



Saudi Telecom Company
(A Saudi Joint Stock Company)

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE THREE AND SIX-MONTH PERIODS ENDED
30 JUNE 2019
(Unaudited)**

**Second Quarter
2019**

**Saudi Telecom Company
(A Saudi Joint Stock Company)**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX-MONTH PERIODS ENDED 30 JUNE 2019**

INDEX

| | <u>Pages</u> |
|--|--------------|
| Independent auditor's review report | 2 |
| Interim condensed consolidated statement of financial position | 3 |
| Interim condensed consolidated statement of profit or loss | 4 |
| Interim condensed consolidated statement of comprehensive income | 5 |
| Interim condensed consolidated statement of cash flows | 6 |
| Interim condensed consolidated statement of changes in equity | 7 |
| Notes to the interim condensed consolidated financial statements | 8-18 |

**Independent auditor's review report on the interim condensed consolidated financial statements to the shareholders of Saudi Telecom Company
(A Saudi Joint Stock Company)**

Introduction:

We have reviewed the accompanying interim condensed consolidated statement of financial position of Saudi Telecom Company - a Saudi Joint Stock Company ("the Company") and its subsidiaries (collectively referred to as "the Group") as at 30 June 2019, and the related interim condensed consolidated statements of profit or loss and comprehensive income, for the three and six months periods ended 30 June 2019, and the related interim condensed statements of cash flows and changes in equity for the six months period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

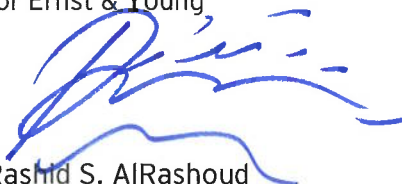
Scope of Review:

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

Conclusion:

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

for Ernst & Young



Rashid S. AlRashoud
Certified Public Accountant
License No. (366)



Riyadh: 22 Dhul-Qadah 1440H
(25 July 2019)

Saudi Telecom Company
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
AS AT 30 JUNE 2019

(All amounts in Saudi Riyals thousands unless otherwise stated)

| | <i>Notes</i> | <u>30 June 2019</u> | <u>31 December 2018</u> |
|--|--------------|---------------------|-------------------------|
| ASSETS | | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 6 | 41,571,989 | 41,920,409 |
| Intangible assets and goodwill | 7 | 8,787,855 | 9,560,119 |
| Right of use assets | 8 | 2,382,869 | - |
| Investments in associates and joint ventures | 13 | 6,438,900 | 6,581,733 |
| Contract assets | | 664,359 | 504,042 |
| Contract costs | | 977,394 | 1,030,129 |
| Other non-current assets | 9 | 7,643,489 | 3,744,637 |
| TOTAL NON-CURRENT ASSETS | | <u>68,466,855</u> | <u>63,341,069</u> |
| CURRENT ASSETS | | | |
| Inventories | | 1,130,887 | 787,456 |
| Trade and other receivables | 12 | 17,377,645 | 14,422,178 |
| Short term murabahas | | 464,411 | 9,685,491 |
| Contract assets | | 6,370,079 | 5,539,412 |
| Other current assets | 10 | 4,520,109 | 7,441,123 |
| Cash and cash equivalents | | 10,708,329 | 8,153,865 |
| | | <u>40,571,460</u> | <u>46,029,525</u> |
| Assets held for sale | 14 | 267,728 | - |
| TOTAL CURRENT ASSETS | | <u>40,839,188</u> | <u>46,029,525</u> |
| TOTAL ASSETS | | <u>109,306,043</u> | <u>109,370,594</u> |
| EQUITY AND LIABILITIES | | | |
| EQUITY | | | |
| Issued capital | | 20,000,000 | 20,000,000 |
| Statutory reserve | | 10,000,000 | 10,000,000 |
| Other reserves | | (2,913,335) | (1,903,878) |
| Retained earnings | | 35,441,292 | 37,417,562 |
| Equity attributable to the equity holders of the Parent Company | | <u>62,527,957</u> | <u>65,513,684</u> |
| Non-controlling interests | | 1,150,097 | 1,147,914 |
| TOTAL EQUITY | | <u>63,678,054</u> | <u>66,661,598</u> |
| LIABILITIES | | | |
| NON-CURRENT LIABILITIES | | | |
| Long term borrowings | 15 | 8,867,580 | 3,965,479 |
| Provision for end of service benefits | 16 | 4,600,424 | 3,919,362 |
| Lease liabilities | 17 | 1,478,401 | - |
| Provisions | | 1,037,372 | 891,910 |
| Contract liabilities | | 771,915 | 771,915 |
| Other non-current liabilities | 18 | 3,953,266 | 3,703,275 |
| TOTAL NON-CURRENT LIABILITIES | | <u>20,708,958</u> | <u>13,251,941</u> |
| CURRENT LIABILITIES | | | |
| Trade and other payables | | 12,645,437 | 14,092,907 |
| Provisions | | 6,025,583 | 6,829,451 |
| Contract liabilities | | 2,242,478 | 2,538,940 |
| Zakat and income tax | 20 | 1,197,235 | 1,465,775 |
| Lease liabilities | 17 | 793,383 | - |
| Short term borrowings | 15 | 442,098 | 320,533 |
| Other current liabilities | 19 | 1,572,817 | 4,209,449 |
| TOTAL CURRENT LIABILITIES | | <u>24,919,031</u> | <u>29,457,055</u> |
| TOTAL LIABILITIES | | <u>45,627,989</u> | <u>42,708,996</u> |
| TOTAL EQUITY AND LIABILITIES | | <u>109,306,043</u> | <u>109,370,594</u> |

Saudi Telecom Company
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)
FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED 30 JUNE 2019
(All amounts in Saudi Riyals thousands unless otherwise stated)

| | Notes | <i>For the three month period ended</i> | | <i>For the six month period ended</i> | |
|---|-------|---|-------------|---------------------------------------|--------------|
| | | <i>30 June</i> | | <i>30 June</i> | |
| | | <i>2019</i> | <i>2018</i> | <i>2019</i> | <i>2018</i> |
| Revenues | 5 | 13,603,564 | 13,079,389 | 26,989,317 | 25,428,469 |
| Cost of revenues | | (5,396,271) | (5,912,209) | (10,878,548) | (11,326,438) |
| GROSS PROFIT | | 8,207,293 | 7,167,180 | 16,110,769 | 14,102,031 |
| OPERATING EXPENSES | | | | | |
| Selling and marketing | | (1,399,852) | (1,429,518) | (2,515,509) | (2,680,429) |
| General and administration | | (1,152,129) | (946,712) | (2,554,445) | (2,103,594) |
| Depreciation and amortisation | 6,7,8 | (2,177,993) | (1,890,033) | (4,288,292) | (3,784,737) |
| TOTAL OPERATING EXPENSES | | (4,729,974) | (4,266,263) | (9,358,246) | (8,568,760) |
| OPERATING PROFIT | | 3,477,319 | 2,900,917 | 6,752,523 | 5,533,271 |
| OTHER EXPENSES AND INCOME | | | | | |
| Cost of early retirement | | (216,405) | (150,000) | (366,405) | (150,000) |
| Finance income | | 147,992 | 134,046 | 329,112 | 283,714 |
| Finance costs | | (244,302) | (99,258) | (408,478) | (196,637) |
| Other (expenses) / income, net | | (3,159) | 16,951 | (129,473) | 111,346 |
| Share in results of investments in associates and joint ventures, net | | 78,713 | 14,702 | 43,175 | 50,727 |
| Other losses, net | | (100,770) | (108,452) | (93,343) | (67,485) |
| TOTAL OTHER EXPENSES AND INCOME | | (337,931) | (192,011) | (625,412) | 31,665 |
| NET PROFIT BEFORE ZAKAT AND INCOME TAX | | 3,139,388 | 2,708,906 | 6,127,111 | 5,564,936 |
| Zakat and income tax | 20 | (229,963) | (192,222) | (410,516) | (390,861) |
| NET PROFIT | | 2,909,425 | 2,516,684 | 5,716,595 | 5,174,075 |
| <i>Net profit attributable to:</i> | | | | | |
| Equity holders | | 2,848,021 | 2,444,045 | 5,597,756 | 5,031,575 |
| Non-controlling interests | | 61,404 | 72,639 | 118,839 | 142,500 |
| | | 2,909,425 | 2,516,684 | 5,716,595 | 5,174,075 |
| Basic and diluted earnings per share (In Saudi Riyal) | | 1.42 | 1.22 | 2.80 | 2.51 |

Saudi Telecom Company
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED 30 JUNE 2019
(All amounts in Saudi Riyals thousands unless otherwise stated)

| | Notes | <i>For the three month period ended</i> | | <i>For the six month period ended</i> | |
|--|-------|---|-------------|---------------------------------------|-------------|
| | | <i>30 June</i> | | <i>30 June</i> | |
| | | <i>2019</i> | <i>2018</i> | <i>2019</i> | <i>2018</i> |
| NET PROFIT | | 2,909,425 | 2,516,684 | 5,716,595 | 5,174,075 |
| OTHER COMPREHENSIVE LOSS | | | | | |
| <i>Items that will not be reclassified subsequently to consolidated statement of profit or loss:</i> | | | | | |
| Re-measurement of end of service benefit provision | 16 | (665,289) | 6,413 | (669,750) | (9,609) |
| Fair value changes on equity instruments measured at fair value through other comprehensive income (FVOCI) | 11 | 34 | (242) | - | (2,599) |
| <i>Total items that will not be reclassified subsequently to consolidated statement of profit or loss</i> | | (665,255) | 6,171 | (669,750) | (12,208) |
| <i>Items that will be reclassified subsequently to consolidated statement of profit or loss:</i> | | | | | |
| Foreign currency translation differences | | 2,256 | (30,123) | (6,357) | (33,338) |
| Fair value changes from cash flow hedges | | (2,432) | (28) | (3,338) | 1,131 |
| Share of other comprehensive income/(loss) of associates and joint ventures, net | | (15,067) | 2,674 | 98,118 | (90,844) |
| <i>Total items that will be reclassified subsequently to consolidated statement of profit or loss</i> | | (15,243) | (27,477) | 88,423 | (123,051) |
| TOTAL OTHER COMPREHENSIVE LOSS | | (680,498) | (21,306) | (581,327) | (135,259) |
| TOTAL COMPREHENSIVE INCOME | | 2,228,927 | 2,495,378 | 5,135,268 | 5,038,816 |
| <i>Total comprehensive income attributable to:</i> | | | | | |
| Equity holders | | 2,164,141 | 2,416,738 | 5,014,273 | 4,896,835 |
| Non-controlling interests | | 64,786 | 78,640 | 120,995 | 141,981 |
| | | 2,228,927 | 2,495,378 | 5,135,268 | 5,038,816 |

Saudi Telecom Company
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2019
(All amounts in Saudi Riyals thousands unless otherwise stated)

| | Notes | For the six month period ended | |
|---|-------|--------------------------------|--------------------|
| | | 2019 | 2018 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net profit before zakat and income tax | | 6,127,111 | 5,564,936 |
| <i>Adjustments for:</i> | | | |
| Depreciation and amortisation | 6,7,8 | 4,288,292 | 3,784,737 |
| Amortisation and impairment loss of contract costs and assets | | 259,820 | 332,649 |
| Impairment loss on trade receivables | | 307,291 | 252,827 |
| Write-down of inventories | | 32,673 | 85,628 |
| Finance income | | (329,112) | (283,714) |
| Finance costs | | 408,478 | 196,637 |
| Provision for end of service benefits and other provisions | | 816,118 | 1,159,835 |
| Share in results of investments in associates and joint ventures, net | | (43,175) | (50,727) |
| Other losses, net | | 93,343 | 67,485 |
| Operating profit before working capital adjustments | | 11,960,839 | 11,110,293 |
| <i>Movements in working capital:</i> | | | |
| Trade and other receivables | | (3,183,132) | (5,282,419) |
| Inventories | | (373,376) | (246,061) |
| Contract costs | | (150,660) | (327,354) |
| Contract assets | | (1,045,705) | (1,380,024) |
| Other assets | | (1,417,945) | 288,385 |
| Trade and other payables | | (2,253,575) | 618,339 |
| Contract liabilities | | (353,374) | 49,511 |
| Other liabilities | | (3,297,069) | 1,528,628 |
| Cash (used in) / from operations | | (113,997) | 6,359,298 |
| Less: Zakat and income tax paid | 20 | (677,163) | (764,123) |
| Less: Provision for end of service benefits paid | | (276,291) | (115,017) |
| Net cash (used in) / from operating activities | | (1,067,451) | 5,480,158 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Additions to property, plant and equipment | 6 | (2,090,135) | (2,853,340) |
| Additions to intangible assets | 7 | (361,008) | (487,905) |
| Proceeds from sale of property, plant and equipment | | 131,687 | 37,906 |
| Acquisition of a new subsidiary | 23 | (219,173) | - |
| Proceeds from finance income | | 259,979 | 322,209 |
| Proceeds related to financial assets | | 16,142,270 | 13,937,726 |
| Payments related to financial assets | | (6,613,022) | (12,023,798) |
| Net cash from / (used in) investing activities | | 7,250,598 | (1,067,202) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Dividends paid | | (8,105,775) | (4,055,014) |
| Repayment of lease liabilities | | (376,610) | - |
| Repayment of borrowings | 15 | (280,926) | (653,794) |
| Proceeds from borrowings | 15 | 5,299,552 | - |
| Finance costs paid | | (165,828) | (27,848) |
| Net cash used in financing activities | | (3,629,587) | (4,736,656) |
| NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS | | 2,553,560 | (323,700) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD | | 8,153,865 | 2,567,044 |
| Net foreign exchange differences | | 904 | (1,553) |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD | | 10,708,329 | 2,241,791 |

Saudi Telecom Company
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2019

(All amounts in Saudi Riyals thousands unless otherwise stated)

| | <i>Attributable to equity holders of the Parent Company</i> | | | | | | <i>Non-controlling interests</i> | <i>Total equity</i> |
|--|---|-----------------------|---------------------------|-----------------------|--------------------------|-------------------|----------------------------------|---------------------|
| | <i>Notes</i> | <i>Issued Capital</i> | <i>Statutory reserves</i> | <i>Other reserves</i> | <i>Retained earnings</i> | <i>Total</i> | | |
| <i>Balance as at 1 January 2018</i> | | 20,000,000 | 10,000,000 | (1,775,390) | 34,637,791 | 62,862,401 | 939,180 | 63,801,581 |
| Net profit | | - | - | - | 5,031,575 | 5,031,575 | 142,500 | 5,174,075 |
| Other comprehensive loss | | - | - | (134,740) | - | (134,740) | (519) | (135,259) |
| Total comprehensive income | | - | - | (134,740) | 5,031,575 | 4,896,835 | 141,981 | 5,038,816 |
| Dividends to equity holders | | - | - | - | (4,000,000) | (4,000,000) | - | (4,000,000) |
| Dividends to non-controlling interests | | - | - | - | - | - | (90,118) | (90,118) |
| <i>Balance as at 30 June 2018</i> | | 20,000,000 | 10,000,000 | (1,910,130) | 35,669,366 | 63,759,236 | 991,043 | 64,750,279 |
| <i>As at 1 January 2019</i> | | 20,000,000 | 10,000,000 | (1,903,878) | 37,417,562 | 65,513,684 | 1,147,914 | 66,661,598 |
| Net profit | | - | - | - | 5,597,756 | 5,597,756 | 118,839 | 5,716,595 |
| Other comprehensive loss | | - | - | (583,483) | - | (583,483) | 2,156 | (581,327) |
| Total comprehensive income | | - | - | (583,483) | 5,597,756 | 5,014,273 | 120,995 | 5,135,268 |
| Dividends to equity holders | 24 | - | - | - | (8,000,000) | (8,000,000) | - | (8,000,000) |
| Dividends to non-controlling interests | | - | - | - | - | - | (118,812) | (118,812) |
| Transfers | | - | - | (425,974) | 425,974 | - | - | - |
| <i>Balance as at 30 June 2019</i> | | 20,000,000 | 10,000,000 | (2,913,335) | 35,441,292 | 62,527,957 | 1,150,097 | 63,678,054 |

These statements were originally prepared in Arabic and the Arabic version should prevail.

Saudi Telecom Company
A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED 30 JUNE 2019

(All amounts in Saudi Riyals thousands unless otherwise stated)

1. GENERAL INFORMATION

A) ESTABLISHMENT OF THE COMPANY

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

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

B) GROUP ACTIVITIES

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

- 1) Establish, manage, operate and maintain fixed and mobile telecommunication networks, systems and infrastructure.
- 2) Deliver, provide, maintain and manage diverse telecommunication and information technology (IT) services to customers.
- 3) Prepare the required plans and necessary studies to develop, implement and provide the telecom and IT services covering all technical, financial and administrative aspects. In addition, prepare and implement training plans in the field of telecommunications and IT, and provide consultancy services.
- 4) Expand and develop telecommunication networks, systems, and infrastructure by utilizing the most current devices and equipment in telecom technology, especially in the fields of providing and managing services, applications and software.
- 5) Provide integrated communication and information technology solutions which include among other things (telecom, IT services, managed services, and cloud services, etc.).
- 6) Provide information-based systems and technologies to customers including preparing, printing and distributing phone and commercial directories, information bulletins, and provide the telecommunication means for the transfer of internet services.
- 7) Wholesale and retail trade, import, export, purchase, own, lease, manufacture, promote, sell, develop, design, setup and maintain of devices, equipment, and components of different telecom networks including fixed, moving and private networks. Also, computer programs and the other intellectual properties, in addition to providing services and executing contracting works that are related to different telecom networks.
- 8) Real estate investment and the resulting activities, such as selling, buying, leasing, managing, developing and maintenance.
- 9) Acquire loans and own fixed and movable assets for intended use.
- 10) Provide financial and managerial support and other services to subsidiaries.
- 11) Provide development, training, assets management and other related services.
- 12) Provide solutions for decision support, business intelligence and data investment.
- 13) Provide supply chain and other related services.
- 14) Provide digital payment services.
- 15) Construction, maintenance and repair of telecommunication and radar stations and towers.

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

2. BASIS OF PREPARATION

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants (“SOCPA”).

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements in accordance with International Financial Reporting Standards and should be read in conjunction with the Group’s annual consolidated financial statements as at 31 December 2018.

3. THE GROUP’S ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards and amendment effective as of 1 January 2019. The Group has not early adopted any other standards, interpretation or amendment that has been issued but is not yet effective.

The Group applied IFRS 16 “Leases” retrospectively without restating comparative figures with the cumulative effect of initially applying the Standard recognized at the date of initial application (1 January 2019).

4. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP

4.1 IFRS 16 “LEASES”

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases.

IFRS 16 supersedes the following Standards and Interpretations:

- (a) IAS 17 Leases;
- (b) IFRIC 4 Determining whether an Arrangement contains a Lease;
- (c) SIC-15 Operating Leases—Incentives; and
- (d) SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all major leases; which represents a significant change from IAS 17.

Lessor accounting under IFRS 16 is substantially unchanged from current accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

The Group’s accounting policy under IFRS 16 is as follows:

At the commencement date, the Group recognizes a right of use asset representing the Group’s right to use the underlying asset and a lease liability representing the Group’s obligation to make lease payments.

At commencement date, the right of use asset is initially measured at cost (based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date less any lease incentives received, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, as per lease terms).

After the commencement date, the right of use asset is measured using the cost model (cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the related lease liability).

At commencement date, the lease liability is measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, if that rate can be readily determined; otherwise the Group’s incremental borrowing rate is used instead.

4. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP
(CONTINUED)

4.1 IFRS 16 “LEASES” (CONTINUED)

After the commencement date, the lease liability is measured by:

- (a) increasing the carrying amount to reflect interest on the lease liability.
- (b) reducing the carrying amount to reflect the lease payments made.
- (c) remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised substance fixed lease payments. The amount of the remeasurement of the lease liability is recorded as an adjustment to the right of use asset. However, if the carrying amount of the right of use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, then any remaining amount of the remeasurement is recognized in profit or loss.

The Group has elected to apply the practical expedient not to recognize right of use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases is recognized as an expense on a straight-line basis over the lease term.

Impact of transition to IFRS 16

The Group has adopted IFRS 16 using the modified retrospective approach with the effect of applying this standard recognised at the date of initial application (1 January 2019) and accordingly the information presented for 2018 has not been restated. It remains as previously reported under IAS 17 and related interpretations.

On initial application, the Group has elected to record right-of-use assets (amounting to SR 2,556 million) based on the corresponding lease liability (amounting to SR 2,367 million) adjusted for any prepaid or accrued lease payments as of 1 January 2019, with no net impact on retained earnings.

Lease liabilities are recognized on the date of initial application of the lease contracts previously classified as operating leases (in accordance with IAS 17). Lease liabilities were measured at the present value of the remaining lease payments discounted using the Group's additional borrowing rate as of 1 January 2019. The weighted average rate of additional borrowing rate at the initial implementation date was 3.9%.

The Group has elected to apply the following practical expedient:

- apply one discount rate on a portfolio of leases with reasonably similar characteristics.
- account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases.
- exclude direct costs from measuring the right of use assets at the date of initial application.
- use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

The Group has elected to apply the practical expedient to grandfather the assessment of which transactions are leases on the date of initial application, as previously assessed under IAS 17 and IFRIC 4. The Group applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after 1 January 2019.

Saudi Telecom Company
A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED 30 JUNE 2019 (CONTINUED)

(All amounts in Saudi Riyals thousands unless otherwise stated)

5. SEGMENT INFORMATION

The following is an analysis of the Group's revenues and results based on segmental basis:

| | <i>For the three month period ended 30 June</i> | | <i>For the six month period ended 30 June</i> | |
|---|---|-------------|---|--------------|
| | <i>2019</i> | <i>2018</i> | <i>2019</i> | <i>2018</i> |
| Revenues (1) | | | | |
| Saudi Telecom Company | 10,340,077 | 9,897,486 | 19,852,276 | 19,596,438 |
| STC Channels | 763,168 | 1,647,026 | 3,085,748 | 2,899,400 |
| Other operating segments (2) | 3,051,219 | 2,430,655 | 5,582,281 | 4,473,095 |
| Eliminations / Adjustments | (550,900) | (895,778) | (1,530,988) | (1,540,464) |
| Total Revenues | 13,603,564 | 13,079,389 | 26,989,317 | 25,428,469 |
| Cost of operations (excluding depreciation and amortisation) | (7,948,252) | (8,288,439) | (15,948,502) | (16,110,461) |
| Depreciation and amortisation | (2,177,993) | (1,890,033) | (4,288,292) | (3,784,737) |
| Cost of early retirement | (216,405) | (150,000) | (366,405) | (150,000) |
| Finance income | 147,992 | 134,046 | 329,112 | 283,714 |
| Finance costs | (244,302) | (99,258) | (408,478) | (196,637) |
| Other (expenses) / income, net | (3,159) | 16,951 | (129,473) | 111,346 |
| Share in results of investments in associates and joint ventures, net | 78,713 | 14,702 | 43,175 | 50,727 |
| Other losses, net | (100,770) | (108,452) | (93,343) | (67,485) |
| Zakat and income tax | (229,963) | (192,222) | (410,516) | (390,861) |
| Net profit | 2,909,425 | 2,516,684 | 5,716,595 | 5,174,075 |

Following is the gross profit analysis on a segmental basis:

| | <i>For the three month period ended 30 June</i> | | <i>For the six month period ended 30 June</i> | |
|------------------------------|---|-------------|---|-------------|
| | <i>2019</i> | <i>2018</i> | <i>2019</i> | <i>2018</i> |
| Saudi Telecom Company | 6,669,436 | 5,816,452 | 13,432,292 | 11,578,059 |
| STC Channels | 340,943 | 326,771 | 693,302 | 623,993 |
| Other operating segments (2) | 1,302,082 | 1,049,531 | 2,172,517 | 1,949,410 |
| Eliminations/Adjustments | (105,168) | (25,574) | (187,342) | (49,431) |
| Total | 8,207,293 | 7,167,180 | 16,110,769 | 14,102,031 |

Saudi Telecom Company
A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED 30 JUNE 2019 (CONTINUED)

(All amounts in Saudi Riyals thousands unless otherwise stated)

5. SEGMENT INFORMATION (CONTINUED)

The following is an analysis of the Group's assets and liabilities based on segmental basis:

| | <u>30 June 2019</u> | <u>31 December 2018</u> |
|------------------------------|---------------------|-------------------------|
| <u>Assets</u> | | |
| Saudi Telecom Company | 117,540,233 | 116,882,397 |
| STC Channels | 3,505,281 | 3,333,662 |
| Other operating segments (2) | 30,696,586 | 19,539,165 |
| Eliminations/ Adjustments | (42,436,057) | (30,384,630) |
| Total Assets | 109,306,043 | 109,370,594 |
| <u>Liabilities</u> | | |
| Saudi Telecom Company | 41,471,005 | 38,998,013 |
| STC Channels | 2,130,953 | 2,068,819 |
| Other operating segments (2) | 21,383,117 | 10,512,261 |
| Eliminations/ Adjustments | (19,357,086) | (8,870,097) |
| Total Liabilities | 45,627,989 | 42,708,996 |

(1) Segment revenue reported above represents revenue generated from external and internal customers. There were SR 551 million and SR 1,531 million respectively for the three month and six month periods ended 30 June 2019 (for the three month and six month periods ended 30 June 2018: SR 896 million and SR 1,540 million, respectively) inter-segment sales and adjustments eliminated at consolidation.

(2) Other operating segments include: VIVA Kuwait, VIVA Bahrain, STC Solutions, Intigral, STC Specialized, Sapphire, Aqalat and Tower Co.

6. PROPERTY, PLANT AND EQUIPMENT

During the six month period ended 30 June 2019, the Group acquired assets with total cost of SR 2,762 million (30 June 2018: SR 3,175 million).

During the six month period ended 30 June 2019, the Group disposed of assets with a net book value of SR 222 million (30 June 2018: SR 139 million) resulting in a loss on sale of property, plant and equipment amounting to SR 82 million and SR 91 million, respectively, for the three month and six month periods ended 30 June 2019 (for the three and six months periods ended on 30 June 2018: SR 57 million and SR 101 million, respectively).

Following is the breakdown of depreciation expense if allocated to operating costs items:

| | <i>For the three month period ended</i> | | <i>For the six months period ended</i> | |
|-------------------------------------|---|------------------|--|------------------|
| | <i>30 June</i> | | <i>30 June</i> | |
| | <i>2019</i> | <i>2018</i> | <i>2019</i> | <i>2018</i> |
| Cost of revenues | 1,254,707 | 1,216,484 | 2,458,849 | 2,449,700 |
| Selling and marketing expenses | 4,304 | 8,108 | 8,365 | 16,759 |
| General and administration expenses | 276,172 | 252,448 | 549,641 | 504,173 |
| | 1,535,183 | 1,477,040 | 3,016,855 | 2,970,632 |

Saudi Telecom Company
A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED 30 JUNE 2019 (CONTINUED)

(All amounts in Saudi Riyals thousands unless otherwise stated)

7. INTANGIBLE ASSETS AND GOODWILL

During the six month period ended 30 June 2019, the net additions in intangible assets amounting to SR 361 million (30 June 2018: SR 2,670 million). Net additions to goodwill amounted to SR 326.6 million (see note 23).

Following is the breakdown of amortisation expense if allocated to operating costs items:

| | <i>For the three month period ended</i> | | <i>For the six month period ended</i> | |
|-------------------------------------|---|----------------|---------------------------------------|----------------|
| | <i>30 June</i> | | <i>30 June</i> | |
| | <i>2019</i> | <i>2018</i> | <i>2019</i> | <i>2018</i> |
| Cost of revenues | 133,347 | 139,478 | 261,803 | 271,399 |
| Selling and marketing expenses | 964 | 9,198 | 1,931 | 18,488 |
| General and administration expenses | 319,055 | 264,317 | 630,513 | 524,218 |
| Total | 453,366 | 412,993 | 894,247 | 814,105 |

8. RIGHT OF USE ASSETS

| | <i>30 June 2019</i> |
|---------------------------|---------------------|
| Balance at 1 January 2019 | 2,555,524 |
| Additions | 221,502 |
| Depreciation | (377,190) |
| Disposal and others | (16,967) |
| Balance at 30 June 2019 | 2,382,869 |

The right of use assets include equipment, vehicles and others. Following is the breakdown of depreciation expense if allocated to operating costs items:

| | <i>For the three months</i> | <i>For the six months</i> |
|-------------------------------------|-----------------------------|-----------------------------|
| | <i>period ended 30 June</i> | <i>period ended 30 June</i> |
| | <i>2019</i> | <i>2019</i> |
| Cost of revenues | 140,116 | 276,434 |
| Selling and marketing expenses | 1,686 | 3,672 |
| General and administration expenses | 47,642 | 97,084 |
| Total | 189,444 | 377,190 |

9. OTHER NON CURRENT ASSETS

| | <i>30 June 2019</i> | <i>31 December 2018</i> |
|----------------------|---------------------|-------------------------|
| Financial assets (*) | 7,303,140 | 3,373,016 |
| Other assets | 340,349 | 371,621 |
| | 7,643,489 | 3,744,637 |

(*) The Group also subscribed in Sukuk that issued by the Ministry of Finance during the first quarter of 2019:

| | <i>Tranche I</i> | <i>Tranche II</i> |
|-------------------------------|------------------|-------------------|
| Investment amount | 1,762,000 | 2,140,000 |
| Investment duration | 5 years | 10 years |
| Yield | 3.17% | 3.9% |
| Investment amount at maturity | 1,771,755 | 2,227,188 |

Saudi Telecom Company
A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED 30 JUNE 2019 (CONTINUED)

(All amounts in Saudi Riyals thousands unless otherwise stated)

10. OTHER CURRENT ASSETS

| | <u>30 June 2019</u> | <u>31 December 2018</u> |
|------------------|---------------------|-------------------------|
| Financial assets | 1,317,624 | 5,488,245 |
| Other assets | 3,202,485 | 1,952,878 |
| | <u>4,520,109</u> | <u>7,441,123</u> |

11. FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

The Group has assessed that fair values of the financial instruments comprising of trade and other receivables, short term murabahas, cash and cash equivalents, and trade and other payables approximate their carrying values significantly due to the short maturities of these financial instruments.

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

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

The fair value of equity investments is obtained from the net asset value report received from the fund manager. Fair value is within level 3 of the fair value hierarchy and shown in the interim condensed consolidated statement of profit or loss.

The Group believes that the carrying value of other financial assets and liabilities listed in the interim condensed consolidated financial statements approximate their fair values.

12. RELATED PARTIES TRANSACTIONS AND BALANCES

12.1 Trading transactions and balances with related parties (Associates and Joint Ventures)

The following are the transactions with related parties:

| | <i>For the three month period ended</i> | | <i>For the six month period ended 30</i> | |
|---|---|---------------|--|----------------|
| | <i>30 June</i> | | <i>June</i> | |
| | <i>2019</i> | <i>2018</i> | <i>2019</i> | <i>2018</i> |
| <i>Telecommunication services provided</i> | | | | |
| Associates | 120,027 | 87,127 | 247,017 | 220,485 |
| Joint Ventures | 4,034 | - | 8,294 | 11,534 |
| | <u>124,061</u> | <u>87,127</u> | <u>255,311</u> | <u>232,019</u> |
| <i>Telecommunication services received</i> | | | | |
| Associates | 1,417 | 2,572 | 4,304 | 15,818 |
| Joint Ventures | 54 | 4,402 | 194 | 5,412 |
| | <u>1,471</u> | <u>6,974</u> | <u>4,498</u> | <u>21,230</u> |

12. RELATED PARTIES TRANSACTIONS AND BALANCES (CONTINUED)

The following balances are outstanding with related parties:

| | <i>Amounts due from related parties</i> | | <i>Amounts due to related parties</i> | |
|----------------|---|-----------------------------|---------------------------------------|-----------------------------|
| | <i>30 June 2019</i> | <i>31 December 2018</i> | <i>30 June 2019</i> | <i>31 December 2018</i> |
| Associates | 267,652 | 338,652 | 21,554 | 23,184 |
| Joint ventures | 9,513 | 5,444 | 101,938 | 112,801 |
| | 277,165 | 344,096 | 123,492 | 135,985 |

12.2 Trade transactions and related parties' balances (government and government related entities)

Revenues related to transactions with governmental parties for the three month and six month periods ended 30 June 2019 amounted to SR 1,956 million and SR 3,316 million, respectively (for the three month and six month periods ended 30 June 2018 amounted to SR 1,773 million and SR 3,208 million, respectively) and expenses related to transactions with governmental parties for the three month and six month periods ended 30 June 2019 (including government charges) amounted to SR 963 million and SR 2,069 million, respectively (for the three month and six month periods ended 30 June 2018 amounted to SR 785 million and SR 1,639 million, respectively). It is worth mentioning that based on the Council of Ministers' resolution No. (196) dated 4 Rabi Thani 1440H (corresponding to 11 December 2018), the percentage of government charges collected by the government for providing telecommunications services commercially has been amended to become a uniform annual fee of 10% of net telecommunications revenues effective 1 January 2018 instead of the previous calculation mechanism which were 15% of net mobile service revenues, 10% of net fixed line revenues and 8% of net revenues from data services. Furthermore, the Company's services licenses have been combined into a unified license.

As at 30 June 2019, accounts receivable from Government entities totalled SR 14,584 million (31 December 2018: SR 12,343 million) and as at 30 June 2019, accounts payable to government entities totalled SR 958 million (31 December 2018: SR 3,706 million) which were after the Group's agreement with the government to pay all outstanding receivables as at 31 December 2016 amounting to SR 12,532 million through offsetting accounts payables balances and the collection of the balance in cash. The Group also subscribed to an amount of SR 3,902 million in Sukuk that issued by the Ministry of Finance during the first quarter of 2019 (see note 9).

The following is the existing ageing with government:

| | <i>30 June 2019</i> | <i>31 December 2018</i> |
|---------------------|---------------------|-------------------------|
| Less than a year | 6,802,172 | 6,936,884 |
| One to two years | 5,630,088 | 5,367,424 |
| More than two years | 2,151,898 | 38,416 |
| | 14,584,158 | 12,342,724 |

13. ASSOCIATES AND JOINT VENTURES

At its meeting held on 4 Jumada Al-Awal 1440H (corresponding to 10 January 2019), the Board of Directors approved to buy an additional 39% stake in Virgin Mobile Saudi Arabia for SR 151 million. The legal and regulatory procedures concerning the transaction are expected to be completed during 2019. Upon completing the transaction, Saudi Telecom Group's share in Virgin Mobile Saudi Arabia shall increase to 49%.

Saudi Telecom Company
A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED 30 JUNE 2019 (CONTINUED)

(All amounts in Saudi Riyals thousands unless otherwise stated)

14. ASSETS HELD FOR SALE

On 26 March 2019, Uber Technologies signed an assets purchase agreement with Careem (an associate accounted for using the equity method and the Group holds a direct shares of 8.83%) to acquire the net assets of Careem for about US \$ 3.1 billion (Equivalent to SR 11.6 billion) subject to modifications. The total consideration for the agreement consists of the following:

- About US \$ 1.7 billion (equivalent to about SR 6.4 billion) of unsecured, interest-free convertible bonds.
- About US \$ 1.4 billion (equivalent to SR 5.2 billion) in cash.

The deal is expected to be completed and final impact recorded upon completion of the regulatory procedures. Accordingly, the Group's investment in Careem has been reclassified as assets held for sale as at 30 June 2019.

15. BORROWINGS

15-1 Sukuk issuance in US Dollars:

Was approved at the meeting of the General Assembly dated 19 Sha`ban 1440 (corresponding to 24 April 2019), to establish of an international Sukuk program and issue of sukuk directly or through the establishment of a special purpose vehicle to be established and used to issue primary or secondary instruments in one or several parts, stage or stages, or through a series of issuances under this sukuk program in US Dollar not exceeding the amount of USD 5,000 million for the total value of the issuances and parts of the Sukuk program referred to above at any time.

During the second quarter 2019, STC Sukuk Company Ltd. (a special purpose company established for the purpose of issuing sukuk under the Sukuk program referred to above), completed first USD denominated sukuk issuance under the Sukuk Program for USD1,250 million (equivalent to SR 4,688), with a total number of Sukuk of 6,250, at USD 200 thousand par value, annual yield of 3.89% and a maturity of ten years.

15-2 Borrowings paid and received:

Total borrowings paid during the six months period ended 30 June 2019 amounted to SR 281 million (for the six months period ended 30 June 2018: SR 654 million). Total borrowings received (Including the amount of the above sukuk) during the six months period ended 30 June 2019 amounted to SR 5,300 million (for the six months period ended 30 June 2018: nil).

16. PROVISION FOR END OF SERVICE BENEFITS

The provision for end of service benefit as at 30 June 2019 is calculated using the latest actuarial valuation as at 30 June 2019. During the period, the actuarial assumptions relating to the discount rate have been updated, resulting in an increase in the present value of the identified benefit obligations.

17. LEASE LIABILITIES

| | |
|-------------|---------------------|
| | <u>30 June 2019</u> |
| Current | 793,383 |
| Non-Current | 1,478,401 |
| | <u>2,271,784</u> |

Interest expense on lease liabilities for the three and six month periods ended 30 June 2019 amounted to SR 40 million and SR 60 million respectively included in financing costs. Total cash outflow for leases liabilities for the three and six month periods ended 30 June 2019 amounted to SR 201 million and SR 377 million respectively.

18. OTHER NON-CURRENT LIABILITIES

| | | |
|-----------------------|---------------------|-------------------------|
| | <u>30 June 2019</u> | <u>31 December 2018</u> |
| Deferred income | 2,450,592 | 2,144,290 |
| Financial liabilities | 1,469,386 | 1,526,259 |
| Other liabilities | 33,288 | 32,726 |
| | <u>3,953,266</u> | <u>3,703,275</u> |

Saudi Telecom Company
A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED 30 JUNE 2019 (CONTINUED)

(All amounts in Saudi Riyals thousands unless otherwise stated)

19. OTHER CURRENT LIABILITIES

| | <u>30 June 2019</u> | <u>31 December 2018</u> |
|-----------------------|---------------------|-------------------------|
| Financial liabilities | 147,476 | 90,731 |
| Deferred income | 21,273 | 41,141 |
| Other liabilities | 1,404,068 | 4,077,577 |
| | <u>1,572,817</u> | <u>4,209,449</u> |

20. ZAKAT AND INCOME TAX

Zakat

The Company submitted its zakat returns since its inception through 2018. Effective from the year 2009, the Company started the submission of consolidated zakat return for the Company and its wholly owned subsidiaries (whether directly or indirectly) in accordance with the Ministerial Decree No.1005 dated 28/4/1428H.

The Company received Zakat assessments from inception until 2011. The Company has submitted objections for the years 2008 and 2009. The total Zakat differences for these objections amounted to SR 432 million. The Group has reached a final settlement for the years 2010-2011 objections paying SR 57 million.

The objections related to the years 2008-2009 remain before the Appeals Committee until the date of preparation of these interim condensed consolidated financial statements. The differences in 2008 and 2009 relate to stopping the comparison between the Zakat base and the adjusted profit whichever is higher. On 28/2/1438H, the Appeals Committee passed its decision No. (1642)/1438H; upholding the Company's appeal for the year 2007 which cancels the process of GAZT comparison between the Zakat base and the adjusted profit whichever is higher, reinforcing the position of the Company in the objections for subsequent years pending before the Appeals Committee. Accordingly, the Company believes that the results of these objections will be in its favour and will not result in any additional provisions.

Zakat declarations for the years 2012 to 2018 are still pending with the GAZT until the date of preparation of these interim condensed consolidated financial statements.

21. CAPITAL COMMITMENTS

- (a) During the fourth quarter of 2018, the Company signed an agreement with the Ministry of Finance, the Ministry of Communications & Information Technology and the authority of Communications and Information Technology ("Government Entities") for a comprehensive and final settlement of the outstanding dispute related to commercial services provisioning fees provided by the Company and the licences fees granted to the Company for the period from 1 January 2008 to 31 December 2017. In return, the Company is committed to provide capital investments in its infrastructure which is in line with the Kingdom's vision to develop the telecommunications infrastructure within a period of three years from 1 January 2018 according to the terms and conditions of the Settlement Agreement (Referred to as "Target Performance Indicators").
- (b) One of the subsidiaries has an agreement to invest in a fund aiming to improve the telecommunication and internet environment for USD 300 million equivalent to SR 1,125 million (31 December 2018: USD 300 million (equivalent to SR 1,125 million)).

22. CONTINGENT LIABILITIES

- (a) The Group has outstanding letters of guarantee amounting to SR 5,963 million as at 30 June 2019 (31 December 2018: SR 6,597 million).
- (b) The Group has outstanding letters of credit as at 30 June 2019 amounting to SR 653 million (31 December 2018: SR 655 million).
- (c) On 21 March 2016, the Company received a letter from a key customer requesting a refund for paid balances amounted to SR 742 million related to construction of a fibre optic network. Based on the independent legal opinions obtained, the management believes that the customer's claims have no merit and therefore this dispute has no material impact on the financial results of the Group.

(All amounts in Saudi Riyals thousands unless otherwise stated)

22. CONTINGENT LIABILITIES (CONTINUED)

- (d) The Group, in its ordinary course of business, is subject to proceedings, lawsuits and other claims. However, these matters are not expected to have any material impact on the Company's financial position or on the results of its operations as reflected in these interim condensed consolidated financial statements.
- (e) The Company has submitted an objection to the appeal committee with respect to GAZT withholding tax assessment on international operators' networks rentals outside Saudi Arabia for the years from 2004 to 2015 for an amount of SR 2.9 billion. The management believes that this service should not be subject to withholding tax as the Saudi tax regulations do not cover withholding tax on the rental of international operators' networks as well as recognition of source of income is outside Saudi Arabia. Based on the opinions of tax specialists, the nature of the services and existing similar cases where the decision was in the favour of the companies in the telecom sector, the Company's management believes that this assessment will not result into any additional provisions.
- (f) The agreement signed with government agencies during the fourth quarter of 2018 includes detailed mechanisms relating to the performance indicators that the Company is required to achieve within three years starting from 2018. The Company has re-evaluated the related provisions in line with the expectations of the target performance indicators which shall be reviewed periodically.

23. SUBSIDIARIES

During 2018, Viva Kuwait entered into a binding contract to acquire 100% of the total issued shares of QualityNet, which operates in Kuwait in the field of providing Internet services. On 6 May 2019, VIVA Kuwait completed the acquisition procedures and acquired net assets amounting to KWD 2.9 million (equivalent to SR 35.9 million) with a purchase consideration amounting to KWD 29.3 million (equivalent to SR 362.9 million) resulting into a goodwill of KWD 26.4 million (equivalent to SR 326.6 million).

24. DIVIDENDS

On 9 Rabi Thani 1440H (corresponding to December 16, 2018) the Board of Directors have approved the Company's dividends policy for the next three years starting from the fourth quarter of 2018, which was approved by the General Assembly on 19 Sha'ban 1440H (corresponding to April 24, 2019). The objective of the dividends policy is to maintain a minimum level of dividend of SR 1 per share on quarterly basis. The Company will consider and pay additional dividend subject to the Board approval after assessment and determination of the Company's financial situation, outlook and capital expenditure requirements. Additional dividends are likely to vary on quarterly basis depending on the company's performance.

The dividends policy will remain subject to:

- 1- Any material changes in the Company's strategy and business (including the commercial environment in which the Company operates).
- 2- Laws, regulations and legislations governing the sector at which the Company operates.
- 3- Any banking, other funding or credit rating covenants or commitments that the company may be bound to follow from time to time.

In line with this policy, the Company distributed the following cash dividends during the six month period ended 30 June 2019:

- SR 2,000 million at a rate of SR 1 per share for the fourth quarter of 2018.
- SR4,000 million at a rate of SR 2 per share as an additional one-time special dividends for the year 2018.
- SR 2,000 million at a rate of SR 1 per share for the first quarter of 2019.

In line with the same policy, the Company will distribute cash dividends to the shareholders of the Company for the second quarter of 2019, amounting to SR 2,000 million, at a rate of SR 1 per share.

25. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the classification used for the period ended 30 June 2019.