Company designates these derivatives financial instruments as cash flow hedges in accordance with the approved policies and consistent with the Company's risk management strategy. The Company does not use derivative financial instruments for speculative purposes. These derivative financial instruments are measured at fair value. The effective portions of changes in the fair value of derivatives are recognized in hedging reserve under the statement of equity. The gain or loss relating to the ineffective portion is recognized immediately in the statement of profit or loss and other comprehensive income. Gains or losses recognized initially in hedging reserve are transferred to the statement of profit or loss and other comprehensive income in the period in which the hedged item impacts the statement of profit or loss and other comprehensive income.

**IV. Transition**

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- The Company has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
- The determination of the business model within which a financial asset is held.

**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA**  
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

**5 PROPERTY, PLANT AND EQUIPMENT**

During the three-month period ended 31 March 2018, the Company acquired assets with a cost of SR 132 million (31 March 2017: SR 183 million). During the period, the Company disposed assets with a net book value of SR 4 Thousand (31 March 2017: SR 92 thousand) resulting in a gain (Loss) on sale of property, plant and equipment amounting to SR 3 thousand (31 March 2017: SR 148 thousand). During the three-month period ended 31 March 2018, the depreciation expense amounted to SR 268 million (31 March 2017: SR 245 million).

**6 RELATED PARTY INFORMATION**

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

	<b>For the three month period ended</b>	
	<b>31 March 2018 SR'000</b>	31 December 2017 SR'000
Revenue from entities owned by a shareholder	<b>117,780</b>	116,768
Purchases from entities owned by a shareholder	<b>88,305</b>	87,458
Branding fees charged by a shareholder	<b>12,089</b>	12,396
Finance charges charged by a shareholder	<b>71,309</b>	71,543

The following balances were outstanding at the reporting date:

	<b>31 March 2018 SR'000</b>	31 December 2017 SR'000
Amounts due to shareholders	<b>6,096,606</b>	5,943,083
Amounts due to entity owned by a shareholder	<b>42</b>	42
Amounts due from a shareholder	<b>692</b>	673
Amounts due from entity owned by a shareholder	<b>5,300</b>	5,837

In accordance with the arrangements agreed with the shareholders during 2009, some of the founding shareholders have provided advances to the Company. During 2012, pursuant to all related approvals, the principal amount of these advances were utilized to increase the share capital of the Company. Additionally, a founding shareholder has provided additional loans and made certain payments on behalf of the Company. All advances, loans and amounts due to shareholders carry finance cost that approximate the prevailing market rates.

**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA**  
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

**7 LONG TERM BORROWINGS**

	<b>31 March 2018 SR'000</b>	31 December 2017 SR'000
Syndicate Murabaha facility (refer to note 7.1)	<b>5,964,715</b>	5,965,541
Export credit facility (refer to note 7.2)	-	35,935
Industrial and Commercial Bank of China loan (refer to note 7.3)	<b>2,265,359</b>	2,264,223
Ministry of Finance (refer to note 7.4)	<b>2,731,322</b>	2,609,888
Less: debt arrangement costs	<b>(24,623)</b>	(24,714)
Total	<b>10,936,773</b>	10,850,873
Less: current portion included in current liabilities	<b>(6,160,811)</b>	(6,169,722)
	<b>4,775,962</b>	4,681,151

**7-1** The syndicated Murabaha facility of approximately SR 9.75 billion was arranged by Banque Saudi Fransi in July 2009. This Murabaha facility consists of a Saudi Riyal portion totaling SR 7.09 billion and a United States Dollar portion totaling USD 710 million (equivalent to SR 2.66 billion).

Financing charges as specified under the Murabaha facility are payable in quarterly instalments over the life of the loan. In accordance with the terms of the Murabaha financing agreement the Company exercised its two options to extend the initial maturity date (12 August 2011) for six months each, totaling the renewal of the facility for one full year with the final maturity date being 27 July 2012. Subsequently, the Company successfully obtained several approvals to extend the facility until 31 July 2013. During 2013, the Company partially settled an amount of SR 750 million out of the cash proceeds from the rights issue transaction.

On 31 July 2013, the Company signed an amended and restated "Murabaha financing agreement" with a consortium of banks which also includes existing Murabaha facility investors to extend the maturity date of its Murabaha facility for five years until 30 June 2018, which was due on 31 July 2013. The new facility has been restructured as an amortizing facility, 25% of which will be due during years 4 to 5 of the life of the facility, as a mandatory minimum amount due, with 75% due at maturity date. The Company has partially repaid the facility, utilizing a portion of its internal cash resources, and the current outstanding principal stands at SR 8.6 billion with the SR portion totaling SR 6.3 billion and the USD portion totaling USD 0.6 billion (SR 2.3 billion).

Financing charges, as specified under the Murabaha financing agreement are payable in quarterly instalments over five years. The new facility is secured partially by a guarantee from Mobile Telecommunications Company K.S.C and a pledge of shares of the Company owned by some of the founding shareholders.

Financial and other covenants imposed by the financing banks are:

- a) Assignment of certain contracts and receivables;
- b) Pledge of insurance contracts and operating accounts;
- c) Loans and guarantees restrictions to customers, distributors, dealers, retailers, wholesalers and employees;
- d) No further financial indebtedness, pari passu, insurance on all assets; and
- e) EBITDA and leverage levels.



**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA**  
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

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**7 LONG TERM BORROWINGS (Continued)**

The Company is complying with the existing loan covenants. In the second quarter of 2015 and the first quarter of 2016, the Company made a prepayment for the amount of SR 121 million and SR 392 million respectively as a mandatory settlement due to its excess free cash flow.

On 31 December 2016, the Company paid the first instalment amounting SR 432 million as 5% of the principle.

On 22 June 2017, the Company paid the second instalment amounting SR 432 million as 5% of the principle.

On 28 December 2017, the Company paid the third instalment amounting SR to 1,295 million as 15% of the principle.

The Company has appointed a consultant and has prepared a lender case which was shared with the banks. The Company is at the final stage of refinancing the Syndicated Murabaha Facility.

**7-2** On 20 June 2012 an Export Credit Agency facility agreement having two tranches (A and B) totaling to USD 325 million was signed between the Company and certain international banks. This facility is secured by a guarantee provided by Mobile Telecommunications Company K.S.C. and is subordinate to the Murabaha facility. The purpose of this facility is to:

- repay amounts due to one of the Company's technical vendors; and
- finance further new expansion plans provided by the same technical vendor.

The Company has utilized tranche A (USD 155 million) in full and also utilized USD 98 million out of USD 170 million of tranche B. The remaining unutilized portion of tranche B was cancelled during the first quarter of 2013.

Financing charges as specified under this facility agreement are payable in semi-annual instalments over the life of the loan and based on LIBOR plus agreed margin. Repayment will take place over five (5) years on a semi-annual basis starting July 2012 for tranche A (totaling USD 155 million) and July 2013 for tranche B (totaling USD 98 million). As at 31 March 2018, all the facility was repaid in full. (31 December 2017: 18) instalments were repaid in full.

**7-3** On 15 August 2016 the Company has signed a long-term commercial loan facility agreement amounting to SR 2.25 Billion with a two years' tenor that is extendable by one additional year and payable at maturity. The new facility agreement signed with the Industrial and Commercial Bank of China to replace the existing syndicated facility; this new facility will have lower financing cost compared to the existing facilities. Financing charges are based on LIBOR plus agreed margin and payable in quarterly instalments. The Facility is unconditionally and irrevocably guaranteed by Mobile Telecommunications Company K.S.C.

On 18 March 2018 the Company has extended the final maturity date to 8 August 2019.

**7-4** During 2013, the Company has signed an agreement with the Ministry of Finance, Saudi Arabia to defer payments of its dues to the government for the next seven years, estimated at SAR 5.6 billion. These deferred payments under this agreement will be bearing commercial commission payable annually, while the amount due will be repayable in equal instalments starting June 2021. The amount deferred by the Company as of 31 March 2018 amounted to SR 2,531 million (31 December 2017: SR 2,431 million).

**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA**  
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

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**8 PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS**

	<b>31 March 2018 SR'000</b>	31 December 2017 SR'000
Opening balance (restated)	<b>94,167</b>	75,323
Current service cost	<b>4,730</b>	17,687
Interest cost	-	3,766
Payments	<b>(3,863)</b>	(10,927)
Actuarial gain	-	8,318
Closing balance	<b>95,034</b>	94,167

The most recent actuarial valuation was performed by Lux Actuaries & Consultants for the year ended 31 December 2017 and was performed using the projected unit credit method.

The principal assumptions used for the purposes of the actuarial valuation were as follows:

Attrition rates	10% to 13%
Salary increases	4%
Discount rate	5%

All movements in the end of service benefits liability are recognized in profit or loss except for the actuarial gain which is recognized in other comprehensive income.

**9 SHARE CAPITAL**

The Company had 583,729,175 shares of SR10 each in issue as at the reporting date. There were no movements in share capital in the period under review. (also refer to note 1.3)

**10 EARNINGS PER SHARE**

Basic and diluted earnings / (loss) per share is based on the net profit / (loss) for the three-month period amounting to SR (77.33) million (31 March 2017: profit for the three-month period amounting to SR 45.46 million) divided by a weighted average number of shares in issue of 583,729,175.

**11 DIVIDENDS**

No dividends were declared during the period.

## **12 CAPITAL COMMITMENTS AND CONTINGENCIES**

The Company had capital commitments of SR 2,072 million (31 March 2017: SR 1,410 million) as at the reporting date.

The Company in the normal course of business is subject to and also pursuing lawsuits, proceedings, penalties and fines imposed by the regulator, municipalities and other claims from suppliers and telecommunication providers. The Company, after having consulted with its internal and external legal counsel and technical advisors, believes that these matters are not expected to have a significant impact on the financial position or the results of operations of the Company.

## **13 OPERATING LEASE COMMITMENTS**

The Company had an operating lease commitments of SR 1,218 million (31 March 2017: SR 1,340 million) till the ending date of contracts, as at the reporting date.

## **14 ZAKAT**

### **Zakat charge for the period**

Due to negative zakat base, no zakat has been charged during the period.

### **Status of assessments**

The Company had finalized its zakat and tax status up to 2008 and obtained the related certificate. The Company had submitted its financial statements along with zakat and returns for the years 2009 to 2017 and paid zakat and withholding tax according to the filed returns.

On 18 Ramadan 1436 H (corresponding to 07 July 2015), the Company received the Zakat and withholding tax assessments from General Authority of Zakat and Tax (GAZT) for the years 2009 to 2011 whereby they asked to pay an additional amount of SR 619,852,491 of which SR 352,481,222 are related to Zakat differences and SR 267,371,269 as withholding tax subject to delay penalty payable from the due date up to the settlement date equals to 1% for every 30 days.

Zain appealed this claim for additional payments on 27 August 2015, and was able to have the amount of SR 352 million related to Zakat revoked entirely. In addition, SR 219 million of the withholding tax claim was also revoked.

To appeal before the High Appeal Committee (HAC), Zain completed the required conditions in the Articles of the Saudi Tax Law, by paying the invoices issued by GAZT amounting SR 48 million on 16 November 2017 related to Withholding Tax (WHT) and issued a bank guarantee for the amount of SR 43 million related to the penalty generated from the delay in paying the WHT.

Based on the above, Zain received the reassessment letter for the paid amount and presented its objections before the HAC on the preliminary Appeal Committee opinion on 19 November 2017.

There is no financial impact as the company has sufficient provisions to cover these amounts.

**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA**  
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)** (continued)

**FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2018**

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**15 SEGMENT REPORTING**

The Company only has one segment which is mobile phone services and operates in one geographical location, being the Kingdom of Saudi Arabia. Further, no internal reports are generated and disseminated to Chief Operating Decision Maker (CODM) for allocation of resources and assessment of performance which are required for identification of segments. Consequently, segment reporting as required by IFRS 8 'Operating Segments' has not been disclosed.

**16 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES**

Assets and liabilities measured at fair value in the statement of financial position are grouped into three levels of fair value hierarchy. This grouping is determined based on the lowest level of significant inputs used in fair value measurement, as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All the financial assets and liabilities of the Company are carried at amortized cost. Therefore, the fair value hierarchy disclosure which requires a three-level category of fair value is not disclosed.

The carrying values of all the financial assets and liabilities reflected in the financial statements are the reasonable approximation of their fair values.

**17 Reconciliation of equity as at 1 January 2018**

	Notes	As at 1 January 2018 SR'000
<b>Total equity</b>		<b>3,563,561</b>
Adjustment due to adoption of International Financial Reporting Standards (IFRS 9)	4	8,130
Adjustment due to adoption of International Financial Reporting Standards (IFRS 15)	4	122,305
<b>Total adjustment to equity</b>		<b>130,435</b>
<b>Total equity after applying IFRS Effects</b>		<b>3,693,996</b>

**18 Subsequent events**

On 15<sup>th</sup> of April 2018, the Company announced the appointment of Mr. Sultan Al Deghather as the new CEO, effective as of 1 July 2018, after the resignation of Mr. Peter Kaliaropoulos.