



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

**INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS  
FOR THE THREE MONTHS PERIOD AND THE YEAR ENDED  
31 DECEMBER 2020  
(UNAUDITED)**

**Fourth Quarter  
2020**



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

**Introduction:**

We have reviewed the accompanying interim condensed consolidated statement of financial position of Saudi Telecom Company - a Saudi Joint Stock Company ("the Company") and its subsidiaries (collectively referred to as "the Group") as at 31 December 2020, and the related interim condensed consolidated statements of profit or loss and comprehensive income, for the three months period and the year ended 31 December 2020, and the related interim condensed statements of cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

**Scope of Review:**

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

**Conclusion:**

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

for Ernst & Young

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



Riyadh: 13 Jumada al-Akhirah 1442H  
(26 January 2021)

**Saudi Telecom Company**  
**A Saudi Joint Stock Company**

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)**  
**AS AT 31 DECEMBER 2020**

(All amounts in Saudi Riyals thousands unless otherwise stated)

	<u>Note</u>	<u>31 December 2020</u>	<u>31 December 2019</u>
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property and equipment	5	47,847,334	45,085,342
Investment properties	6	36,980	-
Intangible assets and goodwill	7	10,458,880	9,906,688
Right of use assets	8	2,942,675	2,887,933
Investments in associates and joint ventures		6,704,947	6,618,526
Contract assets		457,657	648,069
Contract costs		637,470	922,922
Financial assets and other	9	7,069,279	7,415,284
<b>TOTAL NON-CURRENT ASSETS</b>		<b>76,155,222</b>	<b>73,484,764</b>
<b>CURRENT ASSETS</b>			
Inventories		1,008,430	1,721,530
Trade and other receivables	12,13	16,066,756	21,372,368
Short term murabahas		10,433,849	2,181,416
Contract assets		6,629,037	6,793,755
Financial assets and other	9	3,275,917	4,473,685
Cash and cash equivalents		9,007,301	8,031,010
		46,421,290	44,573,764
Assets held for sale	10	-	267,728
<b>TOTAL CURRENT ASSETS</b>		<b>46,421,290</b>	<b>44,841,492</b>
<b>TOTAL ASSETS</b>		<b>122,576,512</b>	<b>118,326,256</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Issued capital		20,000,000	20,000,000
Statutory reserves		10,000,000	10,000,000
Treasury shares	19	(300,000)	-
Other reserves		(3,260,022)	(2,745,608)
Retained earnings		37,598,511	34,508,202
<b>Equity attributable to the equity holders of the Parent Company</b>		<b>64,038,489</b>	<b>61,762,594</b>
Non-controlling interests		1,321,233	1,292,452
<b>TOTAL EQUITY</b>		<b>65,359,722</b>	<b>63,055,046</b>
<b>LIABILITIES</b>			
<b>NON-CURRENT LIABILITIES</b>			
Long term borrowings	14	8,637,605	8,923,476
End of service benefits provision	15	5,236,223	4,812,805
Lease liabilities	16	2,263,357	2,164,415
Provisions		725,625	891,210
Contract liabilities		771,915	771,915
Financial liabilities and other	17	5,982,040	5,100,617
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>23,616,765</b>	<b>22,664,438</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		20,387,677	18,242,158
Provisions		3,911,371	5,157,110
Contract liabilities		2,497,107	2,917,989
Zakat and income tax	18	1,903,791	1,482,278
Lease liabilities	16	753,857	716,762
Short term borrowings	14	318,485	389,339
Financial liabilities and other	17	3,827,737	3,701,136
<b>TOTAL CURRENT LIABILITIES</b>		<b>33,600,025</b>	<b>32,606,772</b>
<b>TOTAL LIABILITIES</b>		<b>57,216,790</b>	<b>55,271,210</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>122,576,512</b>	<b>118,326,256</b>

  
**Chief Financial Officer**

  
**Chief Executive Officer**

  
**Authorized Board Member**

**Saudi Telecom Company**  
**A Saudi Joint Stock Company**

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)**  
**FOR THE THREE MONTHS PERIOD AND THE YEAR ENDED 31 DECEMBER 2020**

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	For the three months period ended 31 December		For the year ended 31 December	
		2020	2019	2020	2019
Revenue	4	15,212,618	13,264,588	58,949,132	54,367,531
Cost of revenue		(6,723,418)	(4,904,947)	(24,952,104)	(21,976,306)
<b>GROSS PROFIT</b>		<b>8,489,200</b>	<b>8,359,641</b>	<b>33,997,028</b>	<b>32,391,225</b>
<b>OPERATING EXPENSES</b>					
Selling and marketing		(1,293,700)	(1,841,764)	(6,040,417)	(5,581,969)
General and administration		(1,479,970)	(1,531,245)	(5,781,573)	(5,544,276)
Depreciation and amortisation	5,7,8	(2,425,653)	(2,586,813)	(9,359,365)	(8,784,587)
<b>TOTAL OPERATING EXPENSES</b>		<b>(5,199,323)</b>	<b>(5,959,822)</b>	<b>(21,181,355)</b>	<b>(19,910,832)</b>
<b>OPERATING PROFIT</b>		<b>3,289,877</b>	<b>2,399,819</b>	<b>12,815,673</b>	<b>12,480,393</b>
<b>OTHER EXPENSES AND INCOME</b>					
Cost of early retirement program		(99,807)	(146,232)	(600,000)	(600,000)
Finance income		91,674	155,439	413,873	639,161
Finance costs		(146,978)	(217,957)	(624,831)	(765,154)
Net other income (expenses)		13,825	57,065	(44,065)	(76,062)
Net share in results of investments in associates and joint ventures		38,688	39,783	52,953	49,597
Net other (losses) gains	10,11	(57,681)	197,877	433,559	(40,960)
<b>TOTAL OTHER EXPENSES AND INCOME</b>		<b>(160,279)</b>	<b>85,975</b>	<b>(368,511)</b>	<b>(793,418)</b>
<b>NET PROFIT BEFORE ZAKAT AND INCOME TAX</b>					
		<b>3,129,598</b>	<b>2,485,794</b>	<b>12,447,162</b>	<b>11,686,975</b>
Zakat and income tax	18	(418,588)	(93,231)	(1,171,481)	(762,144)
<b>NET PROFIT</b>		<b>2,711,010</b>	<b>2,392,563</b>	<b>11,275,681</b>	<b>10,924,831</b>
<b>Net profit attributable to:</b>					
Equity holders of the Parent Company		2,682,862	2,320,714	11,085,359	10,664,666
Non-controlling interests		28,148	71,849	190,322	260,165
		<b>2,711,010</b>	<b>2,392,563</b>	<b>11,275,681</b>	<b>10,924,831</b>
<b>Earnings per share, based on net profit attributable to equity holders of the Parent Company (in Saudi Riyals):</b>					
- Basic	19	1.34	1.16	5.54	5.33
- Diluted	19	1.34	1.16	5.54	5.33



Chief Financial Officer



Chief Executive Officer



Authorized Board Member

**Saudi Telecom Company**  
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**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)**  
**FOR THE THREE MONTHS PERIOD AND THE YEAR ENDED 31 DECEMBER 2020**

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	For the three months period ended 31 December		For the year ended 31 December	
		2020	2019	2020	2019
<b>NET PROFIT</b>		<b>2,711,010</b>	<b>2,392,563</b>	<b>11,275,681</b>	<b>10,924,831</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS):</b>					
<i>Item that will not be reclassified subsequently to consolidated statement of profit or loss:</i>					
Re-measurement of end of service benefit provision	15	(258,003)	(9,563)	(564,806)	(710,054)
<i>Items that may be reclassified subsequently to consolidated statement of profit or loss:</i>					
Foreign currency translation differences		14,358	2,894	(18,406)	(1,479)
Fair value changes from cash flow hedges		-	3,269	1,820	(484)
Net share of other comprehensive income of associates and joint ventures		73,912	144,391	52,531	214,013
<b>Total items that may be reclassified subsequently to consolidated statement of profit or loss</b>		<b>88,270</b>	<b>150,554</b>	<b>35,945</b>	<b>212,050</b>
<b>TOTAL OTHER COMPREHENSIVE (LOSS) INCOME</b>		<b>(169,733)</b>	<b>140,991</b>	<b>(528,861)</b>	<b>(498,004)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>2,541,277</b>	<b>2,533,554</b>	<b>10,746,820</b>	<b>10,426,827</b>
<b>Total comprehensive income attributable to:</b>					
Equity holders of the Parent Company		2,507,066	2,457,379	10,571,162	10,163,477
Non-controlling interests		34,211	76,175	175,658	263,350
		<b>2,541,277</b>	<b>2,533,554</b>	<b>10,746,820</b>	<b>10,426,827</b>



Chief Financial Officer



Chief Executive Officer



Authorized Board Member

**Saudi Telecom Company  
A Saudi Joint Stock Company**

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)  
FOR THE YEAR ENDED 31 DECEMBER 2020**

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	For the year ended	
		2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net profit before zakat and income tax		12,447,162	11,686,975
<b>Adjustments for:</b>			
Depreciation and amortisation	5,7,8	9,359,365	8,784,587
Impairment loss and amortisation of contract costs and contract assets		623,652	506,951
Impairment loss on trade receivables		1,072,959	662,043
Allowance for slow moving inventories		3,433	57,086
Finance income		(413,873)	(639,161)
Finance costs		624,831	765,154
Provision for end of service benefits and other provisions		572,878	935,304
Net share in results of investments in associates and joint ventures		(52,953)	(49,597)
Share- based payment expenses	24	6,116	-
Net other (gains) losses		(433,559)	40,960
<b>Movements in :</b>			
Trade receivables and others		4,233,154	(7,574,857)
Inventories		709,667	(988,430)
Contract costs		(220,515)	(296,936)
Contract assets		237,445	(1,573,106)
Other assets		913,769	(2,317,470)
Trade payables and others		1,563,646	4,714,301
Contract liabilities		31,372	(130,160)
Other liabilities		(1,514,038)	(3,469,086)
<b>Cash generated from operations</b>		<b>29,764,511</b>	<b>11,114,558</b>
Less: Zakat and income tax paid	18	(750,643)	(742,882)
Less: Provision for end of service benefits paid		(677,741)	(451,050)
<b>Net cash generated from operating activities</b>		<b>28,336,127</b>	<b>9,920,626</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property and equipment	5	(9,150,117)	(9,426,711)
Additions to intangible assets	7	(1,690,470)	(1,941,453)
Proceeds from sale of property and equipment		16,748	140,307
Dividends from an associate		-	37,931
Proceeds from sale of an associate		760,862	-
Acquisition of a new subsidiary		-	(232,669)
Proceeds from finance income		516,006	642,431
Proceeds (payments) related to financial assets, net		(7,882,206)	8,803,038
<b>Net cash used in investing activities</b>		<b>(17,429,177)</b>	<b>(1,977,126)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends paid to the equity holders of the Parent Company		(7,973,418)	(12,001,610)
Dividends paid to non-controlling interests		(102,781)	(104,104)
Purchase of treasury shares	19	(300,000)	-
Repayment of lease liabilities		(840,049)	(712,467)
Repayment of borrowings	14	(402,386)	(350,948)
Proceeds from borrowings	14	21,363	5,381,417
Finance costs paid		(330,354)	(279,933)
<b>Net cash used in financing activities</b>		<b>(9,927,625)</b>	<b>(8,067,645)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>979,325</b>	<b>(124,145)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		<b>8,031,010</b>	<b>8,153,865</b>
Net foreign exchange difference		(3,034)	1,290
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>		<b>9,007,301</b>	<b>8,031,010</b>



Chief Financial Officer



Chief Executive Officer



Authorized Board Member

**Saudi Telecom Company  
A Saudi Joint Stock Company**

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)  
FOR THE YEAR ENDED 31 DECEMBER 2020**

(All amounts in Saudi Riyals thousands unless otherwise stated)

**Total equity attributable to the equity holders of the Parent Company**

Note	Issued capital	Statutory reserves	Treasury shares	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
<b>Balance as at 1 January 2019</b>	20,000,000	10,000,000	-	(1,903,878)	37,417,562	65,513,684	1,147,914	66,661,598
Net profit	-	-	-	-	10,664,666	10,664,666	260,165	10,924,831
Other comprehensive loss	-	-	-	(501,189)	-	(501,189)	3,185	(498,004)
Total comprehensive income	-	-	-	(501,189)	10,664,666	10,163,477	263,350	10,426,827
Dividends to the equity holders of the Parent Company	-	-	-	-	(14,000,000)	(14,000,000)	-	(14,000,000)
Dividends to non-controlling interests	-	-	-	-	-	-	(118,812)	(118,812)
Share of changes in other reserves of a joint venture's equity	-	-	-	85,433	-	85,433	-	85,433
Transfers	-	-	-	(425,974)	425,974	-	-	-
<b>Balance as at 31 December 2019</b>	20,000,000	10,000,000	-	(2,745,608)	34,508,202	61,762,594	1,292,452	63,055,046
<b>Balance as at 1 January 2020</b>	20,000,000	10,000,000	-	(2,745,608)	34,508,202	61,762,594	1,292,452	63,055,046
Net profit	-	-	-	-	11,085,359	11,085,359	190,322	11,275,681
Other comprehensive loss	-	-	-	(514,197)	-	(514,197)	(14,664)	(528,861)
Total comprehensive income	-	-	-	(514,197)	11,085,359	10,571,162	175,658	10,746,820
Dividends to the equity holders of the Parent Company	-	-	-	-	(7,995,050)	(7,995,050)	-	(7,995,050)
Dividends to non-controlling interests	-	-	-	-	-	-	(144,327)	(144,327)
Share-based payment transactions	-	-	-	6,116	-	6,116	-	6,116
Purchase of treasury shares	-	-	(300,000)	-	-	(300,000)	-	(300,000)
Acquisition of a share in non-controlling interest	-	-	-	(4,369)	-	(4,369)	(2,550)	(6,919)
Share of changes in other reserves of a joint venture's equity	-	-	-	(1,964)	-	(1,964)	-	(1,964)
<b>Balance as at 31 December 2020</b>	20,000,000	10,000,000	(300,000)	(3,260,022)	37,598,511	64,038,489	1,321,233	65,359,722

  
Chief Financial Officer

  
Chief Executive Officer

  
Authorized Board Member



**Saudi Telecom Company  
A Saudi Joint Stock Company**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
31 DECEMBER 2020**

(All amounts in Saudi Riyals thousands unless otherwise stated)

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**1- GENERAL INFORMATION**

**1-1 ESTABLISHMENT OF THE COMPANY**

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

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

**1-2 GROUP ACTIVITIES**

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

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

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



**Chief Financial Officer**



**Chief Executive Officer**



**Authorized Board Member**

**2- BASIS OF PREPARATION**

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

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements in accordance with International Financial Reporting Standards and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2019.

**3- THE GROUP'S ACCOUNTING POLICIES**

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019.

The below accounting policies were applied during the year 2020:

**3-1 Shared-based payment transactions:**

The Company's executive employees receive remuneration in the form of share-based payments under the employee long term incentives program, whereby employees render services as consideration for Company's shares (equity-settled transactions). The cost of equity-settled transactions is determined by the fair value of the equity instrument at the grant date. The grant date is the date on which the Company and the employee agree on the share-based agreement, so that, a common understanding of the terms and conditions of the agreement exists between the parties.

Share-based payment expense is included as part of employees benefits expense over the period in which the service and the performance conditions are fulfilled (the vesting period), with the corresponding amount recorded under other reserves within equity in accordance with the requirements of the International Financial Reporting Standard (2): Share-based Payment. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of shares that will ultimately vest. The expense or credit in the consolidated statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

**3-2 Treasury shares:**

Own equity instruments that are repurchased (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the consolidated statement of profit or loss on the purchase, sale, issue or cancellation of the shares. Any difference between the carrying amount of the shares and the consideration, if reissued, is recognised in other reserves within equity.

**3-3 Investment properties**

Investment properties are non-current assets (land or building - or part of a building - or both) for the purpose of earning rental income or capital appreciation or both. The investment properties are not for sale in the Group's ordinary course of business, or for use in providing services or for administrative purposes.

An Investment property shall be recognized as an asset when, and only when it is probable that the future economic benefits that are associated with the investment property will flow to the Group, and the cost of the investment property can be measured reliably. Investment properties are initially measured at cost, including transaction costs. Subsequently, they are measured using the "cost model", which is the cost less accumulated depreciation and any accumulated impairment losses. Except for lands, as it is not subject to depreciation.

Repair and maintenance costs that do not increase the life of the asset significantly are recognised in the consolidated statement of profit or loss as incurred.

**Saudi Telecom Company**  
**A Saudi Joint Stock Company**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**31 DECEMBER 2020 (CONTINUED)**

(All amounts in Saudi Riyals thousands unless otherwise stated)

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**3- THE GROUP'S ACCOUNTING POLICIES (CONTINUED)**

**3-3 Investment properties (continued)**

Investment properties are derecognised when they are disposed of (that is, on the date of losing control over them) and no future economic benefit is expected upon disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of profit or loss during the period of disposal.

Transfers from / to investment property to / from property and equipment are made only when the company changes the purpose of using the property.

The Group appoints an independent external valuer accredited by the Saudi Authority for Accredited Valuers (Taqeem) to obtain the fair value estimates of investment properties for the purpose of determining if there is an impairment and also for the purpose of related disclosures in the consolidated financial statements of the Group.

**3-4 Other amendments to IFRSs and the Interpretations Committee**

The Group has not early adopted any other standards, interpretation or amendment that has been issued but is not yet effective.

Note that there are some other amendments to IFRS and IFRIC that were applied by the Group with effective dates before period ended 31 December 2020 and had no material impact on the Group's consolidated financial statements as follows:

Amendments and interpretations	Effective date
Amendments on some references to the Conceptual Framework for Financial Reporting	1 January 2020
Amendments to IFRS 7, IFRS 9 - Interest Rate Benchmark Reform	1 January 2020
Amendments to IFRS 3 – Definition of a Business	1 January 2020
Amendments to IAS 1 and IAS 8 – Definition of Material	1 January 2020
Amendments to IFRS 16 – Covid-19 Related Rent Concessions	1 June 2020

**4- SEGMENT INFORMATION**

The Group is engaged mainly in providing telecommunication services and related products. Majority of the Group's revenues, income and assets relate to its operations within the Kingdom (Saudi Telecom Company and Channels by stc). Outside of the Kingdom, the Group operates through its subsidiaries, associates and joint ventures in several countries.

Revenue is distributed to an operating segment based on the entity of the Group reporting the revenue. Sales between segments are calculated at normal business transaction prices.

The disclosed operating segments exceeded the 75% threshold and therefore all other operating segments are combined and disclosed as "Other segments".

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**4- SEGMENT INFORMATION (CONTINUED)**

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

	<i>For the three months period ended 31 December</i>		<i>For the year ended 31 December</i>	
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
	<b>Revenue <sup>(1)</sup></b>			
Saudi Telecom Company	<b>11,240,885</b>	10,112,363	<b>42,898,825</b>	40,259,106
Channels by stc	<b>4,559,899</b>	4,467,439	<b>17,527,801</b>	17,409,802
Other operating segments <sup>(2)</sup>	<b>4,124,212</b>	3,691,216	<b>15,729,045</b>	12,628,185
Eliminations / Adjustments	<b>(4,712,378)</b>	(5,006,430)	<b>(17,206,539)</b>	(15,929,562)
<b>Total revenue</b>	<b>15,212,618</b>	13,264,588	<b>58,949,132</b>	54,367,531
Cost of operations (excluding depreciation and amortisation)	<b>(9,497,088)</b>	(8,277,956)	<b>(36,774,094)</b>	(33,102,551)
Depreciation and amortisation	<b>(2,425,653)</b>	(2,586,813)	<b>(9,359,365)</b>	(8,784,587)
Cost of early retirement	<b>(99,807)</b>	(146,232)	<b>(600,000)</b>	(600,000)
Finance income	<b>91,674</b>	155,439	<b>413,873</b>	639,161
Finance costs	<b>(146,978)</b>	(217,957)	<b>(624,831)</b>	(765,154)
Net other income (expenses)	<b>13,825</b>	57,065	<b>(44,065)</b>	(76,062)
Net share in results of investments in associates and joint ventures	<b>38,688</b>	39,783	<b>52,953</b>	49,597
Net other (losses) gains	<b>(57,681)</b>	197,877	<b>433,559</b>	(40,960)
Zakat and income tax	<b>(418,588)</b>	(93,231)	<b>(1,171,481)</b>	(762,144)
<b>Net profit</b>	<b>2,711,010</b>	2,392,563	<b>11,275,681</b>	10,924,831
<b>Net profit attributable to:</b>				
Equity holders of the Parent Company	<b>2,682,862</b>	2,320,714	<b>11,085,359</b>	10,664,666
Non-controlling interests	<b>28,148</b>	71,849	<b>190,322</b>	260,165
	<b>2,711,010</b>	2,392,563	<b>11,275,681</b>	10,924,831

Following is the gross profit analysis on a segment basis:

	<i>For the three months period ended 31 December</i>		<i>For the year ended 31 December</i>	
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
	Saudi Telecom Company	<b>6,780,117</b>	6,565,675	<b>26,781,712</b>
Channels by stc	<b>385,084</b>	403,746	<b>1,384,058</b>	1,418,463
Other operating segments <sup>(2)</sup>	<b>1,584,819</b>	1,417,635	<b>6,398,191</b>	4,910,725
Eliminations / Adjustments	<b>(260,820)</b>	(27,415)	<b>(566,933)</b>	(237,898)
<b>Gross profit</b>	<b>8,489,200</b>	8,359,641	<b>33,997,028</b>	32,391,225

**Information about geographical segmentation:**

Following is the geographical segmentation of revenue:

	<i>For the three months period ended 31 December</i>		<i>For the year ended 31 December</i>	
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
	Kingdom of Saudi Arabia	<b>13,887,872</b>	12,125,151	<b>54,165,966</b>
Others	<b>1,324,746</b>	1,139,437	<b>4,783,166</b>	4,397,228
	<b>15,212,618</b>	13,264,588	<b>58,949,132</b>	54,367,531

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**4- SEGMENT INFORMATION (CONTINUED)**

The following is an analysis of the assets and liabilities on a segment basis as at:

	<u>31 December 2020</u>	<u>31 December 2019</u>
<b>Assets</b>		
Saudi Telecom Company	<b>130,514,425</b>	125,104,941
Channels by stc	<b>5,443,726</b>	4,560,238
Other operating segments <sup>(2)</sup>	<b>37,936,607</b>	34,355,695
Eliminations / Adjustments	<b>(51,318,246)</b>	(45,694,618)
<b>Total assets</b>	<b><u>122,576,512</u></b>	<b><u>118,326,256</u></b>
<b>Liabilities</b>		
Saudi Telecom Company	<b>53,167,505</b>	49,484,795
Channels by stc	<b>3,859,589</b>	3,122,999
Other operating segments <sup>(2)</sup>	<b>24,668,021</b>	22,438,203
Eliminations / Adjustments	<b>(24,478,325)</b>	(19,774,787)
<b>Total liabilities</b>	<b><u>57,216,790</u></b>	<b><u>55,271,210</u></b>

(1) Segment revenue reported above represents revenue generated from external and internal customers. There were SR 4,712 million and SR 17,207 million of inter-segment sales and adjustments (between the Group's Companies) for the three months period and the year ended 31 December 2020, respectively (for the three months period and the year ended 31 December 2019: SR 5,007 million and SR 15,930 million, respectively) which were eliminated at consolidation.

(2) Other operating segments include Kuwait Telecommunications Company (stc Kuwait), stc Bahrain, Solutions by stc, Specialized by stc, stc Gulf, Sapphire, Aqalat, Telecommunications Towers Company, Saudi Digital Payments Company (stc pay) and advanced technology and cybersecurity Company.

**5- PROPERTY AND EQUIPMENT**

During the year ended 31 December 2020, the Group acquired property and equipment with total cost of SR 9,215 million, including non-cash additions with an amount of SR 65 million (for the year ended 31 December 2019: SR 9,427 million, including non-cash additions with an amount of nil).

During the year ended 31 December 2020, the Group disposed of property and equipment with a net book value of SR 167 million (for the year ended 31 December 2019: SR 465 million) resulting in a loss on sale of property and equipment for the year ended 31 December 2020 with an amount of SR 64 million and SR 150 million, respectively (for the year ended 31 December 2019 with an amount of SR 116 million and SR 325 million, respectively).

The following table shows the breakdown of depreciation expense if allocated to operating costs items:

	<i>For the three months period</i>		<i>For the year ended</i>	
	<i>ended 31 December</i>		<i>31 December</i>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Cost of revenue	<b>1,317,347</b>	1,479,450	<b>5,127,663</b>	4,931,664
Selling and marketing expenses	<b>1,602</b>	4,065	<b>6,500</b>	16,239
General and administrative expenses	<b>296,943</b>	298,248	<b>1,155,084</b>	1,129,645
	<b><u>1,615,892</u></b>	<u>1,781,763</u>	<b><u>6,289,247</u></b>	<u>6,077,548</u>

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**6- INVESTMENT PROPERTIES**

	<u>31 December 2020</u>	<u>31 December 2019</u>
Lands (*)	<b>36,980</b>	-

(\*) During the fourth quarter of 2020, the Group transferred a land with a carrying book value of SR 37 million from property and equipment to investment properties for the purpose of real estate development and investment.

For the purpose of the disclosure requirements in accordance with IAS No. (40) "Investment properties", the Group has appointed Century 21 and Partner, a professionally qualified independent valuer accredited by the Saudi Authority for Accredited Valuers (Taqeem), with License No. (323/18/752), for the purpose of estimating the land fair value as at 31 December 2020, which amounted to SR 148 million.

**7- INTANGIBLE ASSETS AND GOODWILL**

During the year ended 31 December 2020, the net additions in intangible assets amounted to SR 2,687 million, including non-cash additions with an amount of SR 996 million (for the year ended 31 December 2019: SR 2,340 million, including non-cash additions with an amount of SR 399 million).

The following table shows the breakdown of amortisation expense if allocated to operating costs items:

	<i>For the three months period ended 31 December</i>		<i>For the year ended 31 December</i>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Cost of revenue	<b>132,709</b>	250,789	<b>634,581</b>	641,036
Selling and marketing expenses	<b>643</b>	736	<b>2,429</b>	3,493
General and administrative expenses	<b>444,747</b>	354,544	<b>1,497,907</b>	1,306,542
	<b>578,099</b>	606,069	<b>2,134,917</b>	1,951,071

**8- RIGHT OF USE ASSETS**

During the year ended 31 December 2020, the net additions in right of use assets amounted to SR 1,096 million (for the year ended 31 December 2019: SR 1,224 million).

The following table shows the breakdown of depreciation expense if allocated to operating costs items:

	<i>For the three months period ended 31 December</i>		<i>For the year ended 31 December</i>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Cost of revenue	<b>181,564</b>	153,925	<b>734,292</b>	562,514
Selling and marketing expenses	<b>3,986</b>	1,817	<b>10,798</b>	7,539
General and administrative expenses	<b>46,112</b>	43,239	<b>190,111</b>	185,915
	<b>231,662</b>	198,981	<b>935,201</b>	755,968

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**9- FINANCIAL ASSETS AND OTHER**

**9-1 Financial assets**

	<u>31 December 2020</u>	<u>31 December 2019</u>
Financial assets measured at FVTPL	1,119,413	1,550,869
<i>Financial assets at amortised cost:</i>		
Sukuk	5,371,446	5,355,659
Loans to employees	411,665	438,481
Others	167,494	355,013
	<u>5,950,605</u>	<u>6,149,153</u>
	<u>7,070,018</u>	<u>7,700,022</u>
Current	180,398	376,589
Non-current	6,889,620	7,323,433
	<u>7,070,018</u>	<u>7,700,022</u>

**9-2 Other assets**

	<u>31 December 2020</u>	<u>31 December 2019</u>
Advances	2,373,983	3,062,320
Prepaid expenses	493,347	508,362
Deferred expenses	128,578	95,494
Others	279,270	522,771
	<u>3,275,178</u>	<u>4,188,947</u>
Current	3,095,519	4,097,096
Non-current	179,659	91,851
	<u>3,275,178</u>	<u>4,188,947</u>

**10- ASSETS HELD FOR SALE**

On 26 March 2019, Uber Technologies ("Uber") signed an assets purchase agreement with Careem (the Group holds a direct share of 8.88%) to acquire the net assets of Careem for about SR11.6 billion (equivalent up to USD 3.1 billion) subject to modifications.

The total financial consideration of the agreement consists of the following:

- About SR 6.4 billion (equivalent up to USD 1.7 billion) of convertible bonds, unsecured and without interest.
- About SR 5.2 billion (equivalent up to USD 1.4 billion) in cash.

The acquisition was completed by Uber on 2 January 2020 after obtaining the approval of most of the regulatory authorities in the relevant countries with a holdback of an equivalent of 25% of the deal value until all regulatory and indemnity requirements accomplished. The impact of this acquisition on the Group's results from the sale of its direct investment in Careem was recognised during the first quarter of 2020 that resulted in a profit of SR 496 million (equivalent to approximately USD 132 million) excluding the holdback.

Based on the information received by the Group during the second quarter of 2020 related to the holdback amount that is related to regulatory, tax and indemnity requirements necessary to finish the acquisition deal, the Group has assessed the recoverability of the holdback amount and recognised an amount of SR 152 million (equivalent to USD 41 million) as profit during the second quarter of 2020.

The profit recognised included within net other (losses) gains item in the interim condensed consolidated statement of profit or loss.

**11- FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES**

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

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

The Group uses valuation techniques appropriate to current circumstances that provide sufficient data to measure fair value. In addition, for the financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- a- Level "1" inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- b- Level "2" inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- c- Level "3" inputs are unobservable inputs either directly or indirectly.

The following table shows the fair values of the Group's financial assets and liabilities that were measured at fair value:

	<i>Fair value measurement hierarchy</i>	<i>Fair value as at</i>	
		<i>31 December 2020</i>	<i>31 December 2019</i>
<b><i>Financial assets</i></b>			
At fair value through profit or loss:			
stc Ventures Fund and STV LP Fund	Level 3	<b>1,119,413</b>	1,550,869
<b><i>Financial liabilities</i></b>			
At fair value through profit or loss:			
Derivative liabilities	Level 2	<b>9,882</b>	7,373

The fair value of the Group's investment in the units of stc Ventures Fund and STV LP Fund (the Funds) is obtained from the net asset value (NAV) reports received from the Funds' managers. The following is a reconciliation of the Group's investment in these Funds which are categorised within Level "3" of the fair value hierarchy:

	<b>2020</b>
Net asset value as at 1 January	<b>1,550,869</b>
Contributions paid to the funds during the year	<b>375,700</b>
Distributions received from the funds during the year	<b>(723,767)</b>
Net unrealised loss recognised in the interim condensed consolidated statement of profit or loss <sup>(*)</sup>	<b>(83,389)</b>
<b>Net asset value as at 31 December</b>	<b>1,119,413</b>

(\*) The net unrealised loss recognised was included within net other (losses) gains item in the consolidated statement of profit or loss.

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

There were no transfers among the levels of fair value measurement hierarchy during the year ended 31 December 2020.



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**12- TRADE AND OTHER RECEIVABLES**

	<i>31 December 2020</i>	<i>31 December 2019</i>
Trade receivables	<b>17,642,628</b>	22,375,635
Less: Allowance for impairment loss	<b>(2,859,566)</b>	(2,818,056)
	<b>14,783,062</b>	19,557,579
Non-trade receivables	<b>1,283,694</b>	1,814,789
	<b>16,066,756</b>	21,372,368

**13- RELATED PARTY TRANSACTIONS**

**13-1 Trading transactions and balances with related parties (Associates and Joint Ventures)**

The Group trading transactions with related parties were as the following:

	<i>For the three months period ended 31 December</i>		<i>For the year ended 31 December</i>	
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
<i>Telecommunication services provided</i>	<b>88,961</b>	136,773	<b>309,161</b>	430,682
<i>Telecommunication services received</i>	<b>26,325</b>	14,884	<b>71,119</b>	29,050

The following balances are outstanding with related parties:

	<i>Amounts due from related parties</i>		<i>Amounts due to related parties</i>	
	<i>31 December 2020</i>	<i>31 December 2019</i>	<i>31 December 2020</i>	<i>31 December 2019</i>
Associates	<b>354,554</b>	292,020	<b>63,820</b>	38,910
Joint ventures	<b>47,249</b>	12,215	<b>157,830</b>	168,173
	<b>401,803</b>	304,235	<b>221,650</b>	207,083

The sale and purchase transactions are carried out by the relevant parties in accordance with the normal terms of trade. The outstanding balances are unguaranteed, without commission and no guarantees have been provided or received in relation to the balances due or from the related parties.

**13-2 Trade transactions and related parties' balances (government and government related entities)**

Revenues from transactions with government and government related entities for the three months period and the year ended 31 December 2020 amounted to SR 3,015 million and SR 9,252 million, respectively (for the three months period and the year ended 31 December 2019 amounted to SR 1,846 million and SR 6,873 million, respectively). Expenses related to transactions with government and government related entities for the three months period and the year ended 31 December 2020 (including government charges) amounted to SR 1,104 million and SR 3,448 million, respectively (for the three months period and the year ended 31 December 2019 amounted to SR 671 million and SR 2,748 million respectively).

As at 31 December 2020, accounts receivable from government entities amounted to SR 13,890 million (31 December 2019: SR 18,508 million). And as at 31 December 2020, accounts payable to government entities amounted to SR 1,073 million (31 December 2019: SR 953 million).

Included within the transactions with government entities, the Group's investment in the Sukuk issued by the Ministry of Finance during the first quarter of 2019 with an amount of SR 3,902 million.

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**13- RELATED PARTY TRANSACTIONS (CONTINUED)**

**13-2 Trade transactions and related parties' balances (government and government related entities) (continued)**

The following is the existing ageing with government:

	<u>31 December 2020</u>	<u>31 December 2019</u>
Less than a year	<b>10,275,707</b>	7,903,051
More than one year to two years	<b>3,153,841</b>	6,393,629
More than two years	<b>459,707</b>	4,211,395
	<b>13,889,255</b>	18,508,075

**14- BORROWINGS**

Total borrowings paid during the year ended 31 December 2020 amounted to SR 402 million (the year ended 31 December 2019 amounted to SR 351 million). Total borrowings received during the year ended 31 December 2020 amounted to SR 21 million (the year ended 31 December 2019 amounted to SR 5,381 million).

**15- END OF SERVICE BENEFIT PROVISION**

Calculation of end of service benefit provision as at 31 December 2020 was done using the most recent actuarial valuation as at 31 December 2020. During the period, the actuarial assumptions relating to the discount rate and salary increase rate have been updated, resulting in recording of net actuarial loss included in the interim condensed consolidated statement of comprehensive income for the three months period and the year ended 31 December 2020 amounting to SR 258 million and SR 565 million, respectively (for the three months period and the year ended 31 December 2019 net actuarial losses amounting to SR 10 million and SR 710 million respectively).

**16- LEASE LIABILITIES**

	<u>31 December 2020</u>	<u>31 December 2019</u>
Current	<b>753,857</b>	716,762
Non-current	<b>2,263,357</b>	2,164,415
	<b>3,017,214</b>	2,881,177

The interest expense on lease liabilities for the three months period and the year ended 31 December 2020 amounted to SR 23 million and SR 100 million, respectively, were included in finance costs (for the three months period and the year ended 31 December 2019 amounted to SR 67 million and SR 138 million, respectively). Total cash payments of lease liabilities for the three months period and the year ended 31 December 2020 amounted to SR 212 million and SR 840 million, respectively (for the three months period and the year ended 31 December 2019 amounted to SR 179 million and SR 712 million, respectively).

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**17- FINANCIAL LIABILITIES AND OTHER**

**17-1 Financial liabilities**

	<u>31 December 2020</u>	<u>31 December 2019</u>
Dividends payable	2,151,116	2,111,161
Financial liabilities related to frequency spectrum licenses	2,107,234	1,618,653
Derivative liabilities	9,882	7,373
	<u>4,268,232</u>	<u>3,737,187</u>
Current	2,206,824	2,145,276
Non-current	2,061,408	1,591,911
	<u>4,268,232</u>	<u>3,737,187</u>

**17-2 Other liabilities**

	<u>31 December 2020</u>	<u>31 December 2019</u>
Deferred income	3,814,889	3,341,943
Government charges	1,087,202	956,478
Statutory dues and other	639,454	766,145
	<u>5,541,545</u>	<u>5,064,566</u>
Current	1,620,913	1,555,860
Non-current	3,920,632	3,508,706
	<u>5,541,545</u>	<u>5,064,566</u>

**18- ZAKAT AND INCOME TAX LIABILITIES**

The Group submitted all zakat returns until the end of 2019, with payment of zakat due based on those returns, and accordingly the Group received zakat certificates for those years. Effective from year 2009, the Group started the submission of consolidated zakat return for the Company and its wholly owned subsidiaries whether directly or indirectly this is in accordance with the executive regulations for collecting zakat.

The Group submitted objections related to the years 2008 and 2009 and these objections are still being considered by the General Secretariat of Tax Committees (formerly the Appeal Committee) until the date of preparing these interim condensed consolidated financial statements. These Zakat disputed differences were essentially a result of the comparison between Zakat base and the adjusted profit whichever is higher. The Group believes that the result of these above-mentioned objections will be in its favour and no material additional provisions are required.

The group also reached a final settlement with General Authority of Zakat and Tax (GAZT) in regards with the objections submitted on zakat assessments for the years 2014 and 2018 by paying an amount of SR 205 million.

The group has also received zakat assessments that include differences related to the zakat declarations submitted for the years from 2015 to 2017 amounting to SR 865 million, and the group will object to them within the statutory deadline. The Group believes that the result of this objection will be in its favour and no material additional provisions are required.

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**19- EARNINGS PER SHARE**

The following is the calculation of the basic and diluted earnings per share for the three months period and the year ending 31 December 2020:

	For the three months period ended 31 December		For the year ended 31 December	
	2020	2019	2020	2019
<i>Net profit attributable to equity holders of the Parent Company</i>	<b>2,682,862</b>	2,320,714	<b>11,085,359</b>	10,664,666
<b>Number of shares "in thousands":</b>				
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	<b>1,999,207</b>	2,000,000	<b>1,999,207</b>	2,000,000
Weighted average number of repurchased ordinary shares	<b>793</b>	-	<b>793</b>	-
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	<b>2,000,000</b>	2,000,000	<b>2,000,000</b>	2,000,000
<b>Earnings per share attributable to equity holders of the Parent Company (in Saudi Riyals):</b>				
- Basic	<b>1.34</b>	1.16	<b>5.54</b>	5.33
- Diluted	<b>1.34</b>	1.16	<b>5.54</b>	5.33

The following is the number of outstanding shares (in thousands) during the year ended 31 December 2020:

The number of outstanding shares as at 1 January 2020	<b>2,000,000</b>
The number of treasury shares purchased during the year	<b>(2,983)</b>
The number of outstanding shares as at 31 December 2020	<b>1,997,017</b>

The following is the number of treasury shares (in thousands) during the year ended 31 December 2020:

The number of treasury shares as at 1 January 2020	-
The number of treasury shares purchased during the year	<b>2,983</b>
The number of treasury shares as at 31 December 2020	<b>2,983</b>

**20- CAPITAL COMMITMENTS**

- (a) During the fourth quarter of 2018, the Company signed an agreement with the Ministry of Finance, the Ministry of Communications & Information Technology and the authority of Communications and Information Technology ("Government Entities") for a comprehensive and final settlement of the outstanding dispute related to commercial services provisioning fees provided by the Company and the licences fees granted to the Company for the period from 1 January 2008 to 31 December 2017. In return, the Company is committed to provide capital investments in its infrastructure, which is in line with the Kingdom's vision to develop the telecommunications infrastructure within a period of three years from 1 January 2018 according to the terms and conditions of the comprehensive Settlement Agreement (Referred to as "Target Performance Indicators").
- (b) One of the Group's company has an agreement to invest in a fund aiming to improve the telecommunication and internet environment for SR 1,125 million (equivalent to USD 300 million) as at 31 December 2020 (31 December 2019: SR 1,125 million (equivalent to USD 300 million)).

## **21- CONTINGENT LIABILITIES**

- (a) The Group has outstanding letters of guarantee as at 31 December 2020 amounting to SR 4,221 million (31 December 2019: SR 4,514 million).
- (b) The Group has outstanding letters of credit as at 31 December 2020 amounting to SR 977 million (31 December 2019: SR 961 million).
- (c) On 21 March 2016, the Company received a letter from a key customer requesting a refund for paid balances amounted to SR 742 million related to construction of a fibre optic network. Based on the independent legal opinions obtained, the management believes that the customer's claim have no merit and therefore this claim has no material impact on the financial results of the Group.
- (d) The Group, in its ordinary course of business, is subject to proceedings, lawsuits and other claims. However, these matters are not expected to have any material impact on the Company's financial position or on the results of its operations as reflected in these condensed interim consolidated financial statements.
- (e) The Group has submitted an objection to the appeal committee with respect to GAZT withholding tax assessment on international operators' networks rentals outside Saudi Arabia for the years from 2004 to 2015 for an amount of SR 2.9 billion. The Group believes that Saudi tax regulations do not impose withholding tax on the rental of international operators' networks since the source of income did not occur inside the Kingdom, therefore this service should not be subject to withholding tax. Based on the opinions of tax specialists in this matter, the nature of the services and existing similar cases where the decision was in the favour of the companies in the telecom sector, the Group believes that this assessment will not result into any additional provisions.
- (f) During the fourth quarter of the year 2020, the group reached a settlement regarding the assessment of the value-added tax issued by the General Authority for Zakat and Income for the year 2018 and January of 2019, by paying an amount of SR 15 million and excluding fines.
- (g) The agreement signed with government entities during the fourth quarter of 2018 includes detailed mechanisms relating to the performance indicators that the Company is required to achieve within three years starting from 2018. The Company has re-evaluated the related provisions in line with the expectations of the target performance indicators, which shall be reviewed periodically.
- (h) On 28 December 2020, the Group received claims from the Communications and Information Technology Commission related to imposing government fees on devices sold on installments for the period from 2018 until the end of the third quarter of 2020, totaling SR 641 million. Based on the opinions of subject-matter consultants and the nature of these sales, the Group believes that the outcomes of this matter will be in its favour and no material additional provisions are required.

## **22- SUBSIDIARIES**

- 1- On 21 November 2020, the Group signed an agreement with Western Union to sell a stake in Saudi Digital Payments Company (a 100% owned subsidiary) with a value of SR 750 million (equivalent to USD 200 million) and the proceeds to be used to finance the capital of the Saudi Digital Payments Company. The transaction is expected to be completed during 2021 as follows :
  - Upon completion of the transaction, Western Union will pay SR 500 million (equivalent to USD 133.3 million) for a 10% stake in Saudi Digital Payments Company.
  - Western Union will pay an amount of SR 250 million (equivalent to USD 66.67 million), in case Saudi Digital Payments Company obtains a digital banking services license, increasing the shareholding of Western Union increases to 15% in Saudi Digital Payments Company.
  - The Group will inject an additional amount of SR 802 million into the capital of Saudi Digital Payments Company in the case Saudi Digital Payments Company obtains a digital banking services license.

**22- SUBSIDIARIES (CONTINUED)**

During the fourth quarter of 2020, the Company increased the share capital of Saudi Digital Payments Company by an amount of SR 548 million (including the transfer of its shareholder's loan amounting to SR 148 million into capital) resulting into a total share capital of SR 948 million.

- 2- During the fourth quarter of 2020, the Company established Advanced Technology and Cyber Security Company - a limited liability company 100% owned by Saudi Telecom Company, with a paid capital of SR 120 million to provide cybersecurity services.

**23- THE ACQUISITION OF A SHARE IN "VODAFONE EGYPT"**

On 29 January 2020, The Company signed a non-binding Memorandum of Understanding (MoU) with the Vodafone Global Group according to which the Company will acquire 55% of the shares of Vodafone Egypt with a value of approximately SR 8,970 million (equivalent to approximately USD 2,392 million). The final purchase consideration was to be determined upon signing the final agreements. Given the logistical challenges caused by the emerging of Coronavirus (COVID-19) pandemic and the need for more time to complete procedures related to the transaction, including due diligence, the two parties have agreed to extend the MoU for 90 days starting 13 April 2020. On 13 September 2020, the extension period of the MoU expired without reaching an agreement to conclude the transaction due to misalignment between the relevant parties.

**24- EMPLOYEES LONG-TERM INCENTIVES PROGRAM**

The Company's Board of Directors has approved the purchase of number of Company's shares with a maximum of 5.5 million shares and an amount not to exceed SR 300 million to be allocated for the employees long-term incentives program (the Program). The Board raised its recommendation to the extraordinary general assembly (EGM) to approve the Program and to purchase the shares within a period of (8) months starting EGM's date of approval. The EGM has voted on the approval of this Program during its meeting held on 27 Shaban 1441 H (corresponding to 20 April 2020). The shares to be purchased will not have the right to vote in the Company's shareholders general assemblies, and will not be entitled to any dividends while the shares still under the Company's possession

The Program intends to attract, motivate and retain the executive employees responsible for the achievement of the Group's goals and strategy. The Program provides a share-based payment plan for eligible executives participating in the Program by granting them shares in the Company upon completing the performance requirements and achieving the targets determined by the Group.

During the year of 2020, the Group granted the first tranche of the Program as follows:

Grant date	1 July 2020
Total number of shares granted	785 thousand shares
Fair value per share on grant date (*)	SR 94.4
Vesting date	1 July 2021/2022/2023
Settlement method	Equity-based

Total expenses related to the Program during the year ended 31 December 2020 amounted to SR 6 million, which were included as part of employees benefits expense in the interim condensed consolidated profit or loss statement, with the corresponding amount recorded under other reserves within equity in accordance with the requirements of International Financial Reporting Standard (2): Share-based Payment.

(\*) The fair value was calculated based on the market price after deducting the expected dividends per share on the grant date.

## **25- DIVIDENDS**

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

It is probable that additional dividends are likely to vary on quarterly basis depending on the Company's performance.

The dividends policy will remain subject to:

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

In line with this policy, the Company distributed the following cash dividends during the year ended 31 December 2020:

- SR 2,000 million at a rate of SR 1 per share for the fourth quarter of 2019.
- SR 2,000 million at a rate of SR 1 per share for the first quarter of 2020.
- SR 2,000 million at a rate of SR 1 per share for the second quarter of 2020.
- SR 2,000 million at a rate of SR 1 per share for the third quarter of 2020.

In addition, in line with the same policy, the Company will distribute cash dividends to the shareholders of the Company for the fourth quarter of 2020, amounting to SR 2,000 million, at a rate of SR 1 per share.

Treasury shares allocated to the employee long-term incentives program are not entitled for any dividends during the period while the shares still under the Company's possession (See note 24). Therefore, no cash dividends were distributed for the shares that were repurchased during the year of 2020 as follows:

- 182 thousand shares for the second quarter of 2020 were repurchased before the eligibility of dividend distribution to shareholders.
- 1,785 thousand shares for the third quarter of 2020 (including above shares).
- 2,983 thousand shares for the fourth quarter of 2020 (including the above shares).

## **26- IMPACT OF CORONAVIRUS (COVID-19) OUTBREAK**

A novel strain of coronavirus (COVID-19) ("the virus") was first identified at the end of December 2019, subsequently in March 2020 it was declared as a pandemic by the World Health Organization (WHO). The virus continued to spread throughout in nearly all regions around the world including the Kingdom of Saudi Arabia, which resulted in a slowdown of economic and social activities and shutdowns of many sectors at global and local levels.

In response to the rapid spread of the virus and the resulting disruption of some social and economic activities, the group has assessed its impact on its current and future operational activities and has taken a series of preventive and precautionary measures, including activating of remote work to ensure the safety of its employees and their families, and fully activating the technical solutions and providing digital channels with greater capabilities and facilities to ensure the continuity of services provided to the customers and reach them to their location for their own safety.

**26- IMPACT OF CORONAVIRUS (COVID-19) OUTBREAK (CONTINUED)**

At the end of the second quarter of 2020, the government of the Kingdom of Saudi Arabia has allowed the return of all economic and commercial activities, while observing the implementation of all preventive measures adopted, and commitment to social distancing. During the fourth quarter of 2020, several vaccines which passed the testing phase effectively and began to be manufactured and distributed globally to many countries, including the Kingdom of Saudi Arabia.

As of the date of preparing these interim condensed consolidated financial statements, the Group's operations and financial results have not incurred significant impact from the virus outbreak, taking into consideration the lower impact of the pandemic over the operations and activities of companies operating in telecom sector.

The impact of the pandemic on the Group's operations and financial results was assessed using some judgments, estimates and assumptions that contain sources of uncertainty as it depends on several future factors and developments that cannot be reliably forecasted.

**27- APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS**

At its meeting held on 21 January 2021, the audit committee (delegated by the Company's Board of Directors) approved the interim condensed consolidated financial statements for the three months period and the year ended 31 December 2020.

**28- COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform with the classification used for the year ended 31 December 2020.