

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

**FINANCIAL STATEMENTS AND  
AUDITORS' REPORT  
FOR THE YEAR ENDED  
31 DECEMBER 2018**

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

**FINANCIAL STATEMENTS AND AUDITORS' REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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## INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of Mobile Telecommunications Company Saudi Arabia (Zain)**  
(A Saudi Joint Stock Company)  
Riyadh, Kingdom of Saudi Arabia

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Mobile Telecommunications Company Saudi Arabia ("the Company"), which comprise the statement of financial position as at December 31, 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements taken as a whole:

- present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), as endorsed in Kingdom of Saudi Arabia by Saudi Organization for Certified Public Accountants (SOCPA) and other standards and pronouncements endorsed by SOCPA; and
- comply with the applicable requirements of the Regulations for Companies and by-laws of the Company in so far as they affect the preparation and presentation of the financial statements.

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs), as endorsed in Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Kingdom of Saudi Arabia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Key Audit Matters (KAMs)**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each key audit matter, a description of how our audit addressed the matter is set out below:

### **1. Revenue recognition**

We have considered revenue to be a key audit matter since revenue is a key business driver for the Company, there is a presumed risk of fraud related to revenue recognition as per the International Standards on Auditing, as endorsed in Kingdom of Saudi Arabia, the Company offers various types of products including multiple arrangements, voluminous transactions are carried out on a daily basis and revenue is recognized through automated systems.

We designed our audit procedures to address this KAM by performing first risk assessment procedures, which included identification of risks and related assertions by understanding the Company and its environment, documenting and evaluating accounting system for revenue covering activities, processes and internal controls relevant to revenue, performance of walkthroughs and tests of key controls to ensure design, implementation and operating effectiveness of internal controls. Analytical procedures were also performed. Our internal IT specialist was also involved to understand and evaluate the IT system related to revenue and check reliability of data and reports generated through the IT systems. Thereafter, our audit procedures were designed according to the results of risk assessment procedures. We verified, on a test basis, invoices issued by the Company, reviewed key reconciliations performed by the Company's Revenue Assurance Team, performed detailed analytical procedures to understand that reasons for variance in revenue from last year have a business rationale, performed procedures to ensure that revenue recognition criteria adopted by the Company for all major revenue streams is appropriate and in line with the Company's accounting policies disclosed in financial statements.

The Company's revenue streams recognized in the financial statements are disclosed in Note 18 to the financial statements. The Company's accounting policies for revenue recognition are disclosed in Note 5 to the financial statements.

### **2. Automated systems and controls**

An important part of the Company's financial processes is highly dependent on its information technology (IT) systems with automated controls over these systems. Information technology environment support various business processes, including billing systems, and the mix of manual and automated controls, therefore that was considered as a key audit matter for us.

## **Key Audit Matters (KAMs) (Continued)**

### **2. Automated systems and controls (Continued)**

We evaluated the design and tested the operating effectiveness of the controls in systems relevant to financial reporting. We have also tested IT general controls.

Additionally, we utilized data technology to extract and analyze the population of journals and tested manual journals as part of our work on possible management override of controls, evaluated user access controls around the relevant applications, tested user access rights to specific menus and transactions within the relevant applications.

### **3. Property and equipment and intangible assets**

The Company has significant balance of property and equipment (SR 6.12 billion) and intangible assets (SR 16.24 billion) as at 31 December 2018. There are number of areas where management judgment impacts carrying value of property and equipment and intangibles which includes decision to capitalize or expense costs and annual review of assets' useful lives (depreciation and amortization period). Due to these, we considered property and equipment and intangible assets as a key audit matters.

Our audit procedures included assessment of design and operating effectiveness of internal controls over property and equipment and intangible asset accounting cycles, evaluating the appropriateness of capitalization policies, performing detailed verification, on test basis, on costs capitalized, checking timely transfer of assets from capital work in progress to completed assets, and checking calculation of depreciation and amortization for the year. In performing these procedures, we also discussed with management their judgments over nature of underlying costs to capitalize and appropriateness of useful lives.

Property and equipment and intangible assets are disclosed in note 6 and 7 respectively to the financial statements. The Company's accounting policies for property and equipment and intangibles assets are disclosed in Note 3 to the financial statements.

### **4. Implementation of IFRS 9 and IFRS 15**

Effective from 01 January 2018 the Company was required to adopt IFRS 9 "Financial instruments" and IFRS 15 "Revenue from Contract with customers". Since this is implementation of new standards related to the significant accounts of the Company therefore we consider it as a key audit matter. The Company appointed consultants for transition to these new IFRSs who carried out a detailed exercise to identify changes in accounting policies and treatments, presentation and disclosures in financial statements. The consultants issued reports and we had a meeting with the consultants to give our comments on the report on IFRSs transition to new standards. We also checked the Company's compliance with the IFRSs requirements in terms of accounting policies, accounting treatments, presentation and disclosures. Since this is a transition to new standard therefore we considered it as a key audit matter.

The impacts of transition to these IFRSs on the Company's financial statements are disclosed in note 5 to the financial statements.

## **Other information included in the Company's Annual Report**

Other information consists of the information included in the Company's 2018 annual report, other than the financial statements and our auditors' report thereon. Management is responsible for the other information in its annual report. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

## **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, applicable requirements of Regulation for Companies and by-laws of the Company and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

## **Auditor's Responsibilities for the Audit of the Financial Statements (Continued)**

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## **Auditor's Responsibilities for the Audit of the Financial Statements (Continued)**

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Riyadh, 18 Jumada Alawal 1440h  
Corresponding to 24 January, 2019

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

A handwritten signature in blue ink, consisting of a stylized Arabic script.

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



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

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2018**

	Notes	2018 SR'000	2017 SR'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	6	6,122,614	6,530,036
Intangible assets	7	16,240,679	15,699,584
Contract assets non-current		15,442	-
<b>Total non-current assets</b>		<b>22,378,735</b>	<b>22,229,620</b>
<b>Current assets</b>			
Inventories	8	223,005	103,959
Trade and other receivables	9	2,015,642	2,490,740
Contract assets - current		289,197	-
Cash and cash equivalents	10	1,416,731	1,115,809
<b>Total current assets</b>		<b>3,944,575</b>	<b>3,710,508</b>
<b>TOTAL ASSETS</b>		<b>26,323,310</b>	<b>25,940,128</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	11	5,837,292	5,837,292
Hedging reserve	12	(21,586)	(2,613)
Other reserves	15	(3,302)	(8,165)
Accumulated deficit		(1,800,156)	(2,262,953)
<b>Total capital and reserves</b>		<b>4,012,248</b>	<b>3,563,561</b>
<b>Non-current liabilities</b>			
Long-term borrowings	13	7,668,127	4,681,151
Amounts due to related parties	14	6,584,703	5,943,125
Other non-current liabilities	7	591,615	167,381
Derivative financial instruments	12	21,586	2,613
Provision for employees' end of service benefits	15	93,425	94,167
<b>Total non-current liabilities</b>		<b>14,959,456</b>	<b>10,888,437</b>
<b>Current liabilities</b>			
Trade and other payables	16	4,104,497	4,825,980
Current portion of long-term borrowings	13	2,526,633	6,169,722
Deferred revenue		720,476	492,428
<b>Total current liabilities</b>		<b>7,351,606</b>	<b>11,488,130</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>26,323,310</b>	<b>25,940,128</b>

  
Mehdi Khalifaoui  
CFO

  
Sultan Al-Deghaither  
CEO

  
Naif bin Sultan bin Mohammed bin Saud Al Kabeer  
Chairman

The accompany notes (1) to (36) form an integral part of these financial statements

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

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

	Note	2018 SR'000	2017 SR'000
Revenue	18	7,530,527	7,305,822
Cost of revenue and sales	19	(2,105,968)	(2,509,656)
<b>Gross profit</b>		<b>5,424,559</b>	<b>4,796,166</b>
Distribution and marketing expenses	20	(2,207,454)	(2,068,193)
General and administrative expenses	21	(207,851)	(210,787)
Depreciation and amortization	6-7	(1,790,028)	(1,613,944)
<b>Net profit before net finance income and Zakat</b>		<b>1,219,226</b>	<b>903,242</b>
Finance charges	22	(930,732)	(910,093)
Other income	23	17,042	1,785
Finance income	24	26,826	16,605
<b>Net profit before Zakat</b>		<b>332,362</b>	<b>11,539</b>
Zakat	25	-	-
<b>Net profit for the year</b>		<b>332,362</b>	<b>11,539</b>
<b>Other comprehensive income</b>			
<i>Item that will not be reclassified subsequently to profit or loss:</i>			
Remeasurement of end of service benefit liability	15	4,863	(8,318)
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Net change in fair value on hedging instruments entered into for cash flow hedges	12	(18,973)	1,355
<b>Total comprehensive income for the year</b>		<b>318,252</b>	<b>4,576</b>
<b>Earnings per share (in Saudi Riyals)</b>	26		
Basic		0.569	0.020
Diluted		0.569	0.020

  
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**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA**  
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**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

	Note	Share capital SR'000	Hedging reserve SR'000	Other reserves SR'000	Accumulated deficit SR'000	Total SR'000
<b>Balance at 1 January 2018 as previously reported</b>		<b>5,837,292</b>	<b>(2,613)</b>	<b>(8,165)</b>	<b>(2,262,953)</b>	<b>3,563,561</b>
Impact of adoption of International Financial Reporting Standards	5	-	-	-	130,435	130,435
<b>As restated</b>		<b>5,837,292</b>	<b>(2,613)</b>	<b>(8,165)</b>	<b>(2,132,518)</b>	<b>3,693,996</b>
Total comprehensive income for the year			(18,973)	4,863	332,362	318,252
<b>Balance at 31 December 2018</b>		<b>5,837,292</b>	<b>(21,586)</b>	<b>(3,302)</b>	<b>(1,800,156)</b>	<b>4,012,248</b>
Balance at 1 January 2017		5,837,292	(3,968)	153	(2,274,492)	3,558,985
Total comprehensive income for the year		-	1,355	(8,318)	11,539	4,576
Balance at 31 December 2017		5,837,292	(2,613)	(8,165)	(2,262,953)	3,563,561

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

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

	Note	2018 SR'000	2017 SR'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net profit for the year		332,362	11,539
<b>Adjustments to reconcile net profit for the period to net cash from operating activities:</b>			
Provision for doubtful receivables and other assets	9	139,049	59,910
Depreciation and amortization	6-7	1,790,028	1,613,944
Other provisions		(16,354)	15,762
Finance charges	22	930,732	910,093
Currency revaluation (gain) / loss		(2,595)	7,409
Provision for employees' end-of-service benefits	15	22,119	21,453
<b>Operating income before changes in working capital</b>		<b>3,195,341</b>	<b>2,640,110</b>
<b>Changes in working capital</b>			
Trade and other receivables		(102,109)	(198,850)
Inventories		(113,526)	(61,858)
Contract assets		(304,639)	-
Trade and other payables		(602,885)	1,183,324
Deferred revenue		228,048	(75,792)
Other non-current liabilities		7,892	(529,412)
<b>Cash flows generated from operating activities</b>		<b>2,308,122</b>	<b>2,957,522</b>
Employee Retirement Benefits Paid	15	(17,998)	(10,927)
Financial charges paid		(453,770)	(482,508)
<b>Net cash generated from operating activities</b>		<b>1,836,354</b>	<b>2,464,087</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property and equipment		(1,478,807)	(1,558,803)
Proceed from disposal of property and equipment		165	450
Purchase of intangible assets		(41,314)	(47,500)
<b>Net cash (used in) investing activities</b>		<b>(1,519,956)</b>	<b>(1,605,853)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Current and non-current portion of borrowing facility, net	13	(620,694)	(1,076,647)
Amounts due to related parties	14	606,159	415,574
<b>Net cash (used in) from financing activities</b>		<b>(14,535)</b>	<b>(661,073)</b>
<b>Net change in cash and cash equivalents</b>		<b>301,863</b>	<b>197,161</b>
Effect of movements in exchange rates on cash and cash equivalents		(941)	88
Cash and cash equivalents at beginning of the year	10	1,115,809	918,560
<b>Cash and cash equivalents at end of the year</b>		<b>1,416,731</b>	<b>1,115,809</b>

  
Mehdi Khalfaoui  
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Chairman

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

**STATEMENT OF CASH FLOWS (continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

	Note	2018 SR'000	2017 SR'000
<b>Non-cash transactions:</b>			
Adjustment to property and equipment with corresponding effect to accounts payable		403,288	992,273
Adjustment to advances from shareholders with corresponding effect to current portion of borrowing facilities	13	35,419	70,838
Changes in fair value of derivative financial instruments and corresponding debit to shareholders' equity	12	18,973	1,355

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 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.

During the third quarter of 2018, the Company became a subsidiary of Mobile Telecommunications Company K.S.C.P. Kuwait.

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).

In the fourth quarter of 2018, the Company signed an agreement with the Ministry of Finance, the Ministry of Communications and Information Technology and the Communications and Information Technology Commission, which includes the consolidation of the annual royalty for commercial service and the settlement of disputed amounts for the period from 2009 to 2017, which includes the following:

- a. Consolidate the annual royalty fee and reducing it from 15% to 10% of net revenues starting from 01 January 2018. (Impact was reflected in cost of revenue and sales)
- b. Settlement of the disputed amounts between Zain and CITC regarding the payment of disputed annual royalty fee for the period from 2009 to 2017. Under the condition, that Zain further invests in expanding its infrastructure in addition to other conditions over the next 3 years.

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

**NOTES TO THE FINANCIAL STATEMENTS** (continued)  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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**1 ORGANIZATION AND ACTIVITIES** (continued)

The Company incurred net profit for the year ended 31 December 2018 of SR 332 million (31 December 2017: SR 12 million), and had an accumulated deficit of SR 1.8 billion as at this date (31 December 2017: SR 2.26 billion). The Company's management believes that the Company will be successful in meeting its obligations in normal course of operations. The Company has refinanced its existing syndicated Murabaha facility at preferential terms with an additional working capital facility (Note 13). The directors of the Company have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

**1.2** The Board of Directors, in their meeting held on May 7, 2018, recommended restructuring the share capital of the Company by reducing it from SR 5,837,291,750 to SR 3,616,110,780 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 increasing 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 3,616,110,780 to SAR 9,616,110,780 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.

**1.3** These financial statements were approved by the Board of Directors on 24 January 2019

**Refinancing Arrangements**

On 5 June 2018, the Company has refinanced 2013 "Murabaha financing agreement" and extended the maturity date for additional five years until 29 June 2023 with a three years' grace period. The new facility principal stands at SAR 5.9 billion with the SAR portion totaling SAR 4.38 billion and the USD portion totaling USD 0.42 billion (SAR 1.575 billion). Moreover, the agreement includes a working capital facility totaling SAR 647.3 million with the SAR portion totaling SAR 476 million and the USD portion totaling USD 45.6 million (SAR 171 million) for two years.

During the third quarter of 2018, the Company made an early voluntary payment for (SAR portion: SAR 428.3 million, and the USD portion: USD 45.8 million) totaling SAR 600 million.

During the fourth quarter of 2018, the Company made a second early voluntary payment for (SAR portion: SAR 374.81 million, and the USD portion: USD 40.05 million) totaling SAR 525 million.  
(Also refer to Note 13-1).

On 18 March 2018, the Company has extended the final maturity date; of its long-term commercial loan facility agreement amounting to SR 2.25 Billion; to 8 August 2019.  
(Also refer to Note 13.3).

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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**2 BASIS OF PREPARATION**

*Statement of compliance*

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants (SOCPA). IFRS 15 and IFRS 9 have been applied. Changes to significant accounting policies are described (Note 5).

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 financial statements.

*Basis of measurement*

These 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 and financial liabilities at fair value 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 which were used for the year ended 31 December 2017, unless mentioned otherwise.



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**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
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**2 BASIS OF PREPARATION (continued)**

*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 IFRS that has 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.

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

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**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%
Leasehold Improvement	20%
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%

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.

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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**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 group 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**  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
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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. Remeasurements, 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. Remeasurements 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 “Distribution and marketing expenses” and “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, sick leave and air tickets 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 advance amount received is recorded as deferred grant and adjusted against recorded capital expenditure on assets. An excess realized is recorded under other income.

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

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
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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 zakat 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.

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**NOTES TO THE FINANCIAL STATEMENTS** (continued)  
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**4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

*Critical accounting judgments in applying accounting policies*

The preparation of 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.

*Key sources of estimation uncertainty*

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

*Impairment of accounts receivable*

An estimate of the collectible amount of accounts receivable is made based on the expected credit loss model at an amount equal to the life time 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.

At the reporting date, gross trade receivables were SR 1,865 million with SR 765 million being provided for. Any difference between the amounts actually collected in future periods and the amounts expected will be recognized in profit or loss.

*Useful lives and residual values of property and equipment and intangible assets*

An estimate of the useful lives and residual values of property and equipment and intangible assets, which comprise a significant portion of the Company's total assets, is made for the purposes of calculating depreciation and amortization respectively. These estimates are made based on expected usage for useful lives. Residual value is determined based on experience and observable data where available.

*Provision for employees' end of service benefits*

The Company makes various estimates in determining the provision for employees' end of service benefits provision. These estimates are disclosed in note 15.

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**NOTES TO THE FINANCIAL STATEMENTS** (continued)  
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**5 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES**

Except as described below, the accounting policies applied in these financial statements are the same as those applied in the financial statements as at 31 December 2017.

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

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

	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)	8,130
Adjustment due to adoption of International Financial Reporting Standards (IFRS 15)	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>

***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 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.

**5-1 Impact of adopting IFRS 15 at 1 January 2018**

***Retained earnings***

	<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 1 January 2018</b>	<b>122,305</b>

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**5 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES**

**5-2 Impact of adoption of IFRS 9 and 15 on the statement of financial position.**

The following table summarizes the impact on statement of financial position as at 31 December 2018:

	As reported	IFRS 15	IFRS 9	Amounts without adoption of IFRS 15 and IFRS 9
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property and equipment	6,122,614	-	-	6,122,614
Intangible assets	16,240,679	-	-	16,240,679
Contract assets non-current	15,442	(15,442)	-	-
<b>Total non-current assets</b>	<b>22,378,735</b>	<b>(15,442)</b>	<b>-</b>	<b>22,363,293</b>
<b>Current assets</b>				
Inventories	223,005	-	-	223,005
Trade and other receivables	2,015,642	(93,200)	(12,917)	1,909,525
Contract assets current	289,197	(289,197)	-	-
Cash and cash equivalents	1,416,731	-	-	1,416,731
<b>Total current assets</b>	<b>3,944,575</b>	<b>(382,397)</b>	<b>(12,917)</b>	<b>3,549,261</b>
<b>TOTAL ASSETS</b>	<b>26,323,310</b>	<b>(397,839)</b>	<b>(12,917)</b>	<b>25,912,554</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and reserves</b>				
Share capital	5,837,292	-	-	5,837,292
Hedging reserve	(21,586)	-	-	(21,586)
Other reserves	(3,302)	-	-	(3,302)
Accumulated deficit	(1,800,156)	(397,839)	(12,917)	(2,210,912)
<b>Total capital and reserves</b>	<b>4,012,248</b>	<b>(397,839)</b>	<b>(12,917)</b>	<b>3,601,492</b>
<b>Non-current liabilities</b>				
Long-term borrowings	7,668,127	-	-	7,668,127
Amounts due to related parties	6,584,703	-	-	6,584,703
Other non-current liabilities	591,615	-	-	591,615
Derivative financial instruments	21,586	-	-	21,586
Provision for employees' end of service benefits	93,425	-	-	93,425
<b>Total non-current liabilities</b>	<b>14,959,456</b>	<b>-</b>	<b>-</b>	<b>14,959,456</b>
<b>Current liabilities</b>				
Trade and other payables	4,104,497	-	-	4,104,497
Current portion of long-term borrowings	2,526,633	-	-	2,526,633
Deferred revenue	720,476	-	-	720,476
<b>Total current liabilities</b>	<b>7,351,606</b>	<b>-</b>	<b>-</b>	<b>7,351,606</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>26,323,310</b>	<b>(397,839)</b>	<b>(12,917)</b>	<b>25,912,554</b>

The accompany notes (1) to (36) form an integral part of these financial statements



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**NOTES TO THE FINANCIAL STATEMENTS** (continued)  
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**5 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES** (continued)

**5-3 Impact of adoption of IFRS 9 and 15 on the statement of profit or loss**

The following table summarizes the impact on the statement of profit or loss for the year ended 31 December 2018:

	<b>For the Year ended 31 December 2018</b>			
	<b>As reported</b>	<b>IFRS 15</b>	<b>IFRS 9</b>	<b>Amounts without adoption of IFRS 15 and IFRS 9</b>
Revenue	7,530,527	(275,534)	-	7,254,993
Cost of revenue and sales	(2,105,968)	-	-	(2,105,968)
<b>Gross profit</b>	<b>5,424,559</b>	<b>(275,534)</b>	<b>-</b>	<b>5,149,025</b>
Distribution and marketing expenses	(2,207,454)	-	(4,787)	(2,212,241)
General and administrative expenses	(207,851)	-	-	(207,851)
Depreciation and amortization	(1,790,028)	-	-	(1,790,028)
<b>Operating profit</b>	<b>1,219,226</b>	<b>(275,534)</b>	<b>(4,787)</b>	<b>938,905</b>
Finance charges	(930,732)	-	-	(930,732)
Other income	17,042	-	-	17,042
Finance income	26,826	-	-	26,826
<b>Net profit / (loss) before Zakat</b>	<b>332,362</b>	<b>(275,534)</b>	<b>(4,787)</b>	<b>52,041</b>
Zakat	-	-	-	-
<b>Net profit / (loss) for the period</b>	<b>332,362</b>	<b>(275,534)</b>	<b>(4,787)</b>	<b>52,041</b>

The accompany notes (1) to (36) form an integral part of these financial statements

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**5 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.

<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	<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>

The accompany notes (1) to (36) form an integral part of these financial statements

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
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**5 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>

The accompany notes (1) to (36) form an integral part of these financial statements

**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA**  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
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**5 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>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 1 January 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.

***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 financial liabilities and derivatives that are used as hedging instruments, see below).

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

***Initial recognition of financial assets***

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.

The accompany notes (1) to (36) form an integral part of these financial statements

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
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**5 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)**

*IFRS 9 Financial Instruments (continued)*

*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 statement of 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 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 statement of 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 statement of 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.

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

*IFRS 9 Financial Instruments (continued)*

*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.

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

*IFRS 9 Financial Instruments (continued)*

*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

*De-recognition of financial assets and liabilities*

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

*Classification and measurement of financial liabilities*

As the accounting for the financial liabilities remains largely the same under IFRS 9 compared to IAS 39, the Company financial liabilities were not impacted by the adoption of IFRS 9; however, for completeness the accounting policy is disclosed below:

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Company designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortized cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognized in statement profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

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

*IFRS 9 Financial Instruments (continued)*

*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.

*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 based on 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.



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**6 PROPERTY AND EQUIPMENT**

	<b>January 1, 2018 SR'000</b>	<b>Additions SR'000</b>	<b>Disposals/ Transfers SR'000</b>	<b>December 31, 2018 SR'000</b>
<b>Cost</b>				
Leasehold improvements	363,091	2,410	95	365,596
Telecommunications equipment	11,749,258	650,399	143,590	12,543,247
IT systems and servers	598,139	36,365	8,223	642,727
Furniture, fixtures and office equipment	176,039	6,394	-	182,433
Vehicles and other transportation equipment	3,851	-	-	3,851
Capital work in progress	406,201	47,235	(181,013)	272,423
	<b>13,296,579</b>	<b>742,803</b>	<b>(29,105)</b>	<b>14,010,277</b>
<b>Accumulated depreciation</b>				
Leasehold improvements	298,659	22,812	-	321,471
Telecommunications equipment	5,822,272	1,037,413	(405)	6,859,280
IT systems and servers	513,352	41,866	(54)	555,164
Furniture, fixtures and office equipment	128,482	19,472	-	147,954
Vehicles and other transportation equipment	3,778	16	-	3,794
	<b>6,766,543</b>	<b>1,121,579</b>	<b>(459)</b>	<b>7,887,663</b>
<b>Carrying Amount</b>	<b>6,530,036</b>			<b>6,122,614</b>

During the year ended 31 December 2018, the Company Capex investment is SAR 1,924 million (31 December 2017: SAR 642 million). During the year, the Company disposed assets with a net book value of SAR 286 thousand (31 December 2017: SAR 730 thousand) resulting in a gain / (Loss) on sale of property, plant and equipment amounting to SAR 165 thousand (31 December 2017: SAR 450 thousand). During the year ended 31 December 2018, the depreciation and amortization expense amounted to SAR 1,790 million (31 December 2017: SAR 1,614 million).

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**6 PROPERTY AND EQUIPMENT (continued)**

	<b>January 1, 2017 SR'000</b>	<b>Additions SR'000</b>	<b>Disposals/ Transfers SR'000</b>	<b>December 31, 2017 SR'000</b>
<b>Cost</b>				
Leasehold improvements	345,547	8,626	8,918	363,091
Telecommunications equipment	10,885,539	699,709	164,010	11,749,258
IT systems and servers	562,095	24,768	11,276	598,139
Furniture, fixtures and office equipment	160,998	15,041	-	176,039
Vehicles and other transportation equipment	3,778	73	-	3,851
Capital work in progress	830,033	(209,985)	(213,847)	406,201
	<u>12,787,990</u>	<u>538,232</u>	<u>(29,643)</u>	<u>13,296,579</u>
<b>Accumulated depreciation</b>				
Leasehold improvements	273,648	25,011	-	298,659
Telecommunications equipment	4,928,444	921,531	(27,703)	5,822,272
IT systems and servers	467,227	46,149	(24)	513,352
Furniture, fixtures and office equipment	108,906	19,576	-	128,482
Vehicles and other transportation equipment	3,770	8	-	3,778
	<u>5,781,995</u>	<u>1,012,275</u>	<u>(27,727)</u>	<u>6,766,543</u>
<b>Carrying Amount</b>	<u>7,005,995</u>			<u>6,530,036</u>

**7 INTANGIBLE ASSETS**

	<b>January 1, 2018 SR'000</b>	<b>Additions SR'000</b>	<b>Disposals/ Transfers SR'000</b>	<b>December 31, 2018 SR'000</b>
<b>Cost</b>				
License fee*	<b>23,364,230</b>	-	-	<b>23,364,230</b>
Computer software licenses	<b>362,393</b>	47,277	18,786	<b>428,456</b>
Right of Use**	<b>689,852</b>	428,191	9,574	<b>1,127,617</b>
Brand	<b>7,500</b>	-	-	<b>7,500</b>
Spectrum***	-	705,716	-	<b>705,716</b>
	<u>24,423,975</u>	<u>1,181,184</u>	<u>28,360</u>	<u>25,633,519</u>
<b>Accumulated amortization</b>				
License fee	<b>8,341,849</b>	517,134	-	<b>8,858,983</b>
Computer software licenses	<b>269,802</b>	39,989	-	<b>309,791</b>
Right of Use	<b>112,740</b>	64,279	-	<b>177,019</b>
Spectrum	-	47,047	-	<b>47,047</b>
	<u>8,724,391</u>	<u>668,449</u>	<u>-</u>	<u>9,392,840</u>
<b>Carrying Amount</b>	<u>15,699,584</u>			<u>16,240,679</u>

The accompany notes (1) to (36) form an integral part of these financial statements

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**7 INTANGIBLE ASSETS** (continued)

	<b>January 1, 2017 SR'000</b>	<b>Additions SR'000</b>	<b>Disposals/T ransfers SR'000</b>	<b>December 31, 2017 SR'000</b>
<b>Cost</b>				
License fee*	23,364,230	-	-	23,364,230
Computer software licenses	303,177	58,031	1,185	362,393
Rights of use**	690,066	(214)	-	689,852
Brand	7,500	-	-	7,500
	<u>24,364,973</u>	<u>57,817</u>	<u>1,185</u>	<u>24,423,975</u>
<b>Accumulated amortization</b>				
License fee	7,824,729	517,120	-	8,341,849
Computer software licenses	229,978	39,824	-	269,802
Rights of use	68,015	44,725	-	112,740
	<u>8,122,722</u>	<u>601,669</u>	<u>-</u>	<u>8,724,391</u>
<b>Carrying Amount</b>	<u>16,242,251</u>			<u>15,699,584</u>

***License fee***

Pursuant to the Ministerial Resolutions No. 176 dated 25 Jumada I, 1428H (corresponding to June 11, 2007) and No. 357 dated 28 Dhu Al-Hijjah, 1428H (corresponding to January 7, 2008) and Royal Decree No. 48/M dated 26 Jumada I, 1428H (corresponding to June 12, 2007), the 3rd license to provide mobile telecommunication services within the Kingdom of Saudi Arabia over 25 years was granted to the Company for an amount of SR 22.91 billion. The license fee also comprises an amount equal to SR 449.18 million relating to financing costs which were capitalized as part of the license cost in accordance with accounting standards applicable in the Kingdom of Saudi Arabia at that time.

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), directed the Communications and Information Technology Commission (CITC) to coordinate with Mobile Telecommunication Company Saudi Arabia (Zain) to extend its license for an additional 15 years' period. This extended the remaining period to 32 years ending on 21/Rabi Al Awwal 1469 H (corresponding to 18 January 2047).

***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.

***Spectrum***

Spectrum is recognized at discount using the interest effective method and amortized on a straight-line basis. The liability amount related to the Spectrum capitalized under intangible assets is recorded under Other non-current liabilities.

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**8 INVENTORIES**

	2018 SR'000	2017 SR'000
Handsets and accessories	234,109	122,379
Sim cards	3,461	3,653
Prepaid recharge cards	2,892	1,239
Other inventories	1,704	1,369
	<b>242,166</b>	128,640
Less: Allowance for slow moving items	(19,161)	(24,681)
	<b>223,005</b>	103,959
Cost of inventories recognized as an expense	<b>757,280</b>	286,383

**9 TRADE AND OTHER RECEIVABLES**

	2018 SR'000	2017 SR'000
Trade receivables	1,864,749	1,954,047
Less: allowance for doubtful debts	(764,822)	(625,773)
Net trade receivables	1,099,927	1,328,274
Advances to suppliers	470,770	818,536
Prepayments	290,778	235,407
Advances for transmission lines and fiber links	55,957	59,152
Other receivables	98,210	49,371
	<b>2,015,642</b>	2,490,740

**Trade receivables**

The average credit period on sales of goods and services is 30 days. No interest is charged on trade receivables. The Company recognizes an allowance for doubtful debts based on ECL model considering the ageing of its overdue debtors which increases as the debtors become more overdue as historical experience indicates that the likelihood of amounts being recoverable decreases the more the amount is overdue.

The Company performs credit-vetting procedures before granting credit to new customers. These procedures are reviewed and updated on an ongoing basis. There have been no changes to these procedures from the previous year.

Two of the Company's debtors comprise 14% of the total trade receivables balance. There are no other customers who comprise more than 10% of the total trade receivables balance.

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**9 TRADE AND OTHER RECEIVABLES (continued)**

Trade receivables totaling SR 454 million (2017: SR 94 million) existed at the reporting date which were past due which had not been provided for, as per the policy, the amounts are still considered to be recoverable and there has not been a significant decrease in credit quality since credit was initially granted.

**Age of overdue trade receivables not provided for**

	<b>2018</b>	2017
	<b>SR'000</b>	SR'000
60 to 90 days	<b>316,704</b>	16,691
120 to 180 days	<b>66,482</b>	37,667
180 to 360 days	<b>70,648</b>	39,622
	<b>453,834</b>	93,980

There were no amounts at the reporting date that were neither past due nor impaired for which the credit quality had reduced since the initial granting of credit.

**Movement in the allowance for doubtful debts**

	<b>2018</b>	2017
	<b>SR'000</b>	SR'000
Opening balance	<b>625,773</b>	565,863
Charged for the year	<b>154,180</b>	63,504
Amounts reversed during the year	<b>(15,131)</b>	(3,594)
Closing balance	<b>764,822</b>	625,773

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated. The Company does not hold any collateral over the impaired trade receivables.

**Age of impaired trade receivables**

	<b>2018</b>	2017
	<b>SR'000</b>	SR'000
60 to 90 days	<b>4,086</b>	1,855
120 to 180 days	<b>9,493</b>	9,417
180 to 360 days	<b>21,995</b>	21,335
Over 360 days	<b>729,248</b>	593,166
Total impaired trade receivables	<b>764,822</b>	625,773

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**10 CASH AND CASH EQUIVALENTS**

	<b>2018</b>	2017
	<b>SR'000</b>	SR'000
Cash on hand	<b>711</b>	191
Cash at banks	<b>516,020</b>	455,618
Time deposits	<b>900,000</b>	660,000
	<b>1,416,731</b>	1,115,809

The Company invests part of the surplus cash in time deposits with maturity period of three month or less with local commercial banks. The annual commission average rates on these deposits during 2018 were 2.26 % (2017: 0.93 %). The total commission earned by the Company during 2018 was SR 26.8 million (2017: SR 16.6 million).

**11 SHARE CAPITAL**

The share capital of the Company as at 31 December 2018 comprised 583,729,175 shares (31 December 2017: 583,729,175) stated at SR 10 per share owned.

**12 DERIVATIVE FINANCIAL INSTRUMENTS**

The Company entered into profit rate swaps which mature in 2023. The notional amount of the contract as at 31 December 2018 was SR 2,980 million and the fair value was a negative amount of SR 21.6 million as at this date. The average contracted fixed interest rate ranges from 1.55% to 3%. A loss of SR 19 million was recognized in other comprehensive income as a result of fair value movements relating to this hedge. The fair value of interest rate swaps at the end of the reporting period is determined by discounting the future cash flows using the curves at the end of the reporting period and the credit risk inherent in the contract.

**13 LONG-TERM BORROWINGS**

	<b>2018</b>	2017
	<b>SR'000</b>	SR'000
Syndicate Murabaha facility (refer to note 13.1)	<b>4,837,087</b>	5,965,541
Export credit facility (refer to note 13.2)	-	35,935
Industrial and Commercial Bank of China loan (refer to note 13.3)	<b>2,269,160</b>	2,264,223
Ministry of Finance (refer to note 13.4)	<b>3,179,998</b>	2,609,888
Less: debt arrangement costs	<b>(91,485)</b>	(24,714)
	<b>10,194,760</b>	10,850,873
Less: current portion included in current liabilities	<b>(2,526,633)</b>	(6,169,722)
	<b>7,668,127</b>	4,681,151

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**13 LONG-TERM BORROWINGS** (continued)

**13-1 Syndicated Murabaha facility**

On 31 July 2013, the Company had refinanced 2009 “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. This facility principal stood at SAR 8.6 billion with the SAR portion totaling SAR 6.3 billion and the USD portion totaling USD 0.6 billion (SAR 2.3 billion). This 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 settled SAR 2.7 billion from this facility bringing the outstanding principal to SAR 5.9 billion at the maturity date.

On 5 June 2018, the Company has refinanced 2013 “Murabaha financing agreement” and extended the maturity date for additional five years until 29 June 2023 with a three years’ grace period. The new facility principal stands, at the financing day, at SAR 5.9 billion with the SAR portion totaling SAR 4.38 billion and the USD portion totaling USD 0.42 billion (SAR 1.575 billion). Moreover, the agreement includes a working capital facility totaling SAR 647.3 million with the SAR portion totaling SAR 476 million and the USD portion totaling USD 45.6 million (SAR 171 million) for two years. The working capital facility has not been utilized yet.

Financing charges, as specified under the “Murabaha financing agreement” are payable in quarterly installments 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 and assignment of certain contracts and receivables.

The Company is complying with the existing loan covenants.

During the third quarter of 2018, the Company made an early voluntary payment for (SAR portion: SAR 428.3 million, and the USD portion: USD 45.8 million) totaling SAR 600 million.

During the fourth quarter of 2018, the Company made a second early voluntary payment for (SAR portion: SAR 374.81 million, and the USD portion: USD 40.05 million) totaling SAR 525 million. (Also refer to Note 1)

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**13 LONG-TERM BORROWINGS** (continued)

**13-2 Export credit facility**

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 January 2018, all the facility was repaid in full, (31 December 2017: 18 instalments were repaid in full).

**13-3 Industrial and Commercial Bank of China loan**

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.

**13-4 Ministry of Finance**

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 December 2018 amounted to SAR 2,898 million (31 December 2017: SAR 2,431 million).

During the third quarter of 2018, the Company repaid SAR 134 million (1% License Fees from CITC deferred payments under Ministry of Finance loan) representing the outstanding amount till December 2017.

During the fourth quarter, the Company repaid 1% License fees till September 2018.



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**14 AMOUNTS DUE TO RELATED PARTIES**

	<b>2018</b>	2017
	<b>SR'000</b>	SR'000
Mobile Telecommunications Company K.S.C (refer to note 14.1)	<b>1,140,618</b>	937,293
Mobile Telecommunications Company K.S.C (refer to note 14.3)	<b>5,277,458</b>	4,836,833
Founding shareholders (refer to note 14.2)	<b>134,888</b>	134,888
Infra Capital Investments (refer to note 14.3)	<b>31,661</b>	31,098
Other related parties	<b>78</b>	3,013
	<b>6,584,703</b>	5,943,125

**14-1 Mobile Telecommunications Company K.S.C**

This amount relates to accrued management fees and is payable to the Company's largest shareholder. The amount is unsecured, interest free and does not have any fixed terms of repayment but is not repayable until certain conditions are met in the Syndicated Murabaha facility referred to in note 13.1.

**14-2 Founding shareholders**

This amount relates to accrued finance charges and is payable to the Company's founding shareholders. The amount is unsecured, bears interest at market rates and does not have any fixed terms of repayment but is not repayable until certain conditions are met in the Syndicated Murabaha facility referred to in note 13.1.

**14-3 Mobile Telecommunications Company K.S.C and Infra Capital Investments**

These amounts are payable to shareholders and bears interest at market rates. The amounts are unsecured and cannot be repaid until certain conditions are met in the Syndicated Murabaha facility referred to in note 13.1. These amounts include accrued financial charges of SR 1,838 million (2017: SR 1,536 million).

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

	<b>2018</b>	2017
	<b>SR'000</b>	SR'000
Opening balance (restated)	<b>94,167</b>	75,323
Current service cost	<b>18,167</b>	17,687
Interest cost	<b>3,952</b>	3,766
Payments	<b>(17,998)</b>	(10,927)
Actuarial (gain) / loss	<b>(4,863)</b>	8,318
Closing balance	<b>93,425</b>	94,167

The most recent actuarial valuation was performed by Lux Actuaries & Consultants and was performed using the projected unit credit method.

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

	<b>2018</b>	2017
Attrition rates	<b>10% to 13%</b>	10% to 13%
Salary increases	<b>4%</b>	4%
Discount rate	<b>4.90%</b>	4.75%

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

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**15 PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS (continued)**

	<b>2018</b>	2017
	<b>SR'000</b>	SR'000
Base Scenario	<b>93,425</b>	94,167
Discount Rate: Increase by 1%	<b>84,184</b>	84,693
Discount Rate: Decrease by 1%	<b>104,328</b>	105,340
Salary Escalation Rate: Increase by 1%	<b>104,317</b>	105,315
Salary Escalation Rate: Decrease by 1%	<b>84,027</b>	84,541

**16 TRADE AND OTHER PAYABLES**

	<b>2018</b>	2017
	<b>SR'000</b>	SR'000
Accrued government charges	<b>1,477,380</b>	1,714,500
Trade payables	<b>1,117,312</b>	715,504
Trade and other accruals	<b>574,353</b>	1,325,601
Promissory notes payable	<b>397,225</b>	368,198
Employee related accruals	<b>81,006</b>	63,286
Other payables and accruals	<b>457,221</b>	638,891
	<b>4,104,497</b>	4,825,980

Trade payables includes amount due to related parties amounting to SR 32.3 million (2017: SR 125.3 million) for providing telecommunication services to related parties.

No interest is charged on trade payables. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

**17 RETIREMENT BENEFIT CONTRIBUTIONS**

The Company paid retirement contributions for its Saudi Arabian employees for year 2018 to the General Organization for Social Insurance SR 18 million (2017: SR 15 million)

**18 REVENUE**

The following is an analysis of the Company's revenue:

	<b>2018</b>	2017
	<b>SR'000</b>	SR'000
Usage charges	<b>4,437,112</b>	4,471,412
Subscription	<b>2,336,533</b>	2,672,942
Other revenue	<b>756,882</b>	161,468
	<b>7,530,527</b>	7,305,822

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**19 COST OF REVENUE AND SALES**

	<b>2018</b>	2017
	<b>SR'000</b>	SR'000
Access charges	<b>739,762</b>	934,526
Government charges	<b>331,799</b>	962,369
Other	<b>1,034,407</b>	612,761
	<b>2,105,968</b>	2,509,656

Government charges are related to annual license and commercial provisioning fee under the guidelines issued by the Communications and Information Technology Commission (CITC). (Also refer to Note 1)

**20 DISTRIBUTION AND MARKETING EXPENSES**

	<b>2018</b>	2017
	<b>SR'000</b>	SR'000
Employees' salaries and related charges	<b>565,234</b>	551,685
Rent expenses	<b>455,481</b>	484,326
Repairs and maintenance	<b>422,680</b>	457,037
Management and Branding fees (Note 14)	<b>203,324</b>	52,722
Bad debts expense (Note 9 )	<b>154,180</b>	63,504
Microwave Frequency	<b>88,421</b>	100,790
Advertising	<b>73,044</b>	110,530
Leased lines	<b>67,846</b>	94,049
Utilities	<b>60,923</b>	55,883
Consulting	<b>23,962</b>	17,432
Other	<b>92,359</b>	80,235
	<b>2,207,454</b>	2,068,193

**21 GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>2018</b>	2017
	<b>SR'000</b>	SR'000
Employees' salaries and related charges	<b>102,344</b>	88,136
System support and maintenance	<b>86,895</b>	87,441
Legal, consulting and professional charges	<b>6,052</b>	21,921
Other	<b>12,560</b>	13,289
	<b>207,851</b>	210,787

The accompany notes (1) to (36) form an integral part of these financial statements

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**22 FINANCE CHARGES**

	2018 SR'000	2017 SR'000
Syndicate Murabaha facility	393,850	460,090
Related parties	304,174	281,026
ICBC facility	106,310	83,864
Ministry of Finance	102,767	80,654
Unwinding discount of Spectrum	23,501	-
Export credit facility	130	4,459
	<b>930,732</b>	<b>910,093</b>

**23 OTHER INCOME**

	2018 SR'000	2017 SR'000
Foreign exchange gains / (loss)	3,536	(7,497)
Income from government grant	18,142	-
Gain on disposal of property, plant and equipment	2,211	450
Tax (non) / refundable	(6,847)	8,832
	<b>17,042</b>	<b>1,785</b>

**24 FINANCE INCOME**

	2018 SR'000	2017 SR'000
Income on time deposits	26,826	16,605

**25 COMPONENTS OF ZAKAT BASE**

The significant components of the Company's approximate zakat base, for the year ended December 31, 2018, which are subject to certain adjustments under zakat and income tax regulations, principally comprise the following:

	2018 SR'000	2017 SR'000
Shareholders' equity at beginning of year	3,574,338	3,576,266
Provisions at beginning of year	1,088,621	937,419
Long-term borrowings and shareholders' advances	15,565,448	14,818,895
Other non – current liabilities	167,381	167,381
Adjusted net profit for the year (see below)	495,086	133,798
Property and equipment	(6,122,614)	(6,530,036)
Intangible assets	(16,240,679)	(15,122,472)
Other non-current assets	-	(531,122)
Approximate negative Zakat base of the Company	<b>(1,472,419)</b>	<b>(2,549,871)</b>

Zakat is payable at 2.5% of the higher of the approximate Zakat base or adjusted net income.

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
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**25 COMPONENTS OF ZAKAT BASE (continued)**

**Components of adjusted net profit**

	<b>2018</b>	2017
	<b>SR'000</b>	SR'000
Net profit for the year	<b>332,362</b>	11,539
Provision for employees' end of service benefits	-	59,910
Allowance for doubtful debts and slow moving inventory	<b>139,050</b>	20,053
Other provisions	<b>23,674</b>	42,296
Adjusted net profit for the year	<b>495,086</b>	133,798

**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 620 million of which SR 352 million are related to Zakat differences and SR 267 million 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.

**26 EARNINGS PER SHARE**

Basic and diluted Earnings per share is based on the profit for the year of SR 332.36 million (2017: SR 11.5 million) divided by the weighted average number of shares in issue of 583,729,175 (2017: 583,729,175).

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

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**27 FINANCIAL INSTRUMENTS**

**Capital management**

The Company manages its capital to ensure it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Company's overall strategy remains unchanged from the previous year.

The capital structure of the Company consists of debt and equity comprising share capital, the hedging reserve, the accumulated deficit, long-term borrowings and amounts due to related parties.

**Categories of financial instruments**

<i>Financial assets</i>	<b>2018</b>	2017
	<b>SR'000</b>	SR'000
Cash and cash equivalents	<b>1,416,731</b>	1,115,809
Receivables	<b>1,198,137</b>	1,377,645
<i>Financial liabilities</i>		
Amortized cost	<b>21,475,193</b>	21,828,916

The amounts for receivables and cash and bank balances represents the Company's maximum exposure to credit risk at the reporting date.

**Market risk**

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market price due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market. The Company is exposed to foreign currency risk and interest rate risk only. The Company uses derivatives to manage market risk.

**Foreign currency risk management**

The Company undertakes transactions denominated in foreign currencies which float against the Saudi Riyal and consequently, exposures to exchange rate fluctuations arise. These amounts are not hedged as the exposures are not considered to be material to the Company.

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**NOTES TO THE FINANCIAL STATEMENTS** (continued)  
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**27 FINANCIAL INSTRUMENTS** (Continued)

The carrying amounts of the Company's foreign currency denominated monetary liabilities at the end of the reporting period were as follows:

<b>Details</b>	<b>Date</b>	<b>Foreign currency</b>	<b>Foreign currency amount (‘000)</b>	<b>Exchange rate</b>	<b>SR’000</b>
Trade and other payables	<b>2018</b>	<b>Euro</b>	<b>224</b>	<b>4.15</b>	<b>929</b>
Trade and other payables	<b>2017</b>	Euro	343	4.13	1,416

**Foreign currency risk management**

The carrying amounts of the Company's foreign currency denominated monetary assets at the end of the reporting period were as follows:

<b>2018 Details</b>	<b>Foreign currency</b>	<b>Foreign currency amount (‘000)</b>	<b>Exchange rate</b>	<b>SR’000</b>
Cash and cash equivalents	<b>Euro</b>	<b>2,618</b>	<b>4.29</b>	<b>11,219</b>
Cash and cash equivalents	<b>GBP</b>	<b>396</b>	<b>4.76</b>	<b>1,886</b>
				<b>13,105</b>

  

<b>2017 Details</b>	<b>Foreign currency</b>	<b>Foreign currency amount (‘000)</b>	<b>Exchange rate</b>	<b>SR’000</b>
Cash and cash equivalents	Euro	2,172	4.49	9,750
Cash and cash equivalents	GBP	453	5.06	2,289
				12,039

**Foreign currency sensitivity analysis**

The Company is mainly exposed to the currency of Europe (Euro) and the United Kingdom (GBP).

The following table details the sensitivity to a 5% increase and decrease in the Saudi Riyal against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. A positive number below indicates a decrease in profit where the Saudi Riyal strengthens 5% against the relevant currency. For a 5% weakening of the Saudi Riyal against the relevant currency, there would be a comparable impact on profit and the balances below would be negative.

<b>2018 Currency</b>	<b>Impact on profit SR’000</b>
Euro	<b>562</b>
GBP	<b>94</b>

  

<b>2017 Currency</b>	<b>Impact on profit SR’000</b>
Euro	103
GBP	22

The accompany notes (1) to (36) form an integral part of these financial statements

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**NOTES TO THE FINANCIAL STATEMENTS** (continued)  
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**27 FINANCIAL INSTRUMENTS** (Continued)

**Interest and liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. There has been no change to this strategy from the previous year.

The Company is exposed to interest rate risk because entities in the Company borrow funds at floating interest rates. The risk is managed by the Company by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied.

The Company's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

*Interest rate sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to interest rates for all unhedged instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher or lower and all other variables were held constant, the Company's profit for the year ended 31 December 2018 would decrease or increase by SR 52,349,709 (31 December 2017: SR 53,859,275). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings;

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay.

<b>2018</b>	<b>Interest</b>	<b>Within one</b>	<b>One year to</b>	<b>Over five</b>	<b>Total</b>
<b>Details</b>	<b>rate</b>	<b>year</b>	<b>five years</b>	<b>years</b>	<b>Total</b>
	<b>%</b>	<b>SR'000</b>	<b>SR'000</b>	<b>SR'000</b>	<b>SR'000</b>
Trade and other payables	Interest free	<b>4,104,497</b>	-	-	<b>4,104,497</b>
Amounts due to related parties	Interest free	-	<b>1,144,322</b>	-	<b>1,144,322</b>
Amounts due to related parties	Market related	-	<b>3,466,665</b>	-	<b>3,466,665</b>
Long-term borrowings	Market related	<b>2,250,000</b>	<b>4,834,568</b>	<b>2,898,493</b>	<b>9,983,061</b>
<b>Total</b>		<b>6,354,497</b>	<b>9,445,555</b>	<b>2,898,493</b>	<b>18,698,545</b>



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**27 FINANCIAL INSTRUMENTS (Continued)**

**Interest and liquidity risk management (Continued)**

<b>2017</b>	<b>Interest rate</b>	<b>Within one year</b>	<b>One year to five years</b>	<b>Over five years</b>	<b>Total</b>
<b>Details</b>	<b>%</b>	<b>SR'000</b>	<b>SR'000</b>	<b>SR'000</b>	<b>SR'000</b>
Trade and other payables	Interest free	4,825,980	-	-	4,825,980
Amounts due to related parties	Interest free	-	940,265	-	940,265
Amounts due to related parties	Market related	-	3,332,255	-	3,332,255
Long-term borrowings	Market related	5,994,987	2,250,000	2,431,151	10,676,138
<b>Total</b>		<b>10,820,967</b>	<b>6,522,520</b>	<b>2,431,151</b>	<b>19,774,638</b>

**Credit risk management**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. Potential concentrations of credit risk consist principally of trade receivables, amounts due from a related party and short-term cash investments. Details of how credit risk relating to trade receivables is managed is disclosed in note 9. The amounts due from a related party are monitored and provision is made, where necessary, for any irrecoverable amounts. Short-term cash investments are only placed with banks with a high credit rating.

**Liquidity risk**

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Company has accumulated deficit as of that date. These conditions indicate that the Company's ability to meet its obligations as they become due and to continue as a going concern are dependent upon the Company's ability to arrange adequate funds in a timely manner. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are made available to meet any future commitments.

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**27 FINANCIAL INSTRUMENTS** (Continued)

**Fair value of financial instruments**

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.

**28 RELATED PARTY INFORMATION**

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

	<b>2018</b>	2017
	<b>SR'000</b>	SR'000
Revenue from entities owned by a shareholder	<b>7,266</b>	10,187
Purchases from entities owned by a shareholder	<b>14,740</b>	11,934
Fees charged by a shareholder (note 20)	<b>203,324</b>	52,722
Finance charges charged by a shareholder (note 22)	<b>304,174</b>	281,026

The following balances were outstanding at the reporting date:

	<b>2018</b>	2017
	<b>SR'000</b>	SR'000
Amounts due to a shareholder	<b>6,584,625</b>	5,943,083
Amounts due to entity owned by a shareholder	<b>78</b>	42
Amounts due from a shareholder	<b>721</b>	673
Amounts due from entity owned by a shareholder	<b>-</b>	5,837

Other amounts due to related parties are disclosed in note 14.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received by related parties other than those disclosed in note 13. No amounts have been expensed in the current year for doubtful debts in respect of amounts owed by related parties.

	<b>2018</b>	2017
	<b>SR'000</b>	SR'000
Short-term benefits	<b>26,257</b>	16,708
Long-term benefits	<b>626</b>	575

The accompany notes (1) to (36) form an integral part of these financial statements

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
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**29 OPERATING LEASE ARRANGEMENTS**

The company had the following operating lease commitments at the reporting date in respect of sites, technical buildings and offices:

	<b>2018</b>	2017
	<b>SR'000</b>	SR'000
Within one year	<b>528,299</b>	477,815
One year to five years	<b>838,982</b>	492,092
Over five years	<b>455,004</b>	207,997
	<b>1,822,285</b>	1,177,904

The Company incurred the following operating lease expenditure during the year.

	<b>2018</b>	2017
	<b>SR'000</b>	SR'000
Premises	<b>452,208</b>	476,912
Others	<b>1,605</b>	2,668
	<b>453,813</b>	479,580

**30 CAPITAL COMMITMENTS**

The Company had capital commitments totaling SR 1,206 million, including SR 260 million related to Universal Service Fund project, at the reporting date (31 December 2017: SR 2,041 million)

**31 GOVERNMENT GRANTS RECEIVED**

The Company received total government grant income during 2018: SR 713 million (2017: SAR 67 million). An amount of SR 659 million was set off against property and equipment and SR 18 million was included in the net profit of this year (2017: SR 2 million).

**32 CONTINGENT LIABILITIES**

The Company had contingent liabilities in the form of letters of guarantee and letters of credit amounting to SR 260 million as at 31 December 2018 (31 December 2017: SR 123 million).

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.

**33 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.

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
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**34 SUBSIDIARIES**

During the fourth quarter of 2018, the Company established two fully owned limited liability Companies with a share capital of SR 10,000 each. These two companies have not started commercial activities yet.

- a. Zain Business Company will be responsible for the establishment, construction, repair and maintenance of telecom stations and towers.
- b. Zain Sales Company will be responsible for distributing, selling telecom equipment and handsets; and providing consulting services.

**35 COMPARATIVE FIGURES**

Previous year figures have been rearranged and/or reclassified, wherever necessary, for the purpose of comparison in the financial statements. For better presentation, reclassification made in the financial statements were as follows:

<b><u>Reclassification From</u></b>	<b><u>Reclassification To</u></b>	<b><u>Amount SR'000</u></b>
Distribution and marketing expenses	Cost of revenue and sales	<b>116,955</b>
Cost of revenue and sales	General and administrative expenses	<b>102</b>
Other assets	Intangible assets	<b>531,122</b>
Trade and other receivables	Intangible assets	<b>45,990</b>
Trade and other payables	Deferred revenue	<b>39,557</b>

**36 SUBSEQUENT EVENT**

On 16 Jumada I 1440 H (corresponding to 22 January 2019) the Company acquired 2600 MHz spectrum for a period of 15 years starting from 1 January 2020, to be paid in an equal installment during 15 years starting from 1 January 2020.