ARABIAN INTERNET AND COMMUNICATION SERVICES COMPANY AND ITS SUBSIDIARY

(A LIMITED LIABILITY COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS
TO THE PARTNERS OF ARABIAN INTERNET AND COMMUNICATION SERVICES COMPANY (A LIMITED LIABILITY COMPANY)

Opinion
We have audited the consolidated financial statements of Arabian Internet and Communication Services Company and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the 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 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants.

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing 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 professional code of conduct and ethics 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.

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 International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountant] and the provisions of Companies' Law and the Company's Articles of Association, 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.

Auditor's 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 International Standards on Auditing that are 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS
TO THE PARTNERS OF ARABIAN INTERNET AND COMMUNICATION SERVICES COMPANY
(A LIMITED LIABILITY COMPANY) (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- 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 evidence 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.

- 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 Group 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.

for Ernst & Young

Yousef A. AlMubarak
Certified Public Accountant
License No. (427)

Riyadh: 7 Shawwal 1440H
(10 June 2019)

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ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

ARABIAN INTERNET AND COMMUNICATION SERVICES COMPANY AND ITS SUBSIDIARY

(A LIMITED LIABILITY COMPANY)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 SR	2017 SR (Restated - note 34)
Revenue	6	**4,041,299,094**	2,962,261,759
Cost of revenue		**(3,076,251,709)**	(2,047,609,184)
Gross profit		**965,047,385**	914,652,575
Selling and distribution expenses	7	**(113,017,200)**	(86,140,622)
General and administration expenses	8	**(270,184,574)**	(207,276,453)
Impairment of accounts receivable and contract assets	29	**(9,521,224)**	(51,196,193)
Foreign exchange loss		**(332,995)**	(451,391)
Other income	9	**5,974,989**	6,557,555
Net profit before finance income and zakat		**577,966,381**	576,145,471
Finance income	10	**30,320,270**	23,849,859
Finance charges		**-**	(2,529,141)
Net profit before zakat		**608,286,651**	597,466,189
Zakat	11	**(51,831,227)**	(47,604,307)
Net profit for the year		**556,455,424**	549,861,882
Other comprehensive income			
Item that will not be reclassified subsequently to consolidated profit or loss:			
Remeasurement of end of service indemnities	24	**10,790,000**	11,400,000
Total comprehensive income for the year		**567,245,424**	561,261,882

The accompanying notes (1) to (37) form an integral part of these consolidated financial statements

ARABIAN INTERNET AND COMMUNICATION SERVICES COMPANY AND ITS SUBSIDIARY

(A LIMITED LIABILITY COMPANY)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Note	31 December 2018 SR	31 December 2017 SR (Restated - note 34)	1 January 2017 SR (Restated - note 34)
ASSETS				
Current assets				
Cash and cash equivalents	12	**892,386,612**	595,783,139	482,128,145
Murabaha time deposits	13	**230,400,000**	800,000,000	300,000,000
Accounts receivable	14	**1,829,107,460**	976,519,383	1,136,294,602
Prepayments and other assets	15	**301,086,986**	135,571,878	396,983,966
Contract assets	16	**867,957,649**	852,852,951	586,600,607
Inventories	17	**140,296,933**	71,375,837	51,198,653
Total current assets		**4,261,235,640**	3,432,103,188	2,953,205,973
Non-current assets				
Contract costs		**22,557,665**	-	-
Equity investments at fair value through other comprehensive income	18	**50,000**	50,000	1,050,000
Intangible assets	19	**64,203,934**	34,277,915	10,155,891
Property and equipment	20	**102,002,033**	41,582,680	29,414,404
Total non-current assets		**188,813,632**	75,910,595	40,620,295
TOTAL ASSETS		**4,450,049,272**	3,508,013,783	2,993,826,268
LIABILITIES AND EQUITY				
LIABILITIES				
Current liabilities				
Accounts payable and accruals	21	**1,236,167,526**	815,327,486	1,137,645,603
Deferred revenue	22	**987,924,871**	480,718,121	314,802,033
Contract liabilities	23	**335,775,703**	647,538,907	609,624,310
Zakat payable	11	**99,050,504**	74,048,117	26,537,052
Total current liabilities		**2,658,918,604**	2,017,632,631	2,088,608,998
Non-current liability				
End of service indemnities	24	**125,754,092**	92,250,000	68,348,000
Total non-current liability		**125,754,092**	92,250,000	68,348,000
TOTAL LIABILITIES		**2,784,672,696**	2,109,882,631	2,156,956,998

The accompanying notes (1) to (37) form an integral part of these consolidated financial statements

ARABIAN INTERNET AND COMMUNICATION SERVICES COMPANY AND ITS SUBSIDIARY
(A LIMITED LIABILITY COMPANY)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 DECEMBER 2018

	Note	31 December 2018 SR	31 December 2017 SR (Restated - note 34)	1 January 2017 SR (Restated - note 34)
EQUITY				
Share capital	25	**100,000,000**	100,000,000	100,000,000
Statutory reserve	26	**50,000,000**	50,000,000	50,000,000
Retained earnings		**1,515,376,576**	1,248,131,152	686,869,270
TOTAL EQUITY		**1,665,376,576**	1,398,131,152	836,869,270
TOTAL LIABILITIES AND EQUITY		**4,450,049,272**	3,508,013,783	2,993,826,268

The accompanying notes (1) to (37) form an integral part of these consolidated financial statements

ARABIAN INTERNET AND COMMUNICATION SERVICES COMPANY AND ITS SUBSIDIARY

(A LIMITED LIABILITY COMPANY)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital	Statutory reserve	Retained-earnings	Total
	SR	SR	SR	SR
Balance as at 31 December 2017	100,000,000	50,000,000	1,317,196,798	1,467,196,798
Adjustments due to initial application of IFRS 9 & IFRS 15 (note 34)	-	-	(69,065,646)	(69,065,646)
Adjusted balance as at 1 January 2018 (Restated - note 34)	100,000,000	50,000,000	1,248,131,152	1,398,131,152
Total comprehensive income for the period	-	-	567,245,424	567,245,424
Dividends (note 27)	-	-	(300,000,000)	(300,000,000)
Balance as at 31 December 2018	**100,000,000**	50,000,000	**1,515,376,576**	**1,665,376,576**
Balance at 1 January 2017	100,000,000	50,000,000	688,948,659	838,948,659
Adjustments due to initial application of IFRS 9 & IFRS 15 (note 34)	-	-	(2,079,389)	(2,079,389)
Adjusted balance as at 1 January 2017 (Restated)	100,000,000	50,000,000	686,869,270	836,869,270
Total comprehensive income for the period (Restated - note 34)	-	-	561,261,882	561,261,882
Balance as at 31 December 2017 (Restated – note 34)	100,000,000	50,000,000	1,248,131,152	1,398,131,152

The accompanying notes (1) to (37) form an integral part of these consolidated financial statements

ARABIAN INTERNET AND COMMUNICATION SERVICES COMPANY AND ITS SUBSIDIARY

(A LIMITED LIABILITY COMPANY)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER

	Notes	2018 SR	2017 SR
OPERATING ACTIVITIES			
Net profit before zakat		**608,286,651**	597,466,189
Adjustments for:			
Provision for end of service indemnities	24	**52,806,092**	45,460,000
Depreciation and amortization	19,20	**42,994,297**	18,214,121
Impairment of accounts receivable and contract assets	29	**9,521,224**	51,196,193
Provision for penalties		**7,966,374**	1,454,959
Finance income	10	**(30,320,270)**	(23,849,859)
Reversal for future estimated contract losses		**(8,341,518)**	(4,621,301)
(Reversal) / provision of slow moving and obsolete inventories	17	**(4,442,667)**	6,569,677
Provision for advances to suppliers	8	**(2,345,488)**	29,155,467
Impairment of equity investments at FVOCI		**-**	1,000,000
Finance charges		**-**	2,529,141
		676,124,695	724,574,587
Changes in operating assets and liabilities:			
(Increase)/decrease in accounts receivable		**(870,075,675)**	107,124,067
(Increase)/decrease in prepayments and other assets		**(164,036,925)**	243,204,155
Increase in contract assets		**(15,104,698)**	(266,252,344)
Increase in inventories		**(64,478,429)**	(26,746,861)
Increase in contract costs		**(22,557,665)**	-
Increase/(decrease) in accounts payable and accruals		**429,181,558**	(317,696,816)
Increase in deferred revenue		**507,206,750**	165,916,088
(Decrease)/increase in contract liabilities		**(311,763,204)**	37,914,597
Cash generated from operations		**164,496,407**	668,037,473
Zakat paid	11	**(26,828,840)**	(93,242)
End of service indemnities paid	24	**(8,512,000)**	(10,158,000)
Finance charges paid		**-**	(16,369,763)
Finance income received		**31,187,575**	26,742,947
Net cash generated from operating activities		**160,343,142**	668,159,415

The accompanying notes (1) to (37) form an integral part of these consolidated financial statements

ARABIAN INTERNET AND COMMUNICATION SERVICES COMPANY AND ITS SUBSIDIARY

(A LIMITED LIABILITY COMPANY)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER

	Notes	2018 SR	2017 SR
INVESTING ACTIVITIES			
Net movement of Murabaha time deposits		**569,600,000**	(500,000,000)
Purchase of property, equipment and intangible assets	19,20	**(133,339,669)**	(54,504,421)
Net cash generated from/(used) in investing activities		**436,260,331**	(554,504,421)
FINANCING ACTIVITY			
Dividend paid		**(300,000,000)**	-
Cash used in financing activity		**(300,000,000)**	-
Net increase in cash and cash equivalents		**296,603,473**	113,654,994
Cash and cash equivalents at the beginning of the year		**595,783,139**	482,128,145
Cash and cash equivalents at the end of the year		**892,386,612**	595,783,139

The accompanying notes (1) to (37) form an integral part of these consolidated financial statements

1- ACTIVITIES

Arabian Internet and Communication Services Company ("the Company") is a Saudi Limited Liability Company registered in Saudi Arabia under commercial registration numbered 1010183482 and dated 8 Dhul Qadah 1423H (corresponding to 10 January 2003). The registered office is located at Riyadh, Olaya street, P.O. Box 50, Riyadh 11372, Kingdom of Saudi Arabia ("KSA").

The Company is engaged in electrical, mechanical and electronic contracting works. It also covers installation, maintenance of wireless, line telecommunications equipment, licensed information technology and professional services related to senior management, which includes general management, finance, marketing, human resourcing, production management and public relations.

The following are the details of the subsidiary company included in these consolidated financial statements:

Subsidiary	Country of incorporation	Ownership %		
		31 December 2018	31 December 2017	1 January 2017
Saudi Digital Payments Company (Owned by One Person)	Kingdom of Saudi Arabia	**100%**	100%	-

Saudi Digital Payments Company (Owned by One Person) ("the Subsidiary") is a Limited Liability Company registered in Riyadh, Kingdom of Saudi Arabia under commercial registration numbered 1010901344 and dated 1 Rabi Awal 1439H (corresponding to 19 November 2017) with a capital of SR 100 million paid in cash. The Subsidiary has 100,000 shares with a nominal value of SR 1,000 per share and it is fully owned by the Company. The principal activities of the Subsidiary are operating systems, e-commerce and internet trading.

The Company and the subsidiary's (together the "Group") immediate and ultimate controlling party is Saudi Telecom Company ("stc"), a company incorporated in the Kingdom of Saudi Arabia.

On 2 Muharram 1440 (corresponding to 12 September 2018), the board of directors of stc has decided to transfer the ownership of the subsidiary from the Company to stc. The legal formalities to transfer the ownership are still in process and hence the assets, liabilities and results of the subsidiary are still consolidated in these consolidated financial statements.

On 16 Muharram 1440H (corresponding to 26 September 2018), the Board of Directors of the Company decided to register a new company in Egypt. The legal proceedings regarding this is still in process.

The consolidated financial statements were authorized for issue in accordance with the resolution of the Board of Directors on 11 Shaban 1440H (corresponding to 16 April 2019).

2- BASIS OF PREPARATION

Statement of compliance

These are the Company and the subsidiary's (together the "Group"), complete set of consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRSs) that are endorsed in KSA and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRSs as endorsed in KSA").

This is the first set of the Group's annual financial statements in which IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" have been applied. Changes to significant accounting policies are described in note 3.

These consolidated financial statements are based on the following:

- Significant accounting policies described in note 3
- Significant accounting estimates, assumptions and judgements described in note 5

3- SIGNIFICANT ACCOUNTING POLICIES

Basis of measurement and functional currency

The consolidated financial statements have been prepared on the historical cost basis except for measurement of equity investments at fair value through other comprehensive income at fair value as explained in the relevant accounting policies referred to below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. These consolidated financial statements are presented in Saudi Arabian Riyal (SR), which is the Company's functional currency.

The significant accounting policies applied by the Group in the preparation of consolidated financial statements are set out below:

Basis of consolidation

Refer to note 5 for details on judgements applied by the Group in respect of determination of control.

These consolidated financial statements include the assets, liabilities and the results of operations of the Company and the subsidiary listed in note (1).

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to the elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed during the year are included in the consolidated financial statements from the date the Company gains control until the date the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the partners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiary to bring their accounting policies into line with the Company's accounting policies. All intra-group asset and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3- SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Principles of consolidation

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- derecognizes the carrying amount of any non-controlling interests;
- derecognizes the cumulative translation differences recorded in equity;
- recognizes the fair value of the consideration received;
- recognizes the fair value of any investment retained;
- recognizes any surplus or deficit in the consolidated statement of profit or loss; and
- reclassifies the partner's share of components previously recognized in consolidated other comprehensive income to consolidated profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

When the Group ceases to consolidate for an investment in subsidiary because of a loss of control, any retained interest in the entity is re-measured to its fair value with the change in carrying amount recognized in the consolidated profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate or financial asset. In addition, any amounts previously recognized in consolidated other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in consolidated other comprehensive income are reclassified to the consolidated profit or loss.

3- SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting policies

IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 supersedes IAS 11, Construction Contracts, IAS 18, Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted IFRS 15 using the full retrospective method of adoption. The effect of adopting IFRS 15 is disclosed in note 34 to the consolidated financial statements.

System integration services

System integration revenue represents revenue generated by the installation of new network (hardware and software) or enhancing the existing customer network. Under IAS 18 and IAS 11, revenue is recognized by using the stage of completion method. However, hardware and software and installation are bundled into a single performance obligation as the goods and services are not distinct within the context of the contract because they are not separately identifiable from other promises in the contract. The Group provides a significant service of integrating the hardware and software, which the customer has purchased. The Group also provides right to maintenance and support service to its customer (i.e. sells maintenance and support). These services are stand-ready services and the cost incurred on them are directly attributable to the project. Sometimes the service integration contract includes multiple deliverables such as training solutions and maintenance and support. In this case, the transaction price will be allocated to each performance obligations based on the stand-alone selling prices.

Where these are not directly observable, they are estimated based on expected cost plus margin.

3- SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting policies (continued)

IFRS 15 "Revenue from Contracts with Customers" (continued)

The Group recognizes revenue relating to installed hardware and software along with design and professional services over time using the input method which includes the uninstalled material, where revenue on equipment and materials is recognized only upon transfer of control to the customers upon delivery i.e. at a zero percent profit margin.

Revenue on selling maintenance and support is recognized at a point in time when the transfer of the right to the service to customer occurs.

Revenue on training is recognized over time using input method.

The Group offers perpetual and limited life licenses, which are accounted for as a performance obligation satisfied at a point in time at which the license is granted to the customer. The license, support service and upgrades are separate performance obligations. The Group recognizes the revenue when control transfers. Revenue is not recognized for a license that provides a right to use the intellectual property before the beginning of the period during which the customer is able to use and benefit from the license. In the case of sale of software licenses together with the hardware devices, the device and software will be accounted for as one performance obligation, without the software license being a separate performance obligation. The revenue from the one performance obligation will be recognized in accordance with the relevant treatment for the hardware device.

Cloud and data center services

Cloud and data center service revenue represent revenue generated by selling the cloud and data center products hosted on the marketplace. and falls broadly into two options:

a- The Group's own off-the-shelf or customized cloud products:

Cloud products are primary responsibility of the Company and certain third party Cloud Service Providers ("CSP"). The Group has the primary obligation to render services to the customer for its own off-the-shelf or customized cloud products to fulfil its performance obligation. The Group has responsibility for meeting customer specifications. The Group also has discretion for establishing the prices for respective cloud product. Generally, there is no inventory involved as such. Cases where equipment's or sms's are separately sold to customer, the Group bears the inventory risk. Therefore, the Group is the principal under this arrangement because it controls the specified cloud service before they are transferred to the end customer and, consequently, shall recognize revenue in the gross amount of consideration to which it is entitled in exchange for providing the services to the end customer.

3- SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting policies (continued)

IFRS 15 "Revenue from Contracts with Customers" (continued)

Cloud and data center services (continued)

b- Third party CSP cloud products:

The CSP are primarily responsible to render services to the customers for the promises to deliver cloud services, hardware or the bundled solution at the customer's premises. The Group does not obtain control of a right to cloud services before it is delivered to the end customer. The respective CSP on their own establishes the prices for their cloud products and the Group does not have discretion in establishing the price for the CSP cloud products. Therefore, the Group is an agent in this arrangement. Whereby the cloud is sold through stc's marketplace, the Group is principal toward stc but remains agent toward the end customer.

Since cloud contracts have terms of minimum commitment with the customers, the Group estimates the variable consideration using expected value approach only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The Group is obliged to provide the cloud platform to the third party CSP. As a consideration, the Group is entitled to 25% revenue share of the consideration between CSP and end customer. As the agreement between the Group and CSP is a month-on-month contract and the consideration is a variable consideration contingent upon future event not within the Group's control, the Group recognizes their share of revenue, i.e. 25% of the total invoice value billed to end customer on behalf of third party CSP on acceptance of service by end customer.

Revenue is recognized as follows:

- Pre-defined and customized cloud products - Customer avails the benefit of these services over the period as and when they consume the cloud product. Revenue is recognized over a period of time. Each pre-defined and customized product is further divided into two categories based on their nature:

  a- Subscription packages – Revenue is recognized over a period of time based on time elapsed output method

  b- Pay as use packages – Revenue is recognized over a period of time applying usage base output method

- Hardware ("Add-ons") - Revenue from hardware sales are recognized at a point in time when the control of the hardware is transferred to the customer i.e. upon installation or delivery.

3- SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting policies (continued)

Cloud and data center services (continued)

The Group recognizes their share of revenue, i.e. 25% of the total invoice value billed to end customer on behalf of third party CSP on acceptance of service by end customer.

Where cloud and data center services are provided as part of bundled contract, the consideration is allocated between separate products and services in a bundle based on their stand-alone selling prices. The consideration allocated to cloud and data center services is recognized as revenue based on above policy.

The Group charges the customers for certain activation activity. However, under IFRS 15 the activation activity does not give rise to promised goods or services which are distinct in nature. Applying the guidance of non-refundable upfront fees, the Group recognizes revenue from activation fees when the goods or services to which they relate are provided to the customer.

Outsourcing services

The Group provides outsourcing services which primarily includes manpower services or managed manpower services or solution support. Further, in case of manpower services customer may also request the Group to deliver some hardware equipment.

The hardware equipment are sold separately in the market. The customers can demand the equipment under the manpower service arrangement, which are independent of the professional service. There is neither integration of hardware with the services nor any modification or customization to the equipment. Thus, hardware is a separately identifiable component in the outsourcing contract (only in case of manpower services) and accounted for as a separate performance obligation. In this case, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin. Revenue for manpower services is recognized over a period of time using input method based on cost incurred. If contracts include hardware, revenue for the hardware is recognized at a point in time when the hardware is delivered, the legal title has passed and the customer has accepted the hardware. The revenue for solution support is recognized over a period of time using output method based on time elapsed. There was no restatement as the Group's policy under IAS 18 is already in line with the requirements of IFRS 15.

3- SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting policies (continued)

IFRS 15 "Revenue from Contracts with Customers" (continued)

Communication and internet services

Communication and internet services revenue represent revenue generated by selling Dedicated Internet Access (DIA) and data services. If communication and internet services are provided as part of bundled contract, the consideration is allocated between separate products and services in a bundle based on their stand-alone selling prices. The transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin. The Group recognizes revenue relating to Internet services (DIA) as the customer avails the benefit of these services over the period as and when they consume the internet service. The revenue is recognized over a period of time using output method based on time elapsed. Revenue in relation to data services is recognized when the customer avails the benefit of these services over the period as and when they consume the data service. Revenue to be recognized over a period of time using output method based on time elapsed (coinciding with the billing). There was no restatement as the Group's policy under IAS 18 is already in line with the requirements of IFRS 15.

Managed services

Revenue from managed service includes managed router service, managed LAN service and managed Wi-Fi service.

The Group accounts for individual goods and services separately if they are distinct, i.e., if a good or service is separately identifiable and from other items and if a customer can benefit from it.

Managed router services revenue represent revenue generated by selling routers, managing the routers and providing technical support service and are recognized as follows:

- Hardware: Revenue from hardware sales are recognized at a point in time when the control of the hardware is transferred to the customer i.e. upon delivery.
- Managed router services: Customer avails the benefit of these services over the period as and when they consume the benefit. Revenue is recognized over a period of time using output method based on time elapsed.
- Technical support services: Customer avails the benefit of these services over the period as and when they consume the benefit. Revenue is recognized over a period of time using output method based on time elapsed.

Where managed services are provided as part of a bundled contract, the consideration is allocated between separate products and services in a bundle based on their stand-alone selling prices, which for the hardware is adjusted market or cost plus margin approach and for the managed router services and technical support services it is observable prices. The consideration allocated to managed services is recognized as revenue based on the above policy. There was no restatement as the Group's policy under IAS 18 is already in line with the requirements of IFRS 15.

3- SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting policies (continued)

IFRS 15 "Revenue from Contracts with Customers" (continued)

Digital services

Revenue from digital service includes fleet control services, Enterprise Mobile Mobility (EMM), big data services etc.

The Group accounts for individual goods and services separately if they are distinct, i.e., if a good or service is separately identifiable and from other items and if a customer can benefit from it.

Fleet control services revenue represents revenue generated by selling fleet control devices (hardware), application service and value added service like roaming service and are recognized as follows:

- Hardware (devices): Revenue from hardware sales are recognized at a point in time when the control of the hardware is transferred to the customer i.e. upon installation.
- Application services: Customer avails the benefit of these services over the period as and when they consume the benefit. Revenue is recognized over a period of time using output method based on time elapsed.
- Valued added services: Customer avails the benefit of these services over the period as and when they consume the benefit. Revenue is recognized over a period of time using output method based on usage.

There was no restatement as the Group's policy under IAS 18 is already in line with the requirements of IFRS 15.

Cyber Security services

Cyber security revenue represents revenue generated from providing security products and services to the customers' networks, or any other security services.

In case of projects, hardware and software and installation are bundled into a single performance obligation as the goods and services are not distinct within the context of the contract because they are not separately identifiable from other promises in the contract. The Group provides a significant service of integrating the hardware and software which the customer has purchased. Sometimes the service integration contract includes multiple deliverables such as training solutions and maintenance and support. In this case, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin. The Group recognizes revenue relating to installed hardware and software along with design and professional services over time using the input method which includes the uninstalled material guidance where revenue on hardware/software is recognized only to the extent of the cost incurred i.e. at a zero percent profit margin. Revenue on selling maintenance and support is recognized at a point in time when the transfer of the right to the service to customer occurs. Revenue on training is recognized over time using input method.

3- SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting policies (continued)

IFRS 15 "Revenue from Contracts with Customers" (continued)

Cyber Security services (continued)

In case of managed security services, there are three performance obligations: hardware, installation and managed security services. They are capable of being distinct and distinct within the context of the contract. The transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost-plus margin or adjusted market price. The Group recognizes revenue related to the hardware with its installation at a point in time when installation is done. Revenue on managed security services is recognized over time based on time elapsed since the customer is receiving and consuming the benefit provided by the Group simultaneously as the Group performs the same.

Where cyber security services are provided as part of bundled contract, the consideration is allocated between separate products and services in a bundle based on their stand-alone selling prices. The consideration allocated to cyber security services is recognized as revenue based on above policy.

3- SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting policies (continued)

IFRS 15 "Revenue from Contracts with Customers" (continued)

Other considerations

- Contract costs

  The Group may incur cost to fulfil a contract before a good or service is provided to a customer. Such costs are capitalized where they relate directly to the contract or anticipated contract, generate resources used in satisfying the contract and are expected to be recovered. The Group will amortize these costs on a systematic basis, consistent with the transfer to the customer of the goods or services, and are periodically reviewed for impairment. There was no restatement due to this change as no contract costs have been identified as at 31 December 2017.

- Work-in-progress

  Work-in-progress for an over-time performance obligation is generally expensed as a fulfillment cost when it is incurred because control of the work in progress transfers to the customer as it is produced and not at discrete intervals. However, inventory to support multiple contracts that has an alternative use is recognized as an asset until it is dedicated to a specific contract.

- Contract assets and liabilities

  Under IFRS 15, when either party to a contract has performed, an entity shall present the contract in the consolidated statement of financial position as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment. A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer. A contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or an amount of consideration is due) from the customer. There was some reclassification from unbilled revenue to contract assets and from advances from customers to contract liabilities due to this change.

- Principal versus agent consideration

  The Group has evaluated its arrangements to determine whether it is a principal, and report revenues on a gross basis, or an agent, and report revenues on a net basis. In this assessment, the Group has considered if it has obtained control of the specified goods or services before they are transferred to the customer, as well as other indicators such as the party primarily responsible for fulfillment, inventory risk, and discretion in establishing price.

  Where the Group performs agency related activities under a contract as the end customer receives project management and coordination support, the Group only recognizes net commission income, as the Group arranges for another party to transfer goods or services under such arrangement and accordingly is acting as an agent.

- Variable consideration

  The Group is obliged to provide the cloud platform to the third party CSP. As a consideration, the Group is entitled to 25% revenue share of the consideration between CSP and end customer. As the agreement between the Group and CSP is a month-on-month contract and the consideration is a variable consideration contingent upon future event not within the Group's control, the Group recognizes their share of revenue, i.e. 25% of the total invoice value billed to end customer on behalf of third party CSP on acceptance of service by end customer.

3- SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting policies (continued)

IFRS 15 "Revenue from Contracts with Customers" (continued)

Other considerations (continued)

- Presentation and disclosure requirements

  As required for the consolidated financial statements, the Group disaggregated revenue recognized from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Refer to note 6 for the disclosure on disaggregated revenue.

  Practical expedient applied for adopting IFRS 15 "Revenue from Contracts with Customers

- Practical expedient for significant financing

  Applying the practical expedient in paragraph 63 of IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if at contract inception it is expected that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

- Practical expedient for contract costs with amortization period within a year

  Applying the practical expedient in paragraph 94 of IFRS 15, the Group recognizes the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that the Group otherwise would have recognized in one year or less.

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39, Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018 and adjusting the comparative information for the period beginning 1 January 2017. The effect of adopting IFRS 9 is disclosed in note 34 to the consolidated financial statements.

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 does not have a significant effect on the Group's accounting policies related to financial liabilities.

Under IFRS 9, upon initial recognition, a financial asset is classified and measured at amortized cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; 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:

3- SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting policies (continued)

IFRS 9 Financial Instruments (continued)

Classification and measurement of financial assets and financial liabilities (continued)

- 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.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income (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. On initial recognition, the Group 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.

The following accounting policies apply to the subsequent measurement of financial assets.

- 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. Interest income, foreign exchange gains, losses, and impairment are recognized in profit or loss. Any gain or loss on de-recognition is recognized in profit or loss.
- Equity investments at FVOCI: These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

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 and contract assets, 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, contract assets and murabaha time deposits.

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.

3- SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting policies (continued)

IFRS 9 Financial Instruments (continued)

Impairment of financial assets (continued)

The Group measures loss allowances at an amount equal to lifetime ECLs for private customers. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group 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 Group's historical experience and informed credit assessment and including forward-looking information.

For government and stc receivables, a review is done on quarterly basis to determine the balances that need a specific provision or write-off.

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 separately in the consolidated statement of profit or loss and OCI.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2017 relates solely to the new impairment requirements. The following table and the accompanying notes explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial instruments:

	Notes	Classification under IAS 39	Classification under IFRS 9
Financial assets			
Available-for-sale investments	a	Available-for-sale	Designated at FVOCI
Murabaha time deposits	b	Held-to-maturity	Amortized cost
Accounts receivable	c	Loans and receivables	Amortized cost
Cash and cash equivalents	c	Loans and receivables	Amortized cost
Financial liabilities			
Accounts payable and accruals	d	Amortized cost	Amortized cost

The Group's accounting policies on the classification and measurement of financial instruments under IFRS 9 are set out above. The application of these policies resulted in the reclassifications set out in the table above and explained below:

a) Under IAS 39, these equity investments were classified as available-for-sale. The Group has made an irrevocable election to present the changes in fair value of the equity investments in other comprehensive income.

3- SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting policies (continued)

IFRS 9 Financial Instruments (continued)

Presentation of impairment (continuation)

b) Murabaha time deposits that were previously classified as held-to-maturity are now classified at amortized cost. The Group intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

c) Accounts receivables and cash and cash equivalents that were classified as loans and receivables under IAS 39 are now classified at amortized cost.

d) There have been no change in the classification of accounts payable and accruals as amortized cost under IAS39 and IFRS 9

Foreign currencies

Transactions in currencies other than the Group's functional currency ("foreign currencies"), which is SR 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 the consolidated statement of profit or loss and other comprehensive income in the year in which they arise.

Current versus non-current classification

The Group presents assets and liabilities in consolidated statement of financial position based on current/non-current classification. An asset is classified as current when it is;

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

The Group classifies all other assets that do not meet the above criteria, as non-current.

A liability is classified as current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities that do not meet the above criteria, as non-current.

3- SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting policies (continued)

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

3- SIGNIFICANT ACCOUNTING POLICIES (continued)

Expenses

Selling and distribution expenses principally comprise of costs incurred in the distribution and sale of the Group's products.

General and administration expenses include direct and indirect costs not specifically part of cost of sales as required under IFRSs as endorsed in KSA. Allocations between general and administration expenses and cost of sales, when required, are made on a consistent basis.

Zakat

Zakat is calculated and provided for by Saudi Telecom Company (the "Parent Company") and its effectively wholly owned subsidiaries in accordance with Saudi Arabian fiscal regulations. The Group's share of its provision is charged to the consolidated statement of profit and loss and other comprehensive income.

Dividends

The Company recognizes a liability to make dividend distribution to the Partners of Company when the distribution is authorized and the distribution is no longer at the discretion of the Company. In accordance with the Companies Law in KSA, a distribution is authorized when it is approved by the Partners. A corresponding amount is recognized directly in equity.

Employee benefits

End of service indemnities

The Group primarily has end of service indemnities which qualifies as defined benefit plans.

The pension liability recognized in the consolidated statement of financial position is the present value of the projected Defined Benefit Obligation (DBO) at the reporting date.

DBO is re-measured on a periodic basis by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. For instances where there is no deep market in such bonds, the market rates on government bonds are used. As there are insufficient corporate and government bonds in the Kingdom of Saudi Arabia to generate a credible discount rate, the discount rate has instead been based on US Treasury bonds adjusted for country differences between the US and Saudi Arabia.

The net interest cost is calculated by applying the discount rate to the net balance of the DBO. This cost is included in employees' related costs in the consolidated statement of profit or loss and other comprehensive income.

Re-measurement gains and losses arising from changes in actuarial assumptions are recognized in the period in which they occur in OCI. Changes in the present value of the DBO resulting from plan amendments or curtailments are recognized immediately in the consolidated statement of profit or loss and other comprehensive income as past service costs.

3- SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (Continued)

End of service indemnities (continued)

Current and past service costs related to end of service indemnities and unwinding of the liability at discount rates used are recognized immediately in the consolidated statement of profit or loss and other comprehensive income. Any changes in net liability due to actuarial valuations and changes in assumptions are taken as re-measurement in OCI.

The actuarial valuation process takes into consideration the provisions of the Saudi Arabian Labour Laws and Workmen Law as well as the Group's policy.

Retirement benefits

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

Short-term employee benefits

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service. The liabilities are presented as current employee benefit obligations in the consolidated statement of financial position. 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.

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. Appropriate provision is made for obsolete and slow moving inventories, if required.

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 each financial year-end, 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. Intangible assets, which comprise computer software, is amortized at a rate of 20% per annum.

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

3- SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes, *inter alia,* the present value of decommissioning costs relating to leasehold improvements.

The cost less estimated residual value of property and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives, residual values and depreciation method are reviewed at each financial year-end, with the effect of any changes in estimate accounted for on a prospective basis.

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

Computer hardware	33%
Furniture	20%
Office equipment	17%
Leasehold improvements	Lower of the lease period or 20%
Motor vehicles	25%

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 the consolidated profit or loss.

Costs incurred in respect of repairs and maintenance are expensed as incurred while expenditure for betterment is capitalized.

Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial 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 Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

3- SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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 the consolidated profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit), except for goodwill, 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 the consolidated profit or loss.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to liability. The increase in the provision due to the passage of time is recognized as financial charges.

Government grants

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

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in the consolidated profit or loss in the period in which they become receivable.

4- Application of new and revised IFRSs AS ENDORSED IN KSA

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements for which the Group intends to adopt, when they become effective are disclosed below:

IFRS 16 Leases

The IASB has issued a new standard for the recognition of leases. This standard will replace:

- IAS 17 – 'Leases'
- IFRIC 4 – 'Whether an arrangement contains a lease'
- SIC 15 – 'Operating leases – Incentives'
- SIC-27 – 'Evaluating the substance of transactions involving the legal form of a lease'

Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption of certain short-term leases and leases of low-value assets. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The standard has a mandatory effective date for annual periods beginning on or after 1 January 2019, with earlier application permitted. Management is currently assessing the effect of this standard on the future financial reporting periods of the Group.

Management anticipates that this new standard will be adopted in the Group's consolidated financial statements for the year when they are applicable.

5- SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses and assets and liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. These estimates and assumptions are based upon experience and various other factors that are believed to be reasonable under the circumstances and are used to judge the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised or in the revision period and future periods if the changed estimates affect both current and future periods.

5- SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (continued)

5.1 Critical judgements in applying accounting standards

The following critical judgements have the most significant effect on the amounts recognized in the consolidated financial statements:

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 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.

Determination of control

Subsidiary is an investee over which the Group has control. The Group's management considers that the Group controls an entity when the Group is exposed to or has rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of those returns through its power to direct the relevant activities of the investees.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has equal or less than a majority of the voting or similar rights of an investee, the Group considers all other relevant facts and circumstances in assessing whether it has power over an investee, including any contractual and other such arrangements which may affect the activities which impact investees' return.

The determination about whether the Group has power thus depends on such relevant activities, the way decisions about the relevant activities are made and the rights the Group has, in relation to the investees.

In certain cases where the Group owns less than 50% of voting rights, it may still be the single largest shareholder with presence on the governing body giving it power to direct relevant activities of the investees, whereby the other shareholders individually do not hold sufficient voting rights and power to overrule the Group's directions. There is no prior instance of other shareholders collaborating to exercise their votes collectively or to out-vote the Group.

5.2 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material differences in the carrying amounts of assets and liabilities within the next financial period, are presented below. The Group used these assumptions and estimates on the basis available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

5- SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (continued)

5.2 Estimates and assumptions (continued)

Expected credit losses ("ECL")

The Group reviews its accounts receivable at each reporting date to assess whether an expected credit loss should be recorded in the consolidated statement of profit or loss and other comprehensive income. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of expected credit loss required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the actual loss. At the reporting date, gross trade receivables were SR 283.78 million (31 December 2017: SR 156.43 million and 1 January 2017: SR 195.26 million) with SR 54.42 million (31 December 2017: 56.55 million and 1 January 2017: 17.66 million) being provided for. Any difference between the amounts actually collected in future periods and the amounts expected will be recognized in the consolidated profit or loss. In addition, an ECL of SR 55.65 million (31 December 2017: SR 45.32 million and 1 January 2017: SR 33.67 million) was raised against gross amounts owing from a related party of SR 1714.01 million (31 December 2017: SR 921.97 million and 1 January 2017: SR 992.37 million).

Impairment of inventories

Inventories are held at the lower of cost or net realizable value. When inventories become old or obsolete, an estimate is made for their net realizable value. For individually significant items of inventory this estimation is performed on an individual basis. Items of inventory which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on anticipated selling prices less estimated costs of sale.

At the reporting date, inventories were SR 168.16 million (31 December 2017: SR 103.69 million and 1 January 2017: SR 76.94 million), with provision for old and obsolete inventories amounting to SR 27.87 million (31 December 2017: SR 32.31 million and 1 January 2017: SR 25.74 million). Any difference between the amounts actually realized in future periods and the amounts expected will be recognized in the consolidated profit or loss.

Long-term assumptions for employee benefits

Employees' end of service benefits represent obligations that will be settled in the future and require assumptions to project obligations. Management is required to make further assumptions regarding variables such as discount rates, rate of salary increase, mortality rates, employment turnover and future healthcare costs. Periodically, management of the Group consults with external actuaries regarding these assumptions. Changes in key assumptions can have a significant impact on the projected benefit obligations and/or periodic employee defined benefit costs incurred.

Discounting of accounts receivable and accounts payable

The Group has discounted the future cash flows relating to a long-term payable and related receivable which arose in a previous period. Appropriate discount rate was used in determining the carrying amount of these items.

5- SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (continued)

5.2 Estimates and assumptions (continued)

Provisions

By their nature, provisions are dependent upon estimates and assessments whether the criteria for recognition have been met, including estimates of the probability of cash outflows. Provisions for litigation are based on an estimate of the costs, taking into account legal advice and other information presently available. Provisions for termination benefits and exit costs, if any, also involve management's judgement in estimating the expected cash outflows for other exit costs. Provisions for uncertain liabilities involve management's best estimate of whether cash outflows are probable.

6- REVENUE, NET

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

	31 December 2018 SR	31 December 2017 SR
System Integration	**1,727,380,552**	1,450,479,428
Communication & Internet	**838,337,371**	566,719,221
Outsourcing Services	**690,221,286**	616,592,865
Cyber Security	**308,120,677**	94,966,659
Cloud Services	**269,913,321**	94,177,995
Managed Services	**163,442,837**	106,564,374
Digital Services	**43,883,050**	32,761,217
	4,041,299,094	2,962,261,759
Type of customers		
Sell through stc and sell to direct customers (stc is not the end customer)	**2,317,350,378**	1,610,647,133
Sell to stc (stc is the end customer)	**1,723,948,716**	1,351,614,626
	4,041,299,094	2,962,261,759
Timing of revenue recognition		
Goods or services transferred to customers:		
- over time	**3,897,237,652**	2,861,926,809
- at a point in time	**144,061,442**	100,334,950
	4,041,299,094	2,962,261,759

7- SELLING AND DISTRIBUTION EXPENSES

	31 December 2018 SR	31 December 2017 SR
Employees related costs	**79,259,594**	73,050,486
Advertising and marketing	**29,409,276**	9,420,212
Travel	**3,374,597**	2,296,950
Depreciation and amortization	**732,067**	701,830
Licenses and maintenance	**146,023**	646,057
Others	**95,643**	25,087
	113,017,200	86,140,622

8- GENERAL AND ADMINISTRATION EXPENSES

	31 December 2018 SR	31 December 2017 SR
Employees related costs	**147,079,576**	93,363,922
Consultancy fees	**45,722,699**	26,748,885
Licenses and maintenance	**17,536,772**	10,463,283
Depreciation and amortization	**16,958,740**	10,724,331
Rent	**15,399,533**	10,356,499
Travel	**8,490,577**	7,739,332
Office expenses	**6,585,772**	5,032,547
Corporate gatherings & social events	**4,040,960**	3,191,927
Professional fees	**3,321,431**	1,480,800
Utilities	**1,084,315**	1,305,598
Impairment of equity investment at FVOCI	**-**	1,000,000
(Reversal) / provision for advances and prepaid	**(2,345,488)**	29,155,467
Others	**6,309,687**	6,713,862
	270,184,574	207,276,453

9- OTHER INCOME

	31 December 2018 SR	31 December 2017 SR
Commission income	**7,303,414**	6,407,555
Impairment loss on property and equipment (note 20)	**(1,328,425)**	-
Others	**-**	150,000
	5,974,989	6,557,555

10- FINANCE INCOME

	31 December 2018 SR	31 December 2017 SR
Murabaha time deposits (notes 12 & 13)	**30,320,270**	20,945,947
Others	-	2,903,912
	30,320,270	23,849,859

11- ZAKAT

The Group is effectively a wholly-owned subsidiary of Saudi Telecom Company ("the Parent Company"). According to Ministerial Resolution numbered 1005 and dated 28/4/1428H (Corresponding to 15/5/2007), the Parent Company submits zakat returns based on its consolidated financial statements and consolidated zakat base and settles the zakat liability accordingly. The Group's share of the zakat for the year amounting to SR 51,831,227 (31 December 2017: SR 47,604,307) has been estimated based on the Group's zakat base and is charged to its consolidated statement of profit or loss and other comprehensive income. This estimation is adjusted proportionately by the consolidation impact, as applicable.

The movement in zakat provision was as follows:

	31 December 2018 SR	31 December 2017 SR
Opening balance	**74,048,117**	26,537,052
Charged during the year	**51,831,227**	47,604,307
Paid during the year	**(26,828,840)**	(93,242)
Closing balance	**99,050,504**	74,048,117

12- CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of bank balances, cash in hand and investments that are readily convertible into known amounts of cash and have maturity of three months or less when placed. Cash and cash equivalents comprises of the following;

	31 December 2018 SR	31 December 2017 SR	1 January 2017 SR
Cash in hand	**41,412**	41,699	66,986
Bank balances	**152,495,200**	179,241,440	482,061,159
Murabaha time deposits	**739,850,000**	416,500,000	-
	892,386,612	595,783,139	482,128,145

13- MURABAHA TIME DEPOSITS

These represent the Murabaha deposits placed with various banks and carry a profit rate of 2.75% to 2.95% per annum. The maturity date for all these deposits are more than 90 days when placed.

14- ACCOUNTS RECEIVABLE

	31 December 2018 SR	31 December 2017 SR	1 January 2017 SR
Gross trade receivables (excluding related party balance)	**283,786,411**	156,426,930	195,263,646
Less: allowance for expected credit losses	**(54,418,689)**	(56,555,880)	(17,664,906)
Net trade receivables	**229,367,722**	99,871,050	177,598,740
Gross amounts due from a related party (note 30)	**1,714,009,468**	921,965,905	992,373,815
Less: allowance for discount (related party) (note 30)	**(58,615,538)**	-	-
Less: allowance for expected credit losses (related party)	**(55,654,192)**	(45,317,572)	(33,677,953)
Net amounts due from a related party	**1,599,739,738**	876,648,333	958,695,862
Total accounts receivable	**1,829,107,460**	976,519,383	1,136,294,602

Trade receivables

The average credit period on sales of goods and services is 60 days. No finance income is charged on trade receivables. Allowances for doubtful debts are recognized against trade receivables between three months and one year based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

The Group 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. Customers are grouped according to their credit characteristics, including whether they are private or not and whether sovereign or non-sovereign. The customers grouped in a particular segment share similar credit risk characteristics since the Group considers the homogeneity of economic characteristics of the company/individual for segmentation. Private customers are assessed for impairment on a collective basis. The Company does not have trade receivable and contract assets for which no loss allowance is recognized because of collateral.

One of the Group's debtors comprise 10% of the total trade receivables balanceexcluding related party balance. There are no other customers who comprise more than 10% of the total trade receivables balanceexcluding related party balance.

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.

14- ACCOUNTS RECEIVABLE (continued)

Movement in the allowance for expected credit losses and penalties related to trade receivables

	31 December 2018 SR	31 December 2017 SR
Opening balance	**56,555,880**	17,664,906
(Reversal)/charge for the year (note 29)	**(5,954,241)**	37,149,452
Penalties charge for the year (*)	**3,817,050**	1,741,522
Closing balance	**54,418,689**	56,555,880

(*)Penalties are charged against revenue.

The movements in the allowance for expected credit losses and penalties related to amounts due from the Parent Company were as follows:

	31 December 2018 SR	31 December 2017 SR
Opening balance	**45,317,572**	33,677,953
Charge for the year (note 29)	**1,589,494**	11,639,619
Penalties charge for the year (*)	**8,747,126**	-
Closing balance	**55,654,192**	45,317,572

(*)Penalties are charged against revenue.

14- ACCOUNTS RECEIVABLE (continued)

Movement in the allowance for expected credit losses and penalties related to trade receivables (continued)

In determining the recoverability of a trade receivable, the Group 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 Group does not hold any collateral over the impaired trade receivables.

	31 December 2018 SR	31 December 2017 SR	1 January 2017 SR
Non-governmental receivables			
Up to 3 months	**32,642,217**	17,529,942	18,591,281
More than 3 to 6 months	**17,085,050**	2,639,204	3,554,738
More than 6 to 9 months	**322,513**	1,074,957	2,520,453
More than 9 months to 1 year	**223,848**	940,466	1,960,857
Over 1 year	**7,300,876**	6,489,917	21,464,950
Governmental receivables			
Neither past due nor impaired	**127,046,263**	17,772,603	12,046,202
Up to 1 year	**21,147,008**	20,167,141	62,489,563
More than 1 to 3 year	**11,672,650**	27,300,555	49,988,189
More than 3 to 5 year	**11,070,264**	5,349,847	4,681,393
Over 5 year	**857,033**	606,418	301,114
Total unimpaired trade receivables	**229,367,722**	99,871,050	177,598,740
Age of impaired trade receivables			
Non-governmental receivables			
Up to 3 months	**6,148,323**	2,798,463	658,719
More than 3 to 6 months	**6,985,778**	1,097,586	311,243
More than 6 to 9 months	**330,851**	1,287,629	389,547
More than 9 months to 1 year	**694,830**	3,156,632	479,143
Over 1 year	**22,662,099**	21,783,117	5,245,049
Governmental receivables			
Up to 1 year	**1,768,763**	25,667	75,486
More than 1 to 3 year	**2,441,156**	21,581,736	6,340,261
More than 3 to 5 year	**8,996,665**	915,991	1,404,819
Over 5 year	**4,390,224**	3,909,059	2,760,639
Total impaired trade receivables	**54,418,689**	56,555,880	17,664,906

15- PREPAYMENTS AND OTHER ASSETS

	31 December 2018 SR	31 December 2017 SR	1 January 2017 SR
Advances to suppliers (note 15.1)	**141,676,771**	61,773,164	182,136,277
Prepaid expenses (note 15.2)	**65,802,318**	38,903,377	25,158,713
Value added tax recoverable (note 30)	**62,382,561**	-	-
Other receivables	**28,702,977**	15,952,773	10,505,815
Deposits	**2,522,359**	1,671,371	3,071,317
Deferred costs	-	17,271,193	176,111,844
	301,086,986	135,571,878	396,983,966

15.1 Advances to suppliers are presented net of provision for old advances (note 8) amounting to SR 7.17 million (31 December 2017: SR 9.51 million and 1 January 2017: SR 3.32 million).

15.2 Prepaid expenses are presented net of provision for certain doubtful prepaid assets (note 8) amounting to SR 32.95 million (31 December 2017: SR 32.95 million and 1 January 2017: SR 9.99 million).

16- CONTRACT ASSETS

Contract assets represents the value of work executed by the Group during the year which has not been billed to customers as at the reporting date.

	31 December 2018 SR	31 December 2017 SR	1 January 2017 SR
Gross contract assets	**926,090,181**	855,715,050	587,055,585
Provision for discount	**(41,384,462)**	-	-
Allowance for impairment	**(16,748,070)**	(2,862,099)	(454,978)
	867,957,649	852,852,951	586,600,607

The movement in the allowance for impairment related to contract assets for the year ended 31 December were as follows:

	31 December 2018 SR	31 December 2017 SR
Opening balance	**2,862,099**	454,978
Charge for the year (note 29)	**13,885,971**	2,407,121
Closing balance	**16,748,070**	2,862,099

17- INVENTORIES

	31 December 2018 SR	31 December 2017 SR	1 January 2017 SR
Materials and supplies	**168,165,631**	103,687,202	76,940,341
Less: allowance for slow moving and obsolete inventory (note 17.1)	**(27,868,698)**	(32,311,365)	(25,741,688)
	140,296,933	71,375,837	51,198,653

17.1 The movement in the allowance for slow moving and obsolete inventories was as follows:

	31 December 2018 SR	31 December 2017 SR
Opening balance	**32,311,365**	25,741,688
Net (reversal) / charge for the year	**(4,442,667)**	6,569,677
Closing balance	**27,868,698**	32,311,365

18- EQUITY INVESTMENTS AT 'FVOCI'

	31 December 2018 SR	31 December 2017 SR	1 January 2017 SR
5% holding in Saudi Telecom Investment Trading Company Limited (engaged in telecommunications services) (note 18.1)	**50,000**	50,000	50,000
1% holding in Sapphire Company (engaged in IT services) (note 18.2)	-	-	1,000,000
	50,000	50,000	1,050,000

18.1 This investment is carried at cost, as the fair value cannot be reliably determined.

18.2 Sapphire Company was established in the Kingdom of Saudi Arabia in June 2014. In November 2017, the Board of Directors of its parent company decided to close Sapphire and merge their business with their own share effective 1 January 2018. The legal proceedings are still in progress. Accordingly, the Group has recognized 100% impairment on this investment (note 8).

19- INTANGIBLE ASSETS

COST	Software SR	Capital work in progress SR	Total SR
As at 1 January 2017	17,581,428	5,622,267	23,203,695
Additions	9,756,646	20,320,739	30,077,385
Transfer	24,891,496	(24,891,496)	-
As at 31 December 2017	52,229,570	1,051,510	53,281,080
Additions	7,099,601	35,790,879	42,890,480
Transfer	22,701,040	(22,701,040)	-
As at 31 December 2018	**82,030,211**	**14,141,349**	**96,171,560**
ACCUMULATED AMORTIZATION			
As at 1 January 2017	13,047,804	-	13,047,804
Amortization	5,955,361	-	5,955,361
As at 31 December 2017	19,003,165	-	19,003,165
Amortization	12,964,461	-	12,964,461
As at 31 December 2018	**31,967,626**	-	**31,967,626**
NET BOOK VALUE			
At 1 January 2017	4,533,624	5,622,267	10,155,891
At 31 December 2017	33,226,405	1,051,510	34,277,915
At 31 December 2018	**50,062,585**	**14,141,349**	**64,203,934**

The amortization charge for the year was allocated in the consolidated statement of profit or loss and other comprehensive income as follows:

	31 December 2018 SR	31 December 2017 SR
Cost of revenue	**5,943,377**	2,409,323
Selling and distribution expenses (note 7)	**461**	27,929
General and administration expenses (note 8)	**7,020,623**	3,518,109
	12,964,461	5,955,361

20- PROPERTY, PLANT AND EQUIPMENT

COST	Computer hardware	Furniture and office equip-ment	Leasehold improve-ments	Motor vehicles	Capital work in progress	Total
	SR	SR	SR	SR	SR	SR
Balance as at 1 January 2017	60,739,539	23,446,093	11,152,786	424,000	14,585,950	110,348,368
Additions	7,911,116	345,896	1,145,984	-	15,024,040	24,427,036
Transfer	11,760,640	289,034	2,624,717	-	(14,674,391)	-
Balance as at 31 December 2017	80,411,295	24,081,023	14,923,487	424,000	14,935,599	134,775,404
Additions	9,407,034	1,999,512	7,655,179	821,825	70,565,639	90,449,189
Transfer	42,264,575	11,381,540	17,778,062	-	(71,424,177)	-
Balance as at 31 December 2018	**132,082,904**	**37,462,075**	**40,356,728**	**1,245,825**	**14,077,061**	**225,224,593**
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
Balance as at 1 January 2017	53,095,708	19,226,600	8,399,656	212,000	-	80,933,964
Depreciation charge	7,920,666	2,495,672	1,736,422	106,000	-	12,258,760
Balance as at 31 December 2017	61,016,374	21,722,272	10,136,078	318,000	-	93,192,724
Depreciation and impairment charge	21,852,484	3,599,222	4,383,803	194,327	-	30,029,836
Balance as at 31 December 2018	**82,868,858**	**25,321,494**	**14,519,881**	**512,327**	**-**	**123,222,560**
NET BOOK VALUE						
At 1 January 2017	7,643,831	4,219,493	2,753,130	212,000	14,585,950	29,414,404
As at 31 December 2017	19,394,921	2,358,751	4,787,409	106,000	14,935,599	41,582,680
At 31 December 2018	**49,214,046**	**12,140,581**	**25,836,847**	**733,498**	**14,077,061**	**102,002,033**

20- PROPERTY, PLANT AND EQUIPMENT (continued)

The depreciation and impairment charge for the year was allocated in the consolidated statement of profit or loss and other comprehensive income as follows:

	31 December 2018 SR	31 December 2017 SR
Cost of revenue	**18,031,688**	4,778,749
Selling and distribution expenses (note 7)	**731,606**	400,874
General and administration expenses (note 8)	**9,938,117**	7,079,137
Other income (note 9)	**1,328,425**	-
	30,029,836	12,258,760

21- ACCOUNTS PAYABLE AND ACCRUALS

	31 December 2018 SR	31 December 2017 SR	1 January 2017 SR
Trade payables (note 21.1)	**595,519,245**	340,086,971	483,250,349
Accrued project costs (note 21.2)	**362,951,476**	307,707,327	450,605,963
Accrued expenses	**230,212,915**	160,181,681	104,233,621
Amounts due to a related party (note 30)	**45,442,400**	3,834,539	89,555,670
Withholding tax provision	**2,041,490**	3,516,968	10,000,000
	1,236,167,526	815,327,486	1,137,645,603

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

21.2 This includes a provision amounting to SR 12.93 million (31 December 2017: SR 21.27 million and 1 January 2017: SR 25.89) for estimated future contract losses which arose due to an increase in the estimated cost to complete. This amount has been charged to cost of revenue in the consolidated statement of profit or loss and other comprehensive income.

21- ACCOUNTS PAYABLE AND ACCRUALS (continued)

During the year ended 31 December 2018, there have been reversals amounting to SR 29.99 million (31 December 2017: SR 107.10 million) relating to accrued project costs, which have been charged to cost of revenue. These reversals are primarily driven from the difference between the estimated project accruals carried in the books and the actual cost incurred or expected to be incurred upon completion. These differences arose mainly due to certain contract information updates relating to project accruals and due to recent enhancement made to the estimation process set up within the Group. These are considered as change in estimates and have been charged to the consolidated statement of profit or loss and other comprehensive income in the current year.

22- DEFERRED REVENUE

This represents billings issued to customers in excess of the value of work executed by the Group as per the terms of billings in the contract agreement with the customers as of the reporting date.

23- CONTRACT LIABILITIES

Contract liabilities represent amounts received from the Group's customers which will be applied against future billings. The movement in the contract liabilities for the year ended 31 December was as follows:

	31 December 2018 SR	31 December 2017 SR
Opening balance	**647,538,907**	609,624,310
Addition of contract liabilities	**672,563,764**	1,213,148,175
(Less) Applied against billings	**(984,326,968)**	(1,175,233,578)
Closing balance	**335,775,703**	647,538,907

24- END OF SERVICE INDEMNITIES

	31 December 2018 SR	1 December 2017 SR	1 January 2017 SR
Defined benefit obligation (DBO)	**125,754,092**	92,250,000	68,348,000

The Group grants end of service indemnities (benefit plan) to its employees taking into consideration the local labor law requirements in KSA. The benefit provided by this benefit plan is a lump sum based on the employees' final salaries and allowance and their cumulative years of service at the date of the termination of employment.

The benefit liability recognized in the consolidated statement of financial position in respect of defined benefit end of service plan is the present value of the DBO at the reporting date.

The DBO is calculated periodically by qualified actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using yields on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used. As there are insufficient corporate and government bonds in the Kingdom to generate a credible discount rate, the discount rate has instead been based on US Treasury bonds adjusted for country differences between the US and Saudi Arabia.

Re-measurement amounts of actuarial gains and losses on the DBO, if any, are recognized and reported within consolidated OCI under the consolidated statement of profit or loss and other comprehensive income and in the consolidated statement of changes in equity.

The following table represents the movement of the DBO:

	31 December 2018 SR	31 December 2017 SR	1 January 2017 SR
Opening balance	**92,250,000**	68,348,000	55,500,000
Expected service cost	**48,095,092**	41,384,000	24,910,000
Finance cost	**4,711,000**	4,076,000	2,976,000
Total amount recognized in profit or loss	**52,806,092**	45,460,000	27,886,000
Re-measurements:			
Losses/(gains) from change in financial assumptions	**4,878,000**	3,605,000	(3,538,000)
Experience gains	**(15,668,000)**	(15,005,000)	(4,854,000)
Amount recognized in OCI	**(10,790,000)**	(11,400,000)	(8,392,000)
Payments	**(8,512,000)**	(10,158,000)	(6,646,000)
Closing balance	**125,754,092**	92,250,000	68,348,000

24- END OF SERVICE INDEMNITIES (continued)

Significant actuarial assumptions

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

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

	31 December 2018	31 December 2017	1 January 2017
Attrition rates	**15%**	15%	15%
Salary escalation rate	**5.6%**	5.5% for FY 2018 and thereafter 5% for each future year	5%
Discount rate	**4.8%**	4.6%	5%
Retirement age	**65**	65	65

Sensitivity analysis

The results are sensitive to the assumptions used. The table below shows the change in DBO based on increase or decrease in the base assumption value as of 31 December 2018:

			Impact on defined benefit obligation	
	Change in Assumption	Base value	Increase in assumption	Decrease in assumption
		SR	SR	SR
Discount rate	1%	(125,754,092)	(114,037,915)	(139,479,915)
Attrition rate	20%	(125,754,092)	(121,881,915)	(130,094,915)
Salary escalation rate	1%	(125,754,092)	(139,228,915)	(114,017,915)

25- SHARE CAPITAL

	31 December 2018
10,000,000 ordinary shares of SR10 each	100,000,000

26- STATUTORY RESERVE

In accordance with Companies law and the Company's Articles of Association, the Company must transfer 10% of its income for the year to the statutory reserve. In accordance with Company's Articles of Association, the Company may resolve to discontinue such transfers when the reserve totals 50% of the capital. This having been achieved, the Company has elected not to transfer any additional amount to reserve. The reserve is not available for distribution.

27- DIVIDENDS

The Company's partners in their meeting held on 20 Jumad Awal 1439H (corresponding to 6 February 2018) resolved to distribute dividends amounting to SR 30 per share aggregating to SR 300,000,000.

28- FINANCIAL INSTRUMENTS

Categories of financial instruments

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy:

31 December 2018			
Financial assets	**Category of financial assets**	**Carrying amount**	**Fair value level**
Cash and cash equivalents	Amortized Cost	892,386,612	N/A
Accounts and other receivables	Amortized Cost	3,021,073,006	N/A
Equity Investments at FVOCI	FVOCI	50,000	Level 3
Financial liabilities			
Trade and other payables	Amortized Cost	1,236,167,526	N/A

31 December 2017			
Financial assets	**Category of financial assets**	**Carrying amount**	**Fair value level**
Cash and cash equivalents	Amortized Cost	595,783,139	N/A
Accounts and other receivables	Amortized Cost	2,664,267,671	N/A
Equity Investments at FVOCI	FVOCI	50,000	Level 3
Financial liabilities			
Trade and other payables	Amortized Cost	815,327,486	N/A

1 January 2017			
Financial assets	**Category of financial assets**	**Carrying amount**	**Fair value level**
Cash and cash equivalents	Amortized Cost	482,128,145	N/A
Accounts and other receivables	Amortized Cost	2,212,584,185	N/A
Equity Investments at FVOCI	FVOCI	1,050,000	Level 3
Financial liabilities			
Trade and other payables	Amortized Cost	1,137,645,603	N/A

The amounts for receivables and cash and cash equivalents represents the Group's maximum exposure to credit risk at the reporting date.

28- FINANCIAL INSTRUMENTS (continued)

Fair value of financial instruments

The directors consider that the carrying value of the financial instruments reported in the consolidated statement of financial position approximates their fair value, with the exception of the available-for-sale investment for which the fair value cannot be accurately determined.

29- FINANCIAL RISK AND CAPITAL MANAGEMENT

Market risk

The Group was not exposed to market risk during the year. There were no changes in these circumstances from the previous year.

Foreign currency risk management

The Group did not have any foreign currency denominated monetary assets or liabilities at the reporting date for which it was exposed to foreign currency fluctuations. Consequently, no foreign currency sensitivity analysis has been presented.

Profit and liquidity rate 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 Group's short, medium and long-term funding and liquidity management requirements. The Group 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 Group was not exposed to movements in profit rates at the reporting date. Consequently, no profit rate sensitivity analysis has been presented.

The following tables detail the Group'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 Group can be required to pay. The tables include both profit and principal cash flows.

31 December 2018	Profit rate	Within one year	One year to five years	Total
	%	SR	SR	SR
Accounts payable	Profit free	1,236,167,526	-	1,236,167,526
Total		**1,236,167,526**	-	**1,236,167,526**

29- FINANCIAL RISK AND CAPITAL MANAGEMENT (continued)

Profit and liquidity rate risk management (continued)

31 December 2017	Profit rate	Within one year	One year to five years	Total
	%	SR	SR	SR
Accounts payable	Profit free	815,327,486	-	815,327,486
Total		815,327,486	-	815,327,486

1 January 2017	Profit rate	Within one year	One year to five years	Total
	%	SR	SR	SR
Accounts payable	Profit free	963,786,606	-	963,786,606
Accounts payable	5	173,858,997	-	173,858,997
Total		1,137,645,603	-	1,137,645,603

Credit risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

The carrying amounts of financial assets represent the maximum credit exposure. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

Impairment losses on financial assets recognized in profit or loss were as follows:

	31 December 2018 SR	31 December 2017 SR
(Reversal) / charge of Impairment loss on accounts receivable (note 14)	**(4,364,747)**	48,789,072
Impairment loss on contract assets (note 16)	**13,885,971**	2,407,121
Total	**9,521,224**	51,196,193

Expected credit loss assessment for private customers

The allowance for impairment of trade receivables and contract assets is created to the extent and as and when required, based upon the expected collectability of accounts receivables. The Group uses a provision matrix to measure the ECLs of trade receivables from private customers.

Loss rates are calculated using a 'roll rate' / 'flow rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates / flow rates are calculated separately for exposures in different segments based on the common credit risk characteristics.

29- FINANCIAL RISK AND CAPITAL MANAGEMENT (continued)

Expected credit loss assessment for private customers (continued)

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets from private customers as at 31 December 2018:

31 December 2018	Gross carrying amount	Weighted average loss rate	Loss allowance
Unbilled	122,248,688	13.70%	16,748,070
0-90 days	38,816,898	15.84%	6,148,597
91-180 days	24,070,827	29.02%	6,985,354
181 - 270 Days	613,456	53.93%	330,837
271 - 365 Days	918,679	75.63%	694,797
More than 1 year	29,962,976	75.63%	22,660,999
	216,631,524		**53,568,654**

Expected credit loss assessment for Government Receivables and stc

A Committee estimates the impairment loss and estimates and recommends receivables to be written-off from Government and stc /STCS Affiliates customers. The Committee's role includes a review of the status of balances written-off by Accounts Receivable Department for Government & stc/STCS Affiliates according to the procedures related to the policy and aging reports and any other information or data requested by the Committee.

The Accounts Receivable section in the Financial Accounting & Reporting Department calculates and records the impairment loss at the end of each quarter based on the Committee's estimate for Government & stc/STCS Affiliates Customers. The Committee meets in the first week after the end of each quarter in order to evaluate and determine the impairment loss for Government & stc /STCS Affiliates entities.

For contract assets, the average default rate for the last three years is calculated by dividing the amounts written-off during the period (each year) by the value of outstanding balances of contract assets at the end of the period. This rate is multiplied by the contract assets during the period in order to reach the balance of provision of contract assets, if required.

Capital management

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

The capital structure of the Group consists of equity comprising share capital, the statutory reserve and retained earnings.

30- RELATED PARTY INFORMATION

Related parties comprise of partners, key management personnel, directors and businesses which are controlled directly or indirectly or influenced by the partners, directors or key management personnel. In the normal course of business, the Group has various transactions with its related parties. Transactions are entered into with the related parties on terms and conditions approved by either the Company's management or its Board of Directors.

The Group's immediate and ultimate controlling party is Saudi Telecom Company ("stc"), a company incorporated in the Kingdom of Saudi Arabia.

During the year, the Group entered into the following transactions with its related party:

	31 December 2018 SR	31 December 2017 SR
Sales of goods and services to stc (a)	**3,415,530,073**	2,679,067,222
Purchases from stc	**81,398,799**	28,843,192

a) Sale of goods and services to stc include an amount of SR 1,691,581,357 (31 December 2017: SR 1,327,452,596) for which stc is not the end customer.

The following balances were outstanding with stc at the reporting date:

	31 December 2018 SR	31 December 2017 SR	1 January 2017 SR
Gross amounts due from a related party (note 14)	**1,714,009,468**	921,965,905	992,373,815
Contract assets	**696,570,430**	820,792,507	523,955,410
Value added tax recoverable (note 15)	**62,382,561**	-	-
Amounts due to a related party	**(45,442,400)**	(3,834,539)	(89,555,670)
Provision for doubtful debts (stc)	**(55,654,192)**	(45,317,572)	(33,677,953)
Provision for discount on accounts receivables and contract assets (*)	**(100,000,000)**	-	-
Deferred revenue (stc)	**(929,940,946)**	(439,416,236)	(259,567,347)
Net advances from customer (stc)	**(267,384,998)**	(501,690,132)	(500,820,497)

(*)The discount amount is considered preliminary and it's subject to mutual agreement between the Group and related party.

The receivable amounts outstanding are unsecured and will be settled in cash or adjusted with payable balance. No guarantees have been given or received.

30- RELATED PARTY INFORMATION (continued)

Age of unimpaired amounts due from a related party

			Past due but not impaired			
	Total	Neither past due nor impaired	Up to 1 year	More than 1 - 3 years	More than 3 - 5 years	More than 5 years
	SR	SR	SR	SR	SR	SR
31 December 2018	**1,658,355,276**	**946,858,183**	**570,343,121**	**20,882,669**	**117,863,422**	**2,407,881**
31 December 2017	876,648,333	473,619,661	286,206,227	114,690,196	2,132,249	-
1 January 2017	958,695,863	353,695,478	476,996,798	125,184,775	2,818,812	-

The following compensation was paid to key management personnel during the year:

	31 December 2018 SR	31 December 2017 SR
Short-term benefits	**25,512,987**	18,614,758
Post-employment benefits	**1,029,060**	-
	26,542,047	18,614,758

31- OPERATING LEASE ARRANGEMENTS

The estimated operating lease commitments for next year at the reporting date amounted to SR 16,871,754.

The Group incurred the following operating lease expenditure during the year:

	31 December 2018 SR	31 December 2017 SR
Premises (note 8)	**15,399,533**	10,356,499
Vehicles	**1,472,221**	747,775
	16,871,754	11,104,274

32- CAPITAL COMMITMENTS

The Group had no capital commitments at the reporting date.

33- GOVERNMENT GRANTS RECEIVED

The Group received total government grant income during the year SR 10.38 million (31 December 2017: SR 11.54 million). This amount was included in net profit for the year and set off against expenditure.

34- IMPACT OF ADOPTION OF IFRS 15 AND IFRS 9

34.1 Effect of IFRS 15 and 9 on the statement of financial position as at 1 January 2017

	Notes	Amounts previously reported SR	Reclassifications SR	IFRS 15 adjustments SR	IFRS 9 adjustments SR	Restated balances SR
ASSETS						
Current assets						
Cash and bank balances		482,128,145	-	-	-	482,128,145
Murabaha time deposits		300,000,000	-	-	-	300,000,000
Work-in-progress	a	277,326,747	(57,630,187)	(219,696,560)	-	-
Accounts receivable	b	1,066,393,640	1,903,685	-	67,997,277	1,136,294,602
Prepayments and other assets		396,983,966	-	-	-	396,983,966
Unbilled revenue	c	502,409,288	(502,409,288)	-	-	-
Contract assets	c	-	502,409,288	84,646,297	(454,978)	586,600,607
Inventories	d	43,447,856	7,750,797	-	-	51,198,653
Total current assets		**3,068,689,642**	**(47,975,705)**	**(135,050,263)**	**67,542,299**	**2,953,205,973**
Non-current assets						
Available-for-sale investments	e	1,050,000	(1,050,000)	-	-	-
Investments at FVOCI	e	-	1,050,000	-	-	1,050,000
Intangible assets		10,155,891	-	-	-	10,155,891
Property and equipment		29,414,404	-	-	-	29,414,404
Total non-current assets		**40,620,295**	-	-	-	**40,620,295**
TOTAL ASSETS		**3,109,309,937**	**(47,975,705)**	**(135,050,263)**	**67,542,299**	**2,993,826,268**

34- IMPACT OF ADOPTION OF IFRS 15 AND IFRS 9 (continued)

34.1 Effect of IFRS 15 and 9 on the statement of financial position as at 1 January 2017 (continued)

	Notes	Amounts previously reported SR	Reclassifications SR	IFRS 15 adjustments SR	IFRS 9 adjustments SR	Restated balances SR
LIABILITIES AND EQUITY						
LIABILITIES						
Current liabilities						
Accounts payable and accruals	f	1,147,098,602	(9,452,999)	-	-	1,137,645,603
Deferred revenue	g	418,753,314	(38,522,706)	(65,428,575)	-	314,802,033
Advances from customers	c	609,624,310	(609,624,310)	-	-	-
Contract liabilities	c	-	609,624,310	-	-	609,624,310
Zakat payable		26,537,052	-	-	-	26,537,052
Total current liabilities		**2,202,013,278**	**(47,975,705)**	**(65,428,575)**	**-**	**2,088,608,998**
Non-current liability						
End of service indemnities		68,348,000	-	-	-	68,348,000
Total non-current liability		68,348,000	-	-	-	68,348,000
TOTAL LIABILITIES		**2,270,361,278**	**(47,975,705)**	**(65,428,575)**	**-**	**2,156,956,998**
EQUITY						
Share capital		100,000,000	-	-	-	100,000,000
Statutory reserve		50,000,000	-	-	-	50,000,000
Retained earnings		688,948,659	-	(69,621,688)	67,542,299	686,869,270
Total equity	34.2	**838,948,659**	**-**	**(69,621,688)**	**67,542,299**	**836,869,270**
TOTAL LIABILITIES AND EQUITY		**3,109,309,937**	**(47,975,705)**	**(135,050,263)**	**67,542,299**	**2,993,826,268**

34- IMPACT OF ADOPTION OF IFRS 15 AND IFRS 9 (continued)

34.2 Reconciliation of equity as at 1 January 2017

	Notes	As at 1 January 2017 SR
Total equity before adoption of IFRS 15 and 9		**838,948,659**
Impact on work-in-progress	a	(219,696,560)
Impact on contract assets	c	84,646,297
Impact on deferred revenue	g	65,428,575
Impact for expected credit losses on accounts receivable	b	67,997,277
Impact for expected credit losses on contract assets	c	(454,978)
Total adjustment to equity		**(2,079,389)**
Total equity after adoption of IFRS 15 and 9		**836,869,270**

34- IMPACT OF ADOPTION OF IFRS 15 AND IFRS 9 (continued)

34.3 Effect of IFRS 15 and 9 adoption on the statement of profit or loss and other comprehensive income for the year ended 31 December 2017

	Notes	Amounts previously reported (*)	Reclassifi-cations	IFRS 15 ad-justments	IFRS 9 ad-justments	Restated balances
		SR	SR	SR	SR	SR
Revenue	h	3,116,620,399	-	(154,358,640)	-	2,962,261,759
Cost of revenue	a	(2,163,903,680)	-	116,294,496	-	(2,047,609,184)
Gross profit		**952,716,719**	**-**	**(38,064,144)**	**-**	**914,652,575**
Selling and distribution expenses	i	(108,414,702)	22,274,080	-	-	(86,140,622)
General and adminis-tration expenses		(207,276,453)	-	-	-	(207,276,453)
Impairment of accounts receivable and contract assets	i	-	(22,274,080)	-	(28,922,113)	(51,196,193)
Foreign exchange loss		(451,391)	-	-	-	(451,391)
Other income		6,557,555	-	-	-	6,557,555
Net profit before net finance income and zakat		**643,131,728**	**-**	**(38,064,144)**	**(28,922,113)**	**576,145,471**
Finance income		23,849,859	-	-	-	23,849,859
Finance charges		(2,529,141)	-	-	-	(2,529,141)
Net profit before zakat		**664,452,446**	**-**	**(38,064,144)**	**(28,922,113)**	**597,466,189**
Zakat		(47,604,307)	-	-	-	(47,604,307)
Net profit for the period		**616,848,139**	**-**	**(38,064,144)**	**(28,922,113)**	**549,861,882**
Other comprehensive income						
Item that will not be reclassified subsequently to profit or loss:						
Remeasurement of end of service indemnities liability		11,400,000	-	-	-	11,400,000
Total comprehensive income for the period		**628,248,139**	**-**	**(38,064,144)**	**(28,922,113)**	**561,261,882**

(*) There have been certain reclassifications made in these financial statements to conform with the presentation of the Company's financial statements based on current period.

34- IMPACT OF ADOPTION OF IFRS 15 AND IFRS 9 (continued)

34.4 Effect of IFRS 15 and 9 on the consolidated statement of financial position as at 31 December 2017:

	Notes	Amounts previously reported SR	Reclassifications SR	IFRS 15 adjustments SR	IFRS 9 adjustments SR	Restated balances SR
ASSETS						
Current assets						
Cash and bank balances		595,783,139	-	-	-	595,783,139
Murabaha time deposits		800,000,000	-	-	-	800,000,000
Work-in-progress	a	112,185,877	(29,837,131)	(82,348,746)	-	-
Accounts receivable	b	933,419,975	1,617,122	-	41,482,286	976,519,383
Prepayments and other assets		135,571,878	-	-	-	135,571,878
Unbilled revenue	c	812,816,518	(812,816,518)	-	-	-
Contract assets	c	-	812,816,518	42,898,532	(2,862,099)	852,852,951
Inventories	d	59,755,673	11,620,164	-	-	71,375,837
Total current assets		**3,449,533,060**	**(16,599,845)**	**(39,450,214)**	**38,620,187**	**3,432,103,188**
Non-current assets						
Available-for-sale investments	e	50,000	(50,000)	-	-	-
Investments at FVOCI	e	-	50,000	-	-	50,000
Intangible assets		34,277,915	-	-	-	34,277,915
Property and equipment		41,582,680	-	-	-	41,582,680
Total non-current assets		75,910,595	-	-	-	75,910,595
TOTAL ASSETS		**3,525,443,655**	**(16,599,845)**	**(39,450,214)**	**38,620,187**	**3,508,013,783**

34- IMPACT OF ADOPTION OF IFRS 15 AND IFRS 9 (continued)

34.4 Effect of IFRS 15 and 9 on the consolidated statement of financial position as at 31 December 2017: (continued)

	Notes	Amounts previously reported SR	Reclassifi-cations SR	IFRS 15 ad-justments SR	IFRS 9 adjust-ments SR	Restated balances SR
LIABILITIES AND EQUITY						
LIABILITIES						
Current liabilities						
Accounts payable and accruals	f	815,678,458	(5,735,048)	5,384,076	-	815,327,486
Deferred revenue	g	428,731,375	(10,864,797)	62,851,543	-	480,718,121
Advances from customers	c	647,538,907	(647,538,907)	-	-	-
Contract liabilities	c	-	647,538,907	-	-	647,538,907
Zakat payable		74,048,117	-	-	-	74,048,117
Total current liabilities		**1,965,996,857**	**(16,599,845)**	**68,235,619**	**-**	**2,017,632,631**
Non-current liability						
End of service indemnities		92,250,000	-	-	-	92,250,000
TOTAL LIABILITIES		**2,058,246,857**	**(16,599,845)**	**68,235,619**	**-**	**2,109,882,631**
EQUITY						
Share capital		100,000,000	-	-	-	100,000,000
Statutory reserve		50,000,000	-	-	-	50,000,000
Retained earnings		1,317,196,798	-	(107,685,833)	38,620,187	1,248,131,152
Total equity	34.5	**1,467,196,798**	**-**	**(107,685,833)**	**38,620,187**	**1,398,131,152**
TOTAL LIABILITIES AND EQUITY		**3,525,443,655**	**(16,599,845)**	**(39,450,214)**	**38,620,187**	**3,508,013,783**

34- IMPACT OF ADOPTION OF IFRS 15 AND IFRS 9 (continued)

34.4 Effect of IFRS 15 and 9 on the consolidated statement of financial position as at 31 December 2017: (continued)

34- IMPACT OF ADOPTION OF IFRS 15 AND IFRS 9 (continued)

34.5 Reconciliation of equity as at 31 December 2017

	Notes	As at 31 December 2017 SR
Total equity before adoption of IFRS 15 and 9		1,467,196,798
Impact on work-in-progress	a	(82,348,746)
Impact on contract assets	c	42,898,532
Impact on accounts payable and accruals	f	(5,384,076)
Impact on deferred revenue	g	(62,851,543)
Impact for expected credit losses on accounts receivable	b	41,482,286
Impact for expected credit losses on contract assets	c	(2,862,099)
Total adjustment to equity		(69,065,646)
Total equity after adoption of IFRS 15 and 9		1,398,131,152

34.6 Notes to the reconciliations

a) Work-in-progress for an over-time performance obligation is generally expensed when it is incurred rather than deferred as an asset. According to IFRS 15, the criteria of control transfer (such as ability to direct the use of, obtain remaining benefits from, prevent others from directing the use of, and prevent others from obtaining the benefits from the asset) in addition to certain indicators (such as present obligation to pay, physical possession, legal title, risks and rewards of ownership and acceptance of the asset) triggers transfer of control upon delivery to customer site. Hence, a major part of the work-in-progress is expensed after the application of IFRS 15. However, inventory to support multiple contracts that has an alternative use is recognized as an asset (i.e. inventory) until it is dedicated to a specific contract. In addition, certain work-in-progress balances were classified and closed against accruals. During the three months and twelve months ended December 31, 2017, certain work-in-progress amounts expensed in earlier periods due to IFRS 15 adoption that were also expensed during the same periods under the previous IFRS, were credited to cost of sales.

b) This represents the impact of change in allowances for expected credit losses resulting from the application of IFRS 9. This resulted in decrease in allowances related to accounts receivable of amount SR 41,482,286 as at 31 December 2017. In addition, expected penalties were reclassified to deferred revenue amounting to SR 1,617,122 as at 31 December 2017.

34- IMPACT OF ADOPTION OF IFRS 15 AND IFRS 9 (continued)

34.6 Notes to the reconciliations (continued)

c) Unbilled revenue and advance from customers has been reclassified to contract assets and liabilities respectively as at 31 December 2017. The application of IFRS 15 has resulted in increase of contract assets by SR 42,898,532 as at 31 December 2017. Furthermore, the expected credit loss calculated on contract assets as per IFRS 9 has decreased the contract assets by SR 2,862,099 as at 31 December 2017.

The combined net impact of contract assets and deferred revenue (see point "g") as a result of IFRS 15 application is decrease of retained earnings by SR 19,953,011 as of 31 December 2017. The main cause for decrease of retained earning as of 31 December 2017 from contract assets and deferred revenue is applying uninstalled material guidance on System Integration stream (see note 2) and the fact that percentage of completion of installation activity being less than the percentage of completion of the project as a bundle (as treated under the previous standard IAS 11) for majority of projects. Furthermore, activation fees under cloud stream were deferred rather than being recognized upfront due to application of IFRS 15 (see note 2) which resulted in decrease of retained earnings by SR 1.26 million as of 31 December 2017.

d) This represents the certain amounts transferred to inventory from work-in-progress. Refer to note (a) above.

e) The application of IFRS 9 has led to reclassification of equity investments from available-for-sale to FVOCI. There was no re-measurement adjustment related to this.

f) Certain reclassifications were made between accruals and work-in-progress. In addition, due to IFRS 15 impact on cloud revenue, certain costs and revenue relating specially to CSPs were recognized earlier which resulted in increase in accruals by SR 5,384,076 as at 31 December 2017. Please refer to note (h).

g) The application of IFRS 15 has resulted in increase of deferred revenue by SR 62,851,543 as at 31 December 2017. See note (c) for the combined net impact of contract assets and deferred revenue on retained earnings. Also, certain reclassifications were made between deferred revenue and work-in-progress.

h) The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various goods and services are set out in note 2. The main reasons for the negative adjustment is described in point (c) above as applicable on 31 December 2017 balances which are applicable on 31 December 2017 balances. Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement. The Group has adopted the new revenue rules retrospectively and has restated comparative financial statements.

i) This represents the reclassification of previous impairment charged in selling and distribution expenses separately in the statement of profit and loss as per IAS 1, Presentation of Financial Statements due to the application of IFRS 9. In addition, as explained in notes (b) and (c), there was a change in allowances for expected credit losses on receivables and contract assets due to the application of IFRS 9.

34- IMPACT OF ADOPTION OF IFRS 15 AND IFRS 9 (continued)

34.7 Effect on the statement of cash flows

There have been no material impacts of adoption of IFRS 15 and IFRS 9 on the cash flow statements for the year ended 31 December 2017

35- EVENTS AFTER THE REPORTING DATE

No other events have arisen subsequent to 31 December 2018 and before the issuance of the consolidated financial statements that could have a significant effect on the consolidated financial statements as at 31 December 2018

36- CONTINGENT LIABILITIES

	31 December 2018 SR	31 December 2017 SR	1 January 2017 SR
Letters of guarantee – issued through stc on behalf of the Group	**111,030,251**	**118,865,644**	43,967,514
Letters of credit – issued through bank	-	-	174,250,560

37- COMPARATIVE FIGURES

Certain of the prior year's amounts have been reclassified to conform with the presentation in the current year.