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

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

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

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of **Mobile Telecommunications Company Saudi Arabia** (the "Company") along with its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to these consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. **Revenue recognition and controls around IT subsystems**

We have considered revenue to be a key audit matter since revenue is a key business driver for the Group, there is a presumed risk of fraud related to revenue recognition as per the International Standards on Auditing (ISAs), as endorsed in Kingdom of Saudi Arabia, the Group 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 key audit matter by performing first risk assessment procedures, which included identification of risks and related assertions by understanding the Group 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 systems 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 Group, reviewed key reconciliations performed by the Group'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 Group for all major revenue streams is appropriate and in line with the Group's accounting policies disclosed in the consolidated financial statements.

The Group's revenue streams recognized in the consolidated financial statements are disclosed in Note 21 to the consolidated financial statements. The Group's accounting policies for revenue recognition are disclosed in Note 3 to the consolidated financial statements.

2. **Property and equipment and intangible assets**

The Group has significant balance of property and equipment (SR 6.08 billion) and intangible assets (SR 16.22 billion) as at 31 December 2019. 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), depreciation method and residual values. Due to these, we considered property and equipment and intangible assets as a key audit matter.

Our audit procedures included identification of risks and related assertions by understanding the Group and its environment, 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 Notes 10 and 11 respectively to the consolidated financial statements. The Group's accounting policies for property and equipment and intangibles assets are disclosed in Note 3 to the consolidated financial statements.

3. Adoption of IFRS 16 'Leases' effective from January 2019

IFRS 16 "Leases" which the Group implemented on 1 January 2019; requires complex accounting treatments, including use of significant estimates such as lease terms and judgements for the determination of transition options and practical expedients; and the transition of which, gave rise to a right of use asset of SR 1.59 billion, a decrease in trade and other receivables of SR 269 million and a resultant increase in Lease liabilities of SR 1.61 billion Note 5 which are material to the consolidated financial statements.

Accordingly, we have considered this to be a key audit matter.

Our audit procedures in this area included, among others: Evaluating the appropriateness of the selection of accounting policies based on the requirements of IFRS 16, our business understanding and industry practice, considering the appropriateness of the transition approach and practical expedients applied. Evaluating the completeness, accuracy and relevance of data used in preparing the transition adjustments, assessing the completeness of the IFRS 16 lease population by inspecting relevant contracts that may contain a lease and testing the lease payments, evaluating the reasonableness of management's key judgements and estimates made in preparing the transition adjustments, specifically around estimation of the lease terms.

Other information included in the Group's Annual Report

Other information consists of the information included in the Group's 2019 annual report, other than the consolidated 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 consolidated 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 consolidated 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 consolidated 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 Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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, as endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. 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 consolidated financial statements.

As part of an audit in accordance with ISAs, as endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated 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 Group'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 evidenced obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group'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 consolidated 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 Group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 consolidated 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.

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Abdullah Al Basri & Co.
P.O. Box 2195
Riyadh 11451
The Kingdom of Saudi Arabia

ALDAR AUDIT BUREAU
Professional Partnership Co.
Head Office Riyadh
CR 1010443881
Certified Accountants
Abdullah Al Basri & Co.

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

Riyadh, 10 Jumada al-Akhir 1441 H
Corresponding to 04 February, 2020

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	2019	2018
ASSETS			
Current assets			
Cash and bank balances	6	1,157,438	1,416,731
Trade and other receivables	7	1,730,294	1,586,155
Contract assets - current	8	274,956	289,197
Inventories	9	241,972	223,005
Total current assets		3,404,660	3,515,088
Non-current assets			
Contract assets non-current	8	131,253	15,442
Right-of-use assets	5	1,448,479	-
Property and equipment	10	6,079,981	6,122,614
Capital advances	11	457,952	429,487
Intangible assets	12	16,215,928	16,240,679
Total non-current assets		24,333,593	22,808,222
TOTAL ASSETS		27,738,253	26,323,310
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	13	3,443,759	4,104,497
Current portion of long-term borrowings	14	58,941	2,526,633
Deferred revenue		621,319	720,476
Lease liabilities-current	5	364,098	-
Total current liabilities		4,488,117	7,351,606
Non-current liabilities			
Amounts due to related parties	15	6,375,763	6,584,703
Lease liabilities non-current	5	1,112,127	-
Other non-current liabilities	16	1,111,681	591,615
Long-term borrowings	14	10,314,940	7,668,127
Derivative financial instruments	17	127,899	21,586
Provision for employees' end of service benefits	18	104,875	93,425
Total non-current liabilities		19,147,285	14,959,456
Capital and reserves			
Share capital	20	5,837,292	5,837,292
Hedging reserve	17	(127,899)	(21,586)
Other reserves	18	1,584	(3,302)
Accumulated deficit		(1,608,126)	(1,800,156)
Total capital and reserves		4,102,851	4,012,248
TOTAL EQUITY AND LIABILITIES		27,738,253	26,323,310

Mehdi Khalfaoui	Sultan Al-Deghaither	Naif bin Sultan bin Mohammed bin Saud Al Kabeer
CFO	CEO	Chairman

The accompany notes (1) to (34) form an integral part of these consolidated financial statements

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	2019	2018
Revenue	21	**8,386,227**	7,530,527
Cost of revenue	22	**(2,417,721)**	(2,105,968)
Operating and administrative expenses	23	**(1,898,652)**	(2,261,121)
Depreciation and amortization	10,12	**(2,311,551)**	(1,790,028)
Expected credit loss on financial assets (ECL)	7,8	**(247,249)**	(154,184)
Interest income		**26,338**	26,826
Other income	24	**10,891**	17,042
Finance cost	25	**(1,044,501)**	(930,732)
Net profit before Zakat		**503,782**	332,362
Zakat	26	**(18,607)**	-
Net profit for the year		**485,175**	332,362
Other comprehensive income			
Item that will not be reclassified subsequently to profit or loss:			
Remeasurement of end of service benefit liability	18	**4,886**	4,863
Item that may be reclassified subsequently to profit or loss:			
Net change in fair value on hedging instruments entered into for cash flow hedges	17	**(106,313)**	(18,973)
Total comprehensive income for the year		**383,748**	318,252
Earnings per share (in Saudi Riyals)	27		
Basic and diluted		**0.831**	0.569

Mehdi Khalfaoui **CFO**	**Sultan Al-Deghaither** **CEO**	**Naif bin Sultan bin Mohammed bin Saud Al Kabeer** **Chairman**

The accompany notes (1) to (34) form an integral part of these consolidated financial statements

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Share capital	Hedging reserve	Other reserves	Accumulated deficit	Total
Balance at 1 January 2019 as previously reported		**5,837,292**	**(21,586)**	**(3,302)**	**(1,800,156)**	**4,012,248**
Transition adjustment on adoption of IFRS 16	5	-	-	-	**(293,145)**	**(293,145)**
Balance at 1 January 2019 as restated		**5,837,292**	**(21,586)**	**(3,302)**	**(2,093,301)**	**3,719,103**
Total comprehensive income for the year		-	**(106,313)**	**4,886**	**485,175**	**383,748**
Balance at 31 December 2019		**5,837,292**	**(127,899)**	**1,584**	**(1,608,126)**	**4,102,851**
Balance at 1 January 2018		5,837,292	(2,613)	(8,165)	(2,132,518)	3,693,996
Total comprehensive income for the year		-	(18,973)	4,863	332,362	318,252
Balance at 31 December 2018		5,837,292	(21,586)	(3,302)	(1,800,156)	4,012,248

Mehdi Khalfaoui	**Sultan Al-Deghaither**	**Naif bin Sultan bin Mohammed bin Saud Al Kabeer**
CFO	**CEO**	**Chairman**

The accompany notes (1) to (34) form an integral part of these consolidated financial statements

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

CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit for the year		485,175	332,362
Adjustments to reconcile net profit for the year to net cash from operating activities:			
Expected credit loss on financial assets (ECL)	7,8	247,249	154,184
Depreciation and amortization	5,10,12	2,311,551	1,790,028
Other provisions / (reversal)		4,547	(16,354)
Zakat provision	26	18,607	-
Finance charges	25	1,044,501	930,732
Gain on disposal of assets		(2,847)	(2,211)
Currency revaluation loss/(gain)		1,246	(3,536)
Provision for employees' end-of-service benefits	18	21,911	22,119
Operating income before changes in working capital		4,131,940	3,207,324
Changes in working capital			
Trade and other receivables		(666,335)	(437,243)
Inventories		(18,967)	(113,526)
Contract assets		(101,569)	(304,639)
Trade and other payables		(433,598)	12,461
Deferred revenue		(99,158)	228,048
Other non-current liabilities		520,066	424,233
Cash flows generated from operating activities		3,332,379	3,016,658
Employee retirement benefits paid	18	(5,575)	(17,998)
Net cash generated from operating activities		3,326,804	2,998,660
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		(1,779,900)	(1,384,844)
Proceed from disposal of assets		3,384	2,497
Purchase of intangible assets		(258,287)	(159,282)
Net cash (used in) investing activities		(2,034,803)	(1,541,629)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowing facility		(2,550,000)	(1,294,899)
Proceed from borrowing facility		2,930,097	467,342
Proceed from Amounts due to related parties		-	137,405
Payment of lease liabilities		(414,538)	-
Finance cost paid		(1,516,266)	(465,016)
Net cash (used in) financing activities		(1,550,707)	(1,155,168)
Net change in cash and cash equivalents		(258,706)	301,863
Effect of movements in exchange rates on cash and cash equivalents		(587)	(941)
Cash and bank balances at beginning of the year		1,416,731	1,115,809
Cash and bank balances at end of the year		1,157,438	1,416,731

Mehdi Khalfaoui
CFO

Sultan Al-Deghaither
CEO

Naif bin Sultan bin Mohammed bin Saud Al Kabeer
Chairman

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

CONSOLIDATED STATEMENT OF CASH FLOW (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in Saudi Riyals thousands unless otherwise stated)

	2019	2018
Adjustment transactions:		
Adjustment to property and equipment and intangible assets with corresponding effect to trade payable and capital advances	131,494	379,861
Adjustment to finance cost paid with corresponding effect to borrowings and amounts due to borrowings and related parties.	471,765	35,419
Changes in fair value of derivative financial instruments and corresponding debit to shareholders' equity	106,313	18,973
Adjustment to advances from shareholders and amounts due to related parties with corresponding effect to trade payable	208,941	539,591
Non- cash transaction of provisions with corresponding to accounts payables	712,607	433,255

Mehdi Khalfaoui CFO	Sultan Al-Deghaither CEO	Naif bin Sultan bin Mohammed bin Saud Al Kabeer Chairman

The accompany notes (1) to (34) form an integral part of these consolidated financial statements

1 ORGANIZATION AND ACTIVITIES

1.1 *General Activities*

Mobile Telecommunications Company Saudi Arabia (the "Company") along with its subsidiaries (together the "Group"), provides mobile telecommunication services in the Kingdom of Saudi Arabia in which it operates, purchases, sells, distributes, delivers, installs, manages and maintains mobile telephone services and equipment. As well, the company provides consulting services; constructs and repair telecom towers; provides fintech services and provide technical drones services along with selling and repairing as mentioned in note 1.2

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 ("Zain Group"). Zain Group is a subsidiary of Oman Telecommunications Company SAOG, Oman.

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 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).
b. Coordinate with the Ministry of Finance to discuss the alternatives regarding the amounts due to the government; and
c. Grant the Company a Unified License where it can offer all telecommunication services including fixed services which was issued on 23 Jumada first 1438 H (corresponding to 20 February 2017).

In the fourth quarter of 2018, the Company signed an agreement with the Ministry of Finance, the Ministry of Communications and Information Technology and CITC, 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); and
b. Settlement of the disputed amounts between the Company and CITC regarding the payment of disputed annual royalty fee for the period from 2009 to 2017. Under the condition, that the Company further invests in expanding its infrastructure in addition to other conditions over the next 3 years.

1 ORGANIZATION AND ACTIVITIES (continued)

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, for a total license fee of SR 324 million payable in equal annual installments for 15 years starting from 1 January 2020.

On 10 Rajab 1440 H (corresponding to 17 March 2019) the Company acquired 100 MHz of additional spectrum in the 3.5 GHz spectrum, for a period of 15 years starting from 1 January 2020, for a total license fee of SR 624 million payable in equal annual installments for 13 years starting from 1 January 2022.

On 20 Rajab 1440 H (corresponding to 27 March 2019), the Company announces signing an agreement for the Sale and lease back of its Tower with IHS, worth SR 2.52 billion. The sale of approximately 8,100 passive tower infrastructure and the building of an additional 1,500 (over the next 6 years) together with the lease back of such towers, for 15 years with the option to extend. The transaction should be executed once the approvals of regulatory authorities including CITC is secured. On 20 Shawwal 1440H (corresponding to June 23, 2019), the Company received a letter from CITC stating that the towers purchaser did not meet the regulatory requirements for the purchase and lease of passive towers; therefore, it did not obtain a license to do so. Therefore, the company decided to cancel the sale of towers for this purchaser for regulatory reasons.

The Company incurred net profit from year ended 31 December 2019: SR 485 million, (2018: SR 332 million), had an accumulated deficit of SR 1.6 billion as at this date (31 December 2018: SR 1.8 billion) and the current liabilities of the company exceed the current assets of the company by SAR 1 billion. Based on the latest approved business plan, the Company's management believes that the Company will be successful in meeting its obligations in the normal course of operations. 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 *subsidiaries*

The Company established the following fully owned subsidiaries in KSA:

a. Zain Sales Company is engaged in distributing, selling telecom equipment and handsets; and providing consulting services. Share capital SR 10,000. It has started its operation in the first quarter of 2019.
b. Zain Business Company will engage in establishment, construction, repair and maintenance of telecom stations and towers. Share capital SR 10,000. The company is not operational yet.
c. Zain Payments Company will provide fintech services. Share capital SR 100,000. The company started its operation during the fourth quarter of 2019.
d. Zain Drones Company will provide professional, scientific and technical drones services along with selling and repairing drones. Share capital SR 10,000. The company started its operation during the fourth quarter of 2019

1 ORGANIZATION AND ACTIVITIES (continued)

1.3 *Capital Restructure*

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

1.4 *Approved consolidated financial statements*

These consolidated financial statements were approved by the Board of Directors on 4th of February 2020.

1.5 *Refinancing Arrangements*

On 16 June 2019, the Company has signed a new Junior Murabaha facility agreement amounting to SR 2.25 billion with a consortium of five banks to settle its existing commercial loan which has been obtained from Industrial and Commercial Bank of China (ICBC). The agreement has better terms and will have lower financing cost. The duration of the agreement is two years, with an option to be extended for one year upon Company's request. This loan is fully secured by a corporate guarantee from Mobile Telecommunications Company K.S.C.P. In the third quarter 2019, the Company paid ICBC facility in full from the proceed of the Junior Murabaha facility.

2 BASIS OF PREPARATION

Statement of compliance

The consolidated financial statement have been prepared in accordance with International Financial Reporting Standard "IFRS" as endorsed by SOCPA in the Kingdom of Saudi Arabia along with other pronouncement endorsed by SOCPA and the Company's By-Laws.

IFRS 16 has been applied in preparation of these consolidated financial statements. The main 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 consolidated financial statements. The Company has complied with the requirements in these consolidated financial statements.

(All amounts in Saudi Riyals thousands unless otherwise stated)

2 BASIS OF PREPARATION (continued)

Basis of measurement

These consolidated 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 2018, unless mentioned otherwise.

Basis of consolidation

These consolidated financial statements comprising the consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements of the Company, including assets, liabilities and the results of the operations of the Company and its fully owned subsidiaries, as set out in (note 1.2). Subsidiaries are consolidated from the date on which ownership commences until the date its ceases. Accounting policies of subsidiaries are aligned, where necessary, to ensure consistency with the policies adopted by the Company. The Company and its fully owned subsidiaries have the same reporting periods. The consolidation started in 2019 as the subsidiaries were incorporated in this year; therefore, the statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for 2018 are for the standalone entity.

Functional and presentation currency

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

3 SIGNIFICANT ACCOUNTING POLICIES

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses except for Capital work in progress and Land.

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% or shorter of lease term
Furniture, fixtures and office equipment	20%
Vehicles and other transportation equipment	20%

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

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.

The Company started capitalizing labor direct cost (technical internal salaries) for the new projects and added to telecom equipment in the property and equipment.

Capital advances

Capital advances is paid to supplier of capital equipment. The amount continues to be disclosed as capital advances till such time the asset is delivered. Once the equipment is supplied, the Capital advances is either transferred to telecom equipment or capital work in progress

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%
Indefeasible Rights of Use ("IRU")	6.67% to 10%
Spectrum	6.67%

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

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

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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of tangible and intangible assets

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 bank balances

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.

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 “Operating and administrative 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue

Revenues from operations consist of recurring revenues, such as billings to customers for monthly subscription fees, roaming, leased line and airtime usage fees, and non-recurring revenues, such as one-time connection fees, and telephone equipment and accessory sales.

Handsets and telecommunication services
Revenue from mobile telecommunication services provided to postpaid and prepaid customers is recognized as services are transferred. When the customer performs first, for example, by prepaying its promised consideration, the Company has a contract liability. If the Company performs first by satisfying a performance obligation, the Company has a contract asset. Consideration received from the sale of prepaid credit is recognized as contract liability until such time the customer uses the services when it is recognized as revenue.

The Company provides subsidized handsets to its customers along with mobile telecommunication services. IFRS 15 requires entities to allocate a contract's transaction price to each performance obligation based on their relative stand-alone selling price. This resulted in reallocation of a portion of revenue from trading revenue to service revenue which was earlier recognized upfront on signing of the customer contract and correspondingly a creation of contract asset, which includes also some items previously presented as trade and other receivables. Contract asset represents receivable from customers that has not yet legally come into existence. The standalone selling prices are determined based on observable prices. Revenue from device sales is recognized when the device is delivered to the customer. This usually occurs when a customer signs the contract. For devices sold separately, customer pays in full at the point of sale. Revenue from voice, messaging, internet services etc. are included in the bundled package and are recognized as the services are rendered during the period of the contract.

Value added services - Principal vs. agent
Revenue from value added services (VAS) sharing arrangements depend on the analysis of the facts and circumstances surrounding these transactions. Revenue from VAS is recognized when the Company performs the related service and, depending on the Company's control or lack of control on the services transferred to the customer, is recognized either at the gross amount billed to the customer or the amount receivable by the Company as commission for facilitating the service.

Significant financing component
If a customer can pay for purchased equipment or services over a period, IFRS 15 requires judgement to determine if the contract includes a significant financing component. If it does, then the transaction price is adjusted to reflect the time value of money.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue

Commissions and other contract costs
Under IFRS 15, certain incremental costs incurred in acquiring a contract with a customer is deferred on the consolidated 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 distributors and employees.
Intermediaries are given incentives by the Company to acquire new customers and upgrade existing customers. Activation commission and renewal commission paid on post-paid connections are amortized over the period of the contract. In case of prepaid customers, commission costs are expensed when incurred.

Customer loyalty programs
The Company operates a customer loyalty program that provides a variety of benefits for customers. The Company allocates the consideration received between products and services in a bundle including loyalty points as separate performance obligation based on their stand-alone selling prices.

Installation and activation services
Revenue from sale of SIM is recognized at the point in time upon activation when end customer takes control of the SIM. The Company provides installation services that are bundled together with the sale of devices to a customer. Contracts for bundled sales of devices and installation services are comprised of one performance obligations because the promises to transfer devices and provide installation services are not capable of being distinct. Accordingly, the Company recognizes revenue from bundled sales of devices and installation services over time, using an input method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Company.

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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 9 Financial Instruments *(continued)*

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.

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:

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

***IFRS 9 Financial Instruments** (continued)*

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

- 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.

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

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).

3 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 year in which the hedged item impacts the statement of profit or loss and other comprehensive income.

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical accounting judgments in applying accounting policies

The preparation of consolidated 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 16.

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.

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

At the reporting date, gross trade receivables were SR 1,012 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 18.

Zakat assessments

Provision for zakat and withholding taxes is determined by the Company in accordance with the requirements of the General Authority of Zakat and Tax ("GAZT") and is subject to change based on final assessments received from the GAZT. The Company recognizes liabilities for any anticipated zakat and withholding tax based on management's best estimates of whether additional zakat/taxes will be due. The final outcome of any additional amount assessed by the GAZT is dependent on the eventual outcome of the appeal process which the Company is entitled to. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences could impact the consolidated statement of profit or loss in the period in which such final determination is made.

5 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The Group has initially adopted IFRS 16 "Leases" from 1 January 2019.

The Company has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement requirements. Differences in the carrying amounts of Right of use assets and Lease liability resulting from the adoption of IFRS 16 are recognized in retained earnings and reserves as at 1 January 2019. Accordingly, the information presented for 2018 does not generally reflect the requirements of IFRS 16 but rather those of IAS 17.

Impact of application of IFRS 16 Leases

In the current year, the Company applied IFRS 16 Leases that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

The Company has opted for the modified retrospective application permitted by IFRS 16 upon adoption of the new standard. The Company did not restate any comparative information, instead the cumulative effect of applying the standard is recognized as an adjustment to the opening balance of retained earnings at the date of initial application

The accounting policies of this new standard are disclosed in Note 5. The impact of the adoption of IFRS 16 on the Company's consolidated financial statements is described below.

5 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Impact of the new definition of a lease

The Company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or changed before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on ‘risks and rewards’ in IAS 17 and IFRIC 4.

The Company applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or changed on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract).

(b) Impact on Lessee Accounting

IFRS 16 changes how the Company accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Company:

- Recognizes right-of-use assets for property leases on a modified retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial applications.
- Recognizes lease liabilities at the present value of the remaining lease payments, discounted using the incremental borrowing rate as of 1 January 2019.
- Recognizes depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
- Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cash flows.

Lease incentives (e.g. rent free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight line basis.

Payments associated with leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Low-value assets comprise Information Technology (IT) equipment and small items of office furniture.

There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial applications.

The Company has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17.

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

(All amounts in Saudi Riyals thousands unless otherwise stated)

5 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting for leases

Policy applicable from 1 January 2019

The Company as a lessee

The Company assesses whether contract is or contains a lease, at inception of the Contract. The Company recognizes a right of use asset and a corresponding lease liability on the date on which the lessor makes the asset available for use by the Company (the commencement date).

On that date, the Company measures the right of use at cost, which comprises of:

- the amount of the initial measurement of the lease liability.
- any lease payments made at or before the commencement date, less any lease incentives received
- any initial direct costs, and

an estimate of costs to be incurred to restoring the underlying asset to the condition required by the terms and conditions of the lease as a consequence of having used the underlying asset during a particular period; this is recognised as part of the cost of the right of use asset when the Company incurs the obligation for those costs, which may be at the commencement date or as a consequence of having used the asset during a particular period.

At the commencement date, the Company measures the lease liability at the present value of the lease payments that are not paid at that date. On that date, the lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease payments included in measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Payments associated with leases of short term leases and low-value assets are recognized on a straight-line basis as an expense in profit or loss.

Lease Liabilities

	2019
Balance January 1, 2019	**1,609,819**
Additions	373,200
Finance Cost	83,808
Retirements	(176,064)
Payments	(414,538)
Balance December 31, 2019	**1,476,225**
Current	**364,098**
Non-Current	**1,112,127**

5 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Subsequent Measurement

After the commencement date, the Company measures the right-of-use asset at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight line basis over the shorter of the asset's useful life and the lease term. The Company determines whether a right of use asset is impaired and recognizes any impairment loss identified in the statement of profit or loss. The depreciation starts at the commencement date of the lease.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for an identified impairment loss.

After the commencement date, the Company measures lease liability by increasing the carrying amount to reflect interest on the lease liability and reducing the carrying amount to reflect the lease payment made.

The Company re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Each lease payment is allocated between the liability and the finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The constant periodic rate of interest is the discount rate used at the initial measurement of lease liability.

For a contracts that contain a lease component and one or more additional lease or non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Sale and leaseback
The Company enters into sale and leaseback transactions whereby it sells certain assets to a third-party and immediately leases them back. Where sale proceeds received are judged to reflect the fair value, any gain or loss arising on disposal is recognized in the statement of profit or loss, to the extent that it relates to the rights that have been transferred. Gains and losses that relate to the rights that have been retained are included in the carrying amount of the right of use asset recognized at commencement of the lease. Where sale proceeds received are not at the fair value, any below market terms are recognized as a prepayment of lease payments, and above market terms are recognized as additional financing provided by the lessor.

(All amounts in Saudi Riyals thousands unless otherwise stated)

5 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

Where the Company is the lessor

Leases for which the Company is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

When a contract includes lease and non-lease components, the Company applies IFRS 15 to allocate consideration under the contract to each component.

	2019
Operating lease commitments disclosed as at 31 December 2018	**1,822,285**
Discounted using the lessee's incremental borrowing rate of at the date of initial application	1,295,119
Add/(less): adjustments as a result of a different treatment of extension and termination options and other adjustments	314,700
Lease liability recognized as at 1 January 2019	**1,609,819**
Of which are:	
Current lease liabilities	374,735
Non-current lease liabilities	1,235,084
	1,609,819

The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 01 January 2019 was 5.6 % interest expense on lease liabilities amounted to SR 84 million for the year ended 31 December 2019.

	31 December 2018	**Increase/decrease**	**1 January 2019**
Right of use of assets	-	1,585,203	**1,585,203**
Trade and other receivables	1,586,155	(268,529)	**1,317,626**
Lease liabilities- current	-	374,735	**374,735**
Lease liabilities- non current	-	1,235,084	**1,235,084**
Accumulated deficit	(1,800,156)	(293,145)	**(2,093,301)**

The recognized right-of-use assets relate to the following types of assets:

	Land and building	**Cellular and other equipment**
Balance as of 1 January 2019	1,218,222	366,981
Add: Additions	400,725	14,639
Less: Amortizations	(301,832)	(104,908)
Less: Retirements	(21,488)	(123,860)
Closing balance as at 31 December 2019	**1,295,627**	**152,852**

(All amounts in Saudi Riyals thousands unless otherwise stated)

5 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

The following table summarizes the impact on consolidated statement of financial position as at 31 December 2019:

	As reported	IFRS 16 Adjustments	Amounts without adoption of IFRS 16
ASSETS			
Current assets			
Cash and bank balances	**1,157,438**	-	**1,157,438**
Trade and other receivables	**1,730,294**	266,374	**1,996,668**
Contract assets	**274,956**	-	**274,956**
Inventories	**241,972**	-	**241,972**
Total current assets	**3,404,660**	**266,374**	**3,671,034**
Non-current assets			
Contract assets	**131,253**	-	**131,253**
Right-of-use assets	**1,448,479**	(1,448,479)	**-**
Property and equipment	**6,079,981**	-	**6,079,981**
Capital advances	**457,952**	-	**457,952**
Intangible assets	**16,215,928**	-	**16,215,928**
Total non-current assets	**24,333,593**	**(1,448,479)**	**22,885,114**
TOTAL ASSETS	**27,738,253**	**(1,182,105)**	**26,556,148**
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	**3,443,759**	43,757	**3,487,516**
Current portion of long-term borrowings	**58,941**	-	**58,941**
Deferred revenue	**621,319**	-	**621,319**
Lease liabilities	**364,098**	(364,098)	**-**
Total current liabilities	**4,488,117**	**(320,341)**	**4,167,776**
Non-current liabilities			
Amounts due to related parties	**6,375,763**	-	**6,375,763**
Lease liabilities	**1,112,127**	(1,112,127)	**-**
Other non-current liabilities	**1,111,681**	-	**1,111,681**
Long-term borrowings	**10,314,940**	-	**10,314,940**
Derivative financial instruments	**127,899**	-	**127,899**
Provision for employees' end of service benefits	**104,875**	-	**104,875**
Total non-current liabilities	**19,147,285**	**(1,112,127)**	**18,035,158**
Capital and reserves			
Share capital	**5,837,292**	-	**5,837,292**
Hedging reserve	**(127,899)**	-	**(127,899)**
Other reserves	**1,584**	-	**1,584**
Accumulated deficit	**(1,608,126)**	250,363	**(1,357,763)**
Total capital and reserves	**4,102,851**	**250,363**	**4,353,214**
TOTAL LIABILITIES AND EQUITY	**27,738,253**	**(1,182,105)**	**26,556,148**

(All amounts in Saudi Riyals thousands unless otherwise stated)

5 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

The following table summarizes the impact on the consolidated statement of profit or loss for the year ended 31 December 2019:

	For the year ended 31 December 2019		
	As reported	**IFRS 16 Adjustments**	**Amounts without adoption of IFRS 16**
Revenue	**8,386,227**	-	**8,386,227**
Cost of revenue	**(2,417,721)**	-	**(2,417,721)**
Operating and administrative expenses	**(1,898,652)**	(533,331)	**(2,431,983)**
Depreciation and amortization	**(2,311,551)**	406,740	**(1,904,811)**
Expected credit loss on financial assets (ECL)	**(247,249)**	-	**(247,249)**
Interest income	**26,338**	-	**26,338**
Other income	**10,891**	-	**10,891**
Finance cost	**(1,044,501)**	83,808	**(960,693)**
Net profit before Zakat	**503,782**	(42,783)	**460,999**
Zakat	**(18,607)**	-	**(18,607)**
Net profit for the year	**485,175**	**(42,783)**	**442,392**

6 CASH AND BANK BALANCES

	2019	2018
Cash on hand	**1,119**	711
Cash at banks	**556,319**	516,020
Time deposits	**600,000**	900,000
	1,157,438	1,416,731

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 2019 were 2.47% (2018: 2.26 %). The total commission earned by the Company during 2019 was SR 26.3 million (2018: SR 26.8 million).

(All amounts in Saudi Riyals thousands unless otherwise stated)

7 TRADE AND OTHER RECEIVABLES

	2019	2018
Trade receivables	**2,258,132**	1,798,411
Less: allowance for doubtful debts	**(1,008,828)**	(764,822)
Net trade receivables	**1,249,304**	1,033,589
Advances to suppliers	**59,684**	41,283
Prepayments	**51,693**	300,745
Advances for transmission lines and fiber links	**51,731**	55,957
Other receivables	**317,882**	154,581
	1,730,294	1,586,155

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 23% of the total trade receivables balance (2018:14%). There are no other customers who comprise more than 10% of the total trade receivables balance.

Trade receivables totaling SR 736 million (2018: SR 454 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.

<u>Age of overdue trade receivables not provided for</u>

	2019	2018
60 to 90 days	**443,249**	316,704
120 to 180 days	**103,880**	66,482
180 to 360 days	**111,583**	70,648
Above 360 days	**77,235**	-
	735,947	453,834

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.

(All amounts in Saudi Riyals thousands unless otherwise stated)

7 TRADE AND OTHER RECEIVABLES (continued)

Movement on the allowance for doubtful debts

	2019	2018
Opening balance	**764,822**	625,773
Charged for the year	**244,006**	154,184
Amounts reversed during the year	**-**	(15,135)
Closing balance	**1,008,828**	764,822

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.

8 CONTRACT ASSETS

	2019	2018
Unbilled revenue	**409,452**	304,639
Less: Allowance for impairment losses	**(3,243)**	-
	406,209	304,639
Current	**274,956**	289,197
Non-current	**131,253**	15,442
	406,209	304,639

9 INVENTORIES

	2019	2018
Handsets and accessories	**255,796**	234,109
Sim cards	**1,676**	3,461
Prepaid recharge cards	**1,072**	2,892
Other inventories	**2,589**	1,704
	261,133	242,166
Less: Allowance for slow moving items	**(19,161)**	(19,161)
	241,972	223,005
Cost of inventories recognized as an expense	**1,113,967**	757,280

(All amounts in Saudi Riyals thousands unless otherwise stated)

10 PROPERTY AND EQUIPMENT

	Land	**Leasehold improvements**	**Telecom equipment**	**IT systems and servers**	**Furniture and office equipment**	**Transportation equipment**	**Capital work in progress**	**Total**
Cost								
At 1 January 2019	**6,549**	**359,047**	**12,543,247**	**642,727**	**182,433**	**3,851**	**272,423**	**14,010,277**
Additions	-	4,049	1,158,286	13,237	4,480	-	53,175	**1,233,227**
Disposals / transfers	-	(49,210)	93,308	(24,784)	(42,059)	-	(246,770)	**(269,515)**
At 31 December 2019	**6,549**	**313,886**	**13,794,841**	**631,180**	**144,854**	**3,851**	**78,828**	**14,973,989**
Depreciation								
At 1 January 2019	**-**	**321,471**	**6,859,280**	**555,164**	**147,954**	**3,794**	**-**	**7,887,663**
Additions	-	21,400	1,097,006	41,591	17,305	17	-	**1,177,319**
Disposals	-	(53,724)	(10,089)	(65,195)	(41,966)	-	-	**(170,974)**
At 31 December 2019	**-**	**289,147**	**7,946,197**	**531,560**	**123,293**	**3,811**	**-**	**8,894,008**
Net book value	**6,549**	**24,739**	**5,848,644**	**99,620**	**21,561**	**40**	**78,828**	**6,079,981**

	Land	**Leasehold improvements**	**Telecom equipment**	**IT systems and servers**	**Furniture and office equipment**	**Transportation equipment**	**Capital work in progress**	**Total**
Cost								
At 1 January 2018	6,549	356,542	11,749,258	598,139	176,039	3,851	406,201	13,296,579
Additions	-	2,410	650,399	36,365	6,394	-	47,235	742,803
Disposals / transfers	-	95	143,590	8,223	-	-	(181,013)	(29,105)
At 31 December 2018	6,549	359,047	12,543,247	642,727	182,433	3,851	272,423	14,010,277
Depreciation								
At 1 January 2018	-	298,659	5,822,272	513,352	128,482	3,778	-	6,766,543
Additions	-	22,812	1,037,413	41,866	19,472	16	-	1,121,579
Disposals	-	-	(405)	(54)	-	-	-	(459)
At 31 December 2018	-	321,471	6,859,280	555,164	147,954	3,794	-	7,887,663
Net book value	6,549	37,576	5,683,967	87,563	34,479	57	272,423	6,122,614

The Company has capitalized, internal technical salaries, during the year ended 31 December 2019 amounting to SR 16 million (2018: SR 0)

(All amounts in Saudi Riyals thousands unless otherwise stated)

11 CAPITAL ADVANCES

	2019	2018
Capital advances	**457,952**	429,487

The Capital advances relate to the payment to supplier in advance and before completion of the project for telecom equipment. Upon completion, the amounts recognized as Capital advances are reclassified to PPE **.**

12 INTANGIBLE ASSETS

	License fee*	Computer software licenses	IRU **	Brand	Spectrum***	Total
Cost						
At 1 January 2019	**23,364,230**	**428,456**	**1,127,617**	**7,500**	**705,716**	**25,633,519**
Additions	-	8,966	92,724	-	571,776	**673,466**
Disposals / transfers	-	(240)	5,741	-	500	**6,001**
At 31 December 2019	**23,364,230**	**437,182**	**1,226,082**	**7,500**	**1,277,992**	**26,312,986**
Amortization						
At 1 January 2019	**8,858,983**	**309,791**	**177,019**	**-**	**47,047**	**9,392,840**
Additions	517,133	43,520	81,638	-	85,200	**727,491**
Disposals	-	(23,273)	-	-	-	**(23,273)**
At 31 December 2019	**9,376,116**	**330,038**	**258,657**	**-**	**132,247**	**10,097,058**
Net book value	**13,988,114**	**107,144**	**967,425**	**7,500**	**1,145,745**	**16,215,928**

	License fee*	Computer software licenses	IRU **	Brand	Spectrum***	Total
Cost						
At 1 January 2018	23,364,230	362,393	689,852	7,500	-	24,423,975
Additions	-	47,277	428,191	-	705,716	1,181,184
Disposals / transfers	-	18,786	9,574	-	-	28,360
At 31 December 2018	23,364,230	428,456	1,127,617	7,500	705,716	25,633,519
Amortization						
At 1 January 2018	8,341,849	269,802	112,740	-	-	8,724,391
Additions	517,134	39,989	64,279	-	47,047	668,449
At 31 December 2018	8,858,983	309,791	177,019	-	47,047	9,392,840
Net book value	14,505,247	118,665	950,598	7,500	658,669	16,240,679

(All amounts in Saudi Riyals thousands unless otherwise stated)

12 INTANGIBLE ASSETS (continued)

The net book value and expiry dates of the most significant are as follows:

	End of amortization period	**2019**	2018
License fee	Jan 2047	**13,988,114**	14,505,247
Right of Use (multiple items)	Between 2023 & 2034	**967,425**	950,598
Spectrum 2x10Mhz (1760-1770, 1855-1865)	Dec 2032	**611,620**	658,668
Spectrum 2x10 of 800MHz	Dec 2033	**534,125**	-
		16,101,284	16,114,513

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 corresponds to the radio frequency allocated to the mobile acquired through a bid from CITC. Spectrum is recognized at discount using the interest effective method and amortized on a straight-line basis over contractual payment term. The liability amount related to the Spectrum capitalized under intangible assets is recorded under Other non-current liabilities.

(All amounts in Saudi Riyals thousands unless otherwise stated)

13 TRADE AND OTHER PAYABLES

	2019	2018
Accrued government charges	**819,540**	1,477,380
Trade payables	**966,001**	1,117,312
Accruals	**677,614**	574,353
Notes payable	**432,085**	397,225
Employee related accruals	**74,720**	81,006
Zakat provision	**18,607**	-
Other payables	**455,192**	457,221
	3,443,759	4,104,497

Accrued government charges and other payables contain regulatory and legal provisions for the amount of SR 999 million (2018: SR 1,712 million) with a net movement of 713 million (2018: SR 433 million). This movement in the provision is a non-cash transaction.

Trade payables includes amount due to related parties amounting to SR 4.4 million (2018: SR 32.3 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.

14 LONG-TERM BORROWINGS

	2019	2018
Syndicate Murabaha facility (refer to note 14.1)	**4,535,314**	4,837,087
Industrial and Commercial Bank of China loan (refer to note 14.2)	**-**	2,269,160
Ministry of Finance (refer to note 14.3)	**3,665,974**	3,179,998
Junior Murabaha Facility Agreement (refer to note 14.4)	**2,250,126**	-
Less: debt arrangement costs	**(77,533)**	(91,485)
Total	**10,373,881**	10,194,760
Less: current portion included in current liabilities	**(58,941)**	(2,526,633)
	10,314,940	7,668,127

The carrying amounts of the Company borrowings are denominated in the following currencies:

	2019	2018
Saudi Riyals	**9,076,558**	6,542,447
US Dollar	**1,297,323**	3,652,313
	10,373,881	10,194,760

14 LONG-TERM BORROWINGS (continued)

14-1 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 SR 8.6 billion with the SR portion totaling SR 6.3 billion and the USD portion totaling USD 0.6 billion (SR 2.3 billion). 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 SR 2.7 billion from this facility bringing the outstanding principal to SR 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 SR 5.9 billion with the SR portion totaling SR 4.25 billion and the USD portion totaling USD 0.45 billion (SR 1.705 billion). Moreover, the agreement includes a working capital facility totaling SR 647.3 million with the SR portion totaling SR 462.4 million and the USD portion totaling USD 49.3 million (SR 184.9 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 and fixed assets up to the outstanding balance.

The Company is complying with the existing loan covenants.

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

During the fourth quarter of 2018, the Company made a second early voluntary payment for (SR portion: SR 374.81 million, and the USD portion: USD 40.05 million) totaling SR 525 million.

During the second quarter of 2019, the Company made the third early voluntary payment for (SR portion: SR 214.2 million, and the USD portion: USD 22.88 million) totaling SR 300 million.

14-2 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 facility agreement signed with the Industrial and Commercial Bank of China replace the existing syndicated facility. The facility is unconditionally and irrevocably guaranteed by Mobile Telecommunications Company K.S.C. On 18 March 2018, the Company extended the final maturity date to 8 August 2019. On 3 July 2019, the Company settled the said facility from the proceed of the new Junior Murabaha facility.

(All amounts in Saudi Riyals thousands unless otherwise stated)

14 LONG-TERM BORROWINGS (continued)

14-3 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 SR 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 2019 amounted to SR 3,578 million (31 December 2018: SR 2,898 million).

14-4 Junior Murabaha

On 16 June 2019, the Company has signed a new Junior Murabaha facility agreement amounting to SR 2.25 billion with a consortium of five banks to settle its existing commercial loan which has been obtained from Industrial and Commercial Bank of China (ICBC). The agreement has better terms and will have lower financing cost. The duration of the agreement is two years, with an option to be extended for one year upon Company's request. This loan is fully secured by a corporate guarantee from Mobile Telecommunications Company K.S.C.P. Financing charges are payable in quarterly installments.

15 AMOUNTS DUE TO RELATED PARTIES

	2019	2018
Mobile Telecommunications Company K.S.C (refer to note 15.1)	**1,356,121**	1,140,618
Mobile Telecommunications Company K.S.C (refer to note 15.3)	**4,856,420**	5,277,458
Founding shareholders (refer to note 15.2)	**130,861**	134,888
Infra Capital Investments (refer to note 15.3)	**32,256**	31,661
Other related parties	**105**	78
	6,375,763	6,584,703

15-1 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 14.1.

15-2 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 14.1.

15-3 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 14.1. These amounts include accrued financial charges of SR 1,413 million (2018: SR 1,838 million).

(All amounts in Saudi Riyals thousands unless otherwise stated)

16 OTHER NON-CURRENT LIABILITIES

	2019	2018
Long-term Payable - Spectrum	**922,689**	416,341
Other	**188,992**	175,274
	1,111,681	591,615

17 DERIVATIVE FINANCIAL INSTRUMENTS

The Company entered into profit rate swaps, which mature in 2023. The notional amount of the contract as at 31 December 2019 was SR 2,980 million (2018: 2,980 million) and the fair value was a negative amount of SR 127.9 million (2018: 21.6 million) as at this date. The average contracted fixed interest rate ranges from 1.55% to 3%. A loss of SR 106 million was recognized in other comprehensive income (2018: 19 million) 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.

18 PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS

The Company provides end of service benefits to its employees. The entitlement is based upon the employees' final salary and length of service, subject to the completion of a minimum service year, calculated under the provisions of the labor Law and is payable upon resignation or termination of the employee. The expected costs of these benefits are accrued over the year of employment.

The Company's plan is exposed to actuarial risks such as: discount rate and salary risk.

- Discount risk: A decrease in the discount rate will increase the plan liability.
- Salary risk: The present value of the end of service benefit plan liability is calculated by reference to the estimated future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability

	2019	2018
Opening balance	**93,425**	94,167
Current service cost	**17,596**	18,167
Interest cost	**4,315**	3,952
Payments	**(5,575)**	(17,998)
Actuarial gain	**(4,886)**	(4,863)
Closing balance	**104,875**	**93,425**

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

18 PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS (continued)

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

	2019	2018
Attrition rates	**10% to 13%**	10% to 13%
Salary increases	**4%**	4%
Discount rate	**4.45%**	4.90%

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.

	2019	2018
Base Scenario	**104,875**	93,425
Discount Rate: Increase by 1%	**94,927**	84,184
Discount Rate: Decrease by 1%	**117,200**	104,328
Salary Escalation Rate: Increase by 1%	**117,130**	104,317
Salary Escalation Rate: Decrease by 1%	**94,291**	84,027

Particulars	**2019**	2018
Change in Financial Assumption	**(4,912)**	1,521
Change in the Salary Escalation Rate Assumption	**-**	-
Change in the Discount Rate	**(4,912)**	1,521
Change in Demographic Assumption	**-**	-
Change in the Mortality Rate Assumption	**-**	-
Change in the Attrition Rate Assumption	**-**	-
Experience Adjustment	**9,798**	3,342
Total Actuarial Gain	**4,886**	4,863

Other reserve	**2019**	2018
Opening balance	**(3,302)**	(8,165)
Remeasurement	**4,886**	4,863
Closing balance	**1,584**	(3,302)

19 RETIREMENT BENEFIT CONTRIBUTIONS

The Company paid retirement contributions for its Saudi Arabian employees for year 2019 to the General Organization for Social Insurance SR 25 million (2018: SR 18 million)

20 SHARE CAPITAL

The share capital of the Company as at 31 December 2019 comprised 583,729,175 shares (31 December 2018: 583,729,175) stated at SR 10 per share owned.

(All amounts in Saudi Riyals thousands unless otherwise stated)

21 REVENUE

Disaggregated revenue information
The total revenue disaggregated by major service lines is:

	2019	2018
Usage charges	**5,168,081**	4,437,112
Subscription	**1,921,340**	2,336,533
Sale of goods	**1,135,921**	727,063
Other revenue	**160,885**	29,819
	8,386,227	7,530,527

Timing of revenue recognition		
PO satisfied at a point in time	**1,135,921**	727,063
PO satisfied over a period of time	**7,250,306**	6,803,464

22 COST OF REVENUE

	2019	2018
Access charges	**1,071,244**	739,762
Cost of devices	**1,106,428**	746,413
Other	**240,049**	619,793
	2,417,721	2,105,968

23 OERATING AND ADMINISTRATIVE EXPENSES

	2019	2018
Employees' salaries and related charges	**622,825**	667,577
Rent expenses	**51,461**	455,481
Repairs and maintenance	**478,904**	509,562
Management and Branding fees (Note 15)	**215,504**	203,324
Biometric Expense	**22,241**	17,876
Microwave Frequency	**94,390**	88,421
Advertising	**112,098**	73,044
Leased lines	**56,140**	67,846
Utilities	**75,003**	60,938
Consulting	**56,568**	38,447
Other	**113,518**	78,605
	1,898,652	2,261,121

24 OTHER INCOME

	2019	2018
Foreign exchange (loss) / gains	**(1,246)**	3,536
Income from government grant	**9,290**	18,142
Gain on disposal of assets	**2,847**	2,211
Tax (non) / refundable	**-**	(6,847)
	10,891	17,042

(All amounts in Saudi Riyals thousands unless otherwise stated)

25 FINANCE COST

	2019	2018
Syndicate Murabaha facility	**342,560**	393,850
Related parties	**323,893**	304,174
Ministry of Finance	**131,326**	102,767
Interest on Leases liability	**83,808**	-
ICBC facility	**69,661**	106,310
Murabaha facility junior	**39,584**	-
Interest on Spectrum	**53,669**	23,501
Export credit facility	**-**	130
	1,044,501	930,732

26 COMPONENTS OF ZAKAT BASE

The significant components of the Company's approximate zakat base, for the year ended December 31, 2019, which are subject to certain adjustments under zakat and income tax regulations, principally comprise the following:

	2019	2018
Shareholders' equity at beginning of year	**4,037,136**	3,574,338
Provisions at beginning of year	**1,130,340**	1,088,621
Long-term borrowings and shareholders' advances	**16,662,260**	15,565,448
Other non – current liabilities	**922,688**	167,381
Adjusted net profit for the year (see below)	**744,268**	495,086
Property and equipment	**(6,079,981)**	(6,122,614)
Intangible assets	**(16,215,928)**	(16,240,679)
Capital advances	**(457,952)**	-
Approximate positive Zakat base of the Company	**742,831**	(1,472,419)

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

Components of adjusted net profit

	2019	2018
Net profit for the year	**485,175**	332,362
Provision for employees' end of service benefits	**11,450**	-
Allowance for doubtful debts and slow moving inventory	**244,006**	139,050
Other provisions	**3,637**	23,674
Adjusted net profit for the year	**744,268**	495,086

Zakat provision	**2019**	2018
Balance at beginning of the year	**-**	-
Charge for the year	**18,607**	-
Balance at end of the year	**18,607**	-

Zakat provision is mentioned under Note 13

26 COMPONENTS OF ZAKAT BASE (continued)

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 2018 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.

27 EARNINGS PER SHARE

Basic and diluted Earnings per share is based on the profit for the year of SR 485 million (2018: SR 332 million) divided by the weighted average number of shares in issue of 583,729,175 (2018: 583,729,175).
No figure for diluted earnings per share has been calculated as there are no potentially dilutive ordinary shares outstanding.

28 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.

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

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(All amounts in Saudi Riyals thousands unless otherwise stated)

28 FINANCIAL INSTRUMENTS (Continued)

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.

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

Foreign currency risk management

Details	**Date**	**Foreign currency**	**Foreign currency amount**	**Exchange rate**	
Trade and other payables	**2019**	**Euro**	**307**	**4.06**	**1,245**
Trade and other payables	2018	Euro	224	4.15	929

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

2019 **Details**	**Foreign currency**	**Foreign currency amount**	**Exchange rate**	
Cash and bank balances	**Euro**	**144**	**4.20**	**607**
Cash and bank balances	**GBP**	**361**	**4.84**	**1,749**
				2,356

2018 Details	Foreign currency	Foreign currency amount	Exchange rate	
Cash and bank balances	Euro	2,618	4.29	11,219
Cash and bank balances	GBP	396	4.76	1,886
				13,105

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 year 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.

(All amounts in Saudi Riyals thousands unless otherwise stated)

28 FINANCIAL INSTRUMENTS (continued)

2019 Currency	**Impact on profit**
Euro	**30**
GBP	**87**

2018 Currency	Impact on profit
Euro	562
GBP	94

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 2019 would decrease or increase by SR 54,252,164 (31 December 2018: SR 52,349,709). This is mainly attributable to the Company's exposure to interest rates on its variable rate borrowings;

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 7. 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.

Expected credit loss (ECL) measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition wherein if a financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and if the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3.

28 FINANCIAL INSTRUMENTS (continued)

Significant increase in credit risk

When determining whether the risk of default has increased significantly since initial recognition, the Company considers quantitative, qualitative information and backstop indicators and analysis based on the Company's historical experience and expert credit risk assessment, including forward-looking information. For customer, distributors, roaming and interconnect trade receivables significant increase in credit risk criteria does not apply since the Company is using simplified approach which requires use of lifetime expected loss provision.

For amounts due from banks, the Company uses the low credit risk exemption as permitted by IFRS 9 based on the external rating agency credit grades. If the financial instrument is rated below BBB- (sub investment grade) on the reporting date, the Company considers it as significant increase in credit risk.

Financial instrument is determined to have low credit risk if:

- The financial instrument has a low risk of default,
- The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Company considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

Credit impaired assets

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, there is sufficient doubt about the ultimate collectability; or the customer is past due for more than 90 days.

Incorporation of forward looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Company has performed historical analysis and identified Gross Domestic Product (GDP) of each geography in which they operate as the key economic variables impacting credit risk and ECL for each portfolio. Relevant macro-economic adjustments are applied to capture variations from economic scenarios. These reflect reasonable and supportable forecasts of future macro-economic conditions that are not captured within the base ECL calculations. Incorporating forward-looking information increases the degree of judgement required as to how changes in GDP will affect ECLs. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

(All amounts in Saudi Riyals thousands unless otherwise stated)

28 FINANCIAL INSTRUMENTS (continued)

The following table contains an analysis of the maximum credit risk exposure of financial instruments for which an ECL allowance is recognized:

	2019					2018
	ECL staging					
	Stage 1	Stage 2	Stage 3	Simplified approach		
	12 Month	Lifetime	Lifetime	Lifetime	Total	Total
Customers				**1,638,123**	**1,638,123**	1,269,860
Distributors				**274,039**	**274,039**	157,245
Contract assets				**409,452**	**409,452**	-
Less: ECL				**(1,009,403)**	**(1,009,403)**	(761,720)
				1,312,211	**1,312,211**	665,385
Roaming partners				**43,834**	**43,834**	56,263
Other operators (interconnect)				**289,233**	**289,233**	303,153
Less: ECL				**(2,586)**	**(2,586)**	(3,010)
				330,481	**330,481**	356,406
Other receivables				**12,903**	**12,903**	11,890
Less: ECL				**(82)**	**(82)**	(92)
				12,821	**12,821**	11,798

ECL allowance of trade and other receivables are assessed as follows:

	2019	2018
Collectively assessed	**1,009,403**	761,720
Individually assessed	**2,668**	3,102
	1,012,071	764,822

(All amounts in Saudi Riyals thousands unless otherwise stated)

28 FINANCIAL INSTRUMENTS (continued)

The following table shows the movement in the loss allowance that has been recognized for trade and other receivables:

	Collectively assessed	**Individually assessed**	**Total**
1 January 2019 under IFRS 9	761,720	3,102	764,822
Amounts reversed	(2,809)	(434)	(3,243)
Net increase in loss allowance	250,492	-	250,492
31 December 2019	**1,009,403**	**2,668**	**1,012,071**

For customer, distributor and contract assets, the Company uses a provision matrix based on the historic default rates observed and adjusted for forward looking factors to measure ECL as given below.

	2019			2018		
Aging brackets Of postpaid trade receivables	Estimated total gross carrying amount at default	Expected credit loss rate %	Lifetime ECL	Estimated total gross carrying amount at default	Expected credit loss rate %	Lifetime ECL
Not due /< 30 days	**899,860**	**0.40%**	**3,606**	433,725	0.80%	3,461
31 – 60 days	**87,086**	**0.12%**	**108**	46,869	1.95%	913
61 – 90 days	**36,328**	**0.13%**	**47**	39,370	3.06%	1,207
91 – 180 days	**129,374**	**19.71%**	**25,494**	85,491	12.50%	10,683
> 181 days	**187,608**	**40.52%**	**76,025**	99,916	23.74%	23,722
> 361 days	**981,358**	**92.13%**	**904,123**	721,734	100 %	721,734
	2,321,614		**1,009,403**	1,427,105		761,720

Credit quality of roaming, interconnect and other balances:

	2019	2018
Credit quality – Performing	**343,972**	368,971
Impaired	**1,998**	2,335
ECL	**(2,668)**	(3,102)
	343,302	368,204

(All amounts in Saudi Riyals thousands unless otherwise stated)

28 FINANCIAL INSTRUMENTS (continued)

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. 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.

	Less than one year	1 to 5 years	More than 5 years	Total contractual cash flows	Carrying amount
At 31 December 2019					
Borrowings	**482,065**	**11,062,654**	**394,868**	**11,939,587**	**10,373,881**
Trade and notes payable	**1,853,278**			**1,853,278**	**1,853,278**
Due to related parties	**-**	**7,521,651**	**-**	**7,521,651**	**6,375,763**
Lease liabilities	**484,563**	**1,102,523**	**549,068**	**2,136,154**	**1,476,225**
Long term payables - Spectrum	**-**	**476,391**	**776,392**	**1,252,783**	**922,689**
Derivatives	**127,899**	**-**	**-**	**127,899**	**127,899**
	2,947,805	**20,163,219**	**1,720,328**	**24,831,352**	**21,129,735**
At 31 December 2018					
Borrowings	2,682,496	8,494,051	519,928	11,696,475	10,194,760
Trade and notes payable	1,971,758	-	-	1,971,758	1,971,758
Due to related parties	-	8,071,779	-	8,071,779	6,584,703
Long term payables - Spectrum	-	236,392	295,490	531,882	416,341
Derivatives	21,586	-	-	21,586	21,586
	4,675,840	16,802,222	815,418	22,293,480	19,189,148

28 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 Companying 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 except for hedging. 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.

The fair value of these derivatives was categorized as level 2.

Level 2 derivative financial instruments, these derivatives are valued using widely recognized valuation models. The Company relies on the counterparty for the valuation of these derivatives. The valuation techniques applied by the counterparties include the use of forward pricing standard models using present value calculations and mid-market valuations. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, credit spreads, foreign exchange rates, and forward and spot prices. (note 17).

(All amounts in Saudi Riyals thousands unless otherwise stated)

28 FINANCIAL INSTRUMENTS (continued)

	2019	2018
Financial Assets		
Financial assets at amortized cost:		
Cash and banks	**1,157,438**	1,416,731
Trade receivables	**1,249,304**	1,033,589
Total financial assets at amortized cost	**2,406,742**	2,450,320
Total financial assets	**2,406,742**	2,450,320
FINANCIAL LIABILITIES		
Financial liabilities at amortized cost:		
Trade payables and Notes payable	**1,853,278**	1,971,758
Due to related parties	**6,375,763**	6,584,703
Other non-current liabilities	**1,111,681**	591,615
Lease liability	**1,476,225**	-
Borrowings	**10,373,881**	10,194,760
Total Financial liabilities at amortized cost:	**21,190,828**	19,342,836
Financial liabilities at fair value:		
Derivative Financial Instruments	**127,899**	21,586
Total financial liabilities at fair value	**127,899**	21,586
Total financial liabilities	**21,318,727**	19,364,422

29 RELATED PARTY INFORMATION

During the year, the Company transacted with following related parties

Party	**Relationship**
Oman Telecommunications Company SAOG	Parent Company of Mobile Telecommunications Company KSCP
Mobile Telecommunications Company K.S.C. P (Zain Group)	Founding shareholder/ Parent Company
Zain Bahrain	Subsidiary to Zain Group
Zain Sudan	Subsidiary to Zain Group
MTC Lebanon S.A.R.L.	Subsidiary to Zain Group
Zain Iraq/ Atheer Telecom Iraq Limited ‘Atheer’	Subsidiary to Zain Group
Zain Global Communications Co. SPC	Subsidiary to Zain Group

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

	2019	2018
Revenue from a subsidiaries	**19,415**	14,575
Purchases from a subsidiaries	**78,301**	11,988
Fees charged by a Founding shareholders (note 23)	**215,504**	203,324
Finance charges charged by a Founding shareholder (note 25)	**323,893**	304,174

(All amounts in Saudi Riyals thousands unless otherwise stated)

29 RELATED PARTY INFORMATION(continued)

The following balances were outstanding at the reporting date:

	2019	2018
Amounts due to a Founding shareholders	**6,375,658**	6,584,625
Amounts due to a subsidiaries	**105**	78
Amounts due from a Founding shareholders	**2,295**	721
Amounts due from a subsidiaries	**230**	-

Other amounts due to related parties are disclosed in note 15.

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 15. No amounts have been expensed in the current year for doubtful debts in respect of amounts owed by related parties.

Compensations and benefits to key management personal comprising remunerations to Board of Directors and other senior management members

	2019	2018
Short-term benefits	**33,194**	26,257
Long-term benefits	**2,502**	626

30 CAPITAL COMMITMENTS

The Company had capital commitments totaling SR 1,441 million (31 December 2018: SR 1,206 million)

The Company had contractual commitments for intangible assets totaling SR 948 million, related to Spectrum acquired in 2019 to be made operational in 2020, at the reporting date (31 December 2018: SR 840 million)

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 Company's Net debt to equity ratio at the end of the year is as follows:

	2019	2018
Net Debt	**9,216,443**	8,778,029
Equity	**4,102,851**	4,012,248
Net debt to equity ratio	**2.25**	2.19

(All amounts in Saudi Riyals thousands unless otherwise stated)

31 GOVERNMENT GRANTS RECEIVED

The Company received total government grant income during 2019: SR 18 million (2018: SAR 713 million). An amount of SR 172 million was set off against property and equipment (2018: SR 659 million).and SR 9 million was included in the net profit of this year (2018: SR 18 million).

32 CONTINGENT LIABILITIES

The Company had contingent liabilities in the form of letters of guarantee and letters of credit amounting to SR 262 million as at 31 December 2019 (31 December 2018: SR 260 million).

	2019	2018
Letter of Guarantee	**100,286**	99,059
Letter of Credit	**161,250**	161,250
	261,536	260,309

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.

The CITC's violation committee has issued several penalty resolutions against the Company; which the Company has objected to. The reasons of issuing these resolutions vary between linking ID for the issued prepaid SIM Cards and providing promotions that have not been approved by CITC and/or other reasons.

33 SEGMENT REPORTING

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

	For the year ended 31 December	
Revenues	**2019**	2018
Mobile Telecommunications Company	**8,084,684**	7,530,527
Zain Sales Company	**2,874,790**	-
Zain Payments	**23**	-
Zain Drones	**-**	-
Eliminations / Adjustments	**(2,573,270)**	-
Total Revenues	**8,386,227**	7,530,527
Cost of operations	**(4,316,373)**	(4,367,089)
Depreciation and amortization	**(2,311,551)**	(1,790,028)
Expected credit loss on financial assets (ECL)	**(247,249)**	(154,184)
Interest income	**26,338**	26,826
Other income	**10,891**	17,042
Finance cost	**(1,044,501)**	(930,732)
Zakat	**(18,607)**	-
Net Profit	**485,175**	332,362

(All amounts in Saudi Riyals thousands unless otherwise stated)

33 SEGMENT REPORTING (continued)

Revenue reported above represents revenue generated from external and internal customers. There were SR 2,573 million in 2019 intercompany revenue and adjustments for Zain Sales Company eliminated at consolidation.

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

<u>**Assets**</u>	**2019**	2018
Mobile Telecommunications Company	**31,947,008**	26,323,310
Zain Sales Company	**3,765,265**	-
Zain Payments	**734**	-
Zain Drones	**317**	-
Eliminations / Adjustments	**(7,975,071)**	-
Total Assets	**27,738,253**	26,323,310
<u>**Liabilities**</u>		
Mobile Telecommunications Company	**27,952,376**	22,311,062
Zain Sales Company	**3,666,648**	-
Zain Payments	**880**	-
Zain Drones	**584**	-
Eliminations / Adjustments	**(7,985,086)**	-
Total Liabilities	**23,635,402**	22,311,062

The major addition and disposals in Property and equipment and intangibles along with associated depreciation and amortization relate to Mobile Telecommunications Company.

34 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 and substance of transaction, a reclassification made in the Statement of Financial Position for Advances to capital goods from Property and equipment (CWIP) to Capital advances for the amount of SAR 458 million as at 31 December 2019 and from Trade and other receivables to Capital advances for the amount of SAR 429 million as at 31 December 2018.