



Saudi Telecom Company
(A Saudi Joint Stock Company)

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD AND THE YEAR ENDED
31 DECEMBER 2019
(Unaudited)**

**Fourth Quarter
2019**

Saudi Telecom Comapny
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD AND THE YEAR ENDED 31 DECEMBER 2019

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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 2019, 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 2019, 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: 1 Jumad Thani 1441H
(26 January 2020)



Saudi Telecom Company
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
AS AT 31 DECEMBER 2019

(All amounts in Saudi Riyals thousands unless otherwise stated)

	<i>Notes</i>	<u>31 December 2019</u>	<u>31 December 2018</u>
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	6	45,099,265	41,920,409
Intangible assets and goodwill	7	9,874,779	9,560,119
Right of use assets	8	2,894,934	-
Investments in associates and joint ventures	13	6,621,673	6,581,733
Contract assets		594,519	504,042
Contract costs		897,181	1,030,129
Other non-current assets	9	7,640,094	3,744,637
TOTAL NON-CURRENT ASSETS		<u>73,622,445</u>	<u>63,341,069</u>
CURRENT ASSETS			
Inventories		1,721,686	787,456
Trade and other receivables	12	21,849,168	14,422,178
Short term murabahas		2,034,454	9,685,491
Contract assets		6,922,857	5,539,412
Other current assets	10	4,455,482	7,441,123
Cash and cash equivalents		8,178,460	8,153,865
		<u>45,162,107</u>	<u>46,029,525</u>
Assets held for sale	14	267,728	-
TOTAL CURRENT ASSETS		<u>45,429,835</u>	<u>46,029,525</u>
TOTAL ASSETS		<u>119,052,280</u>	<u>109,370,594</u>
EQUITY AND LIABILITIES			
EQUITY			
Issued capital		20,000,000	20,000,000
Statutory reserve		10,000,000	10,000,000
Other reserves		(2,748,379)	(1,903,878)
Retained earnings		34,598,178	37,417,562
Equity attributable to the equity holders of the Parent Company		<u>61,849,799</u>	<u>65,513,684</u>
Non-controlling interests		1,292,452	1,147,914
TOTAL EQUITY		<u>63,142,251</u>	<u>66,661,598</u>
LIABILITIES			
NON-CURRENT LIABILITIES			
Long term borrowings	15	8,784,194	3,965,479
Provision for end of service benefits	16	4,810,034	3,919,362
Lease liabilities	17	1,582,648	-
Provisions		957,214	891,910
Contract liabilities		771,915	771,915
Other non-current liabilities	18	4,854,070	3,703,275
TOTAL NON-CURRENT LIABILITIES		<u>21,760,075</u>	<u>13,251,941</u>
CURRENT LIABILITIES			
Trade and other payables		19,472,473	14,092,907
Provisions		5,091,304	6,829,451
Contract liabilities		2,444,661	2,538,940
Zakat and income tax	20	1,362,773	1,465,775
Lease liabilities	17	1,304,542	-
Short term borrowings	15	528,621	320,533
Other current liabilities	19	3,945,580	4,209,449
TOTAL CURRENT LIABILITIES		<u>34,149,954</u>	<u>29,457,055</u>
TOTAL LIABILITIES		<u>55,910,029</u>	<u>42,708,996</u>
TOTAL EQUITY AND LIABILITIES		<u>119,052,280</u>	<u>109,370,594</u>


Chief Financial Officer


Delegated 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 2019
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	For the three months period ended 31 December		For the year ended 31 December	
		2019	2018	2019	2018
Revenues	5	13,273,481	13,214,887	54,376,424	51,963,243
Cost of revenues		(4,898,120)	(4,694,578)	(21,969,479)	(21,490,161)
GROSS PROFIT		8,375,361	8,520,309	32,406,945	30,473,082
OPERATING EXPENSES					
Selling and marketing		(1,841,764)	(1,356,105)	(5,581,969)	(5,480,288)
General and administration		(1,530,592)	(1,774,817)	(5,543,623)	(5,157,039)
Depreciation and amortisation	6,7,8	(2,599,706)	(1,912,948)	(8,797,480)	(7,590,530)
TOTAL OPERATING EXPENSES		(5,972,062)	(5,043,870)	(19,923,072)	(18,227,857)
OPERATING PROFIT		2,403,299	3,476,439	12,483,873	12,245,225
OTHER EXPENSES AND INCOME					
Cost of early retirement		(155,324)	(17,513)	(609,092)	(450,000)
Finance income		145,807	136,633	629,529	551,535
Finance costs		(219,023)	(83,719)	(766,220)	(395,440)
Other income (expenses), net		58,996	(12,096)	(74,131)	102,943
Share in results of investments in associates and joint ventures, net		46,374	(91,794)	56,188	(10,605)
Other gains (losses), net		178,658	(88,817)	(60,179)	(215,493)
TOTAL OTHER EXPENSES AND INCOME		55,488	(157,306)	(823,905)	(417,060)
NET PROFIT BEFORE ZAKAT AND INCOME TAX		2,458,787	3,319,133	11,659,968	11,828,165
Zakat and income tax	20	23,752	(136,055)	(645,161)	(747,667)
NET PROFIT		2,482,539	3,183,078	11,014,807	11,080,498
<i>Net profit attributable to:</i>					
Equity holders		2,410,690	3,105,578	10,754,642	10,779,771
Non-controlling interests		71,849	77,500	260,165	300,727
		2,482,539	3,183,078	11,014,807	11,080,498
Basic and diluted earnings per share (In Saudi Riyal)		1.21	1.55	5.38	5.39



Chief Financial Officer



Delegated Chief Executive Officer



Authorized Board Member

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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE THREE MONTHS PERIOD AND THE YEAR ENDED 31 DECEMBER 2019
(All amounts in Saudi Riyals thousands unless otherwise stated)**

	Notes	<i>For the three months period ended 31 December</i>		<i>For the year ended 31 December</i>	
		2019	2018	2019	2018
NET PROFIT		<u>2,482,539</u>	<u>3,183,078</u>	<u>11,014,807</u>	<u>11,080,498</u>
OTHER COMPREHENSIVE LOSS					
<i>Items that will not be reclassified subsequently to consolidated statement of profit or loss:</i>					
Re-measurement of end of service benefit provision	16	17,112	56,037	(683,379)	13,414
Fair value changes on equity instruments measured at fair value through other comprehensive income (FVOCI)	11	-	124,917	-	113,543
<i>Total items that will not be reclassified subsequently to consolidated statement of profit or loss</i>		<u>17,112</u>	<u>180,954</u>	<u>(683,379)</u>	<u>126,957</u>
<i>Items that will be reclassified subsequently to consolidated statement of profit or loss:</i>					
Foreign currency translation differences		5,578	(5,324)	1,205	(10,739)
Fair value changes from cash flow hedges		3,269	(490)	(484)	736
Share of other comprehensive income (loss) of associates and joint ventures, net		197,694	(106,164)	267,316	(247,317)
<i>Total items that will be reclassified subsequently to consolidated statement of profit or loss</i>		<u>206,541</u>	<u>(111,978)</u>	<u>268,037</u>	<u>(257,320)</u>
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)		<u>223,653</u>	<u>68,976</u>	<u>(415,342)</u>	<u>(130,363)</u>
TOTAL COMPREHENSIVE INCOME		<u><u>2,706,192</u></u>	<u><u>3,252,054</u></u>	<u><u>10,599,465</u></u>	<u><u>10,950,135</u></u>
<i>Total comprehensive income attributable to:</i>					
Equity holders		2,630,017	3,174,492	10,336,115	10,651,283
Non-controlling interests		76,175	77,562	263,350	298,852
		<u><u>2,706,192</u></u>	<u><u>3,252,054</u></u>	<u><u>10,599,465</u></u>	<u><u>10,950,135</u></u>



Chief Financial Officer



Delegated 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 2019
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	For the year ended	
		2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit before zakat and income tax		11,659,968	11,828,165
<i>Adjustments for:</i>			
Depreciation and amortisation	6,7,8	8,797,480	7,590,530
Amortisation and impairment loss of contract costs and assets		504,289	623,136
Impairment loss on trade receivables		664,705	741,583
Write-down of inventories		57,086	31,863
Finance income		(629,529)	(551,535)
Finance costs		766,220	395,440
Provision for end of service benefits and other provisions		935,304	1,293,581
Share in results of investments in associates and joint ventures, net		(56,188)	10,605
Other losses, net		60,179	215,493
Operating profit before working capital adjustments		22,759,514	22,178,861
<i>Movements in working capital:</i>			
Trade and others receivables		(8,049,939)	5,274,505
Inventories		(988,586)	(337,038)
Contract costs		(271,196)	(477,758)
Contract assets		(1,572,363)	(3,339,955)
Other assets		(2,330,328)	(1,210,921)
Trade and others payables		5,446,072	3,246,720
Contract liabilities		(151,234)	(724,005)
Other liabilities		(3,732,525)	(4,383,387)
Cash from operations		11,109,415	20,227,022
Less: zakat and income tax paid	20	(756,577)	(690,934)
Less: provision for end of service benefits paid		(452,380)	(521,861)
Net cash from operating activities		9,900,458	19,014,227
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	6	(9,430,880)	(8,406,935)
Additions to intangible assets	7	(1,917,682)	(1,350,151)
Proceeds from sale of property, plant and equipment		140,307	123,283
Dividends from associates		37,931	-
Acquisition of a new subsidiary	23	(219,173)	-
Proceeds from finance income		642,498	595,731
Proceeds related to financial assets		23,581,678	26,988,671
Payments related to financial assets		(14,645,265)	(22,859,438)
Net cash used in investing activities		(1,810,586)	(4,908,839)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(12,105,714)	(8,054,671)
Repayment of lease liabilities		(711,400)	-
Repayment of borrowings	15	(350,937)	(635,710)
Proceeds from borrowings	15	5,381,417	303,936
Finance costs paid		(279,933)	(130,517)
Net cash used in financing activities		(8,066,567)	(8,516,962)
NET INCREASE IN CASH AND CASH EQUIVALENTS		23,305	5,588,426
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		8,153,865	2,567,044
Net foreign exchange differences		1,290	(1,605)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		8,178,460	8,153,865


Chief Financial Officer


Delegated 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 2019

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	Issued Capital	Statutory reserves	Other reserves	Retained earnings	Total equity attributable to holders of the Parent Company	Non-controlling interests	Total equity
Balance as at 1 January 2018		20,000,000	10,000,000	(1,775,390)	34,637,791	62,862,401	939,180	63,801,581
Net profit		-	-	-	10,779,771	10,779,771	300,727	11,080,498
Other comprehensive loss		-	-	(128,488)	-	(128,488)	(1,875)	(130,363)
Total comprehensive income		-	-	(128,488)	10,779,771	10,651,283	298,852	10,950,135
Dividends to equity holders	24	-	-	-	(8,000,000)	(8,000,000)	-	(8,000,000)
Dividends to non-controlling interests		-	-	-	-	-	(90,118)	(90,118)
Balance at 31 December 2018		20,000,000	10,000,000	(1,903,878)	37,417,562	65,513,684	1,147,914	66,661,598
As at 1 January 2019		20,000,000	10,000,000	(1,903,878)	37,417,562	65,513,684	1,147,914	66,661,598
Net profit		-	-	-	10,754,642	10,754,642	260,165	11,014,807
Other comprehensive loss		-	-	(418,527)	-	(418,527)	3,185	(415,342)
Total comprehensive income		-	-	(418,527)	10,754,642	10,336,115	263,350	10,599,465
Dividends to equity holders		-	-	-	(14,000,000)	(14,000,000)	-	(14,000,000)
Dividends to non-controlling interests	24	-	-	-	-	-	(118,812)	(118,812)
Transfers		-	-	(425,974)	425,974	-	-	-
Balance as at 31 December 2019		20,000,000	10,000,000	(2,748,379)	34,598,178	61,849,799	1,292,452	63,142,251



Chief Financial Officer



Delegated Chief Executive Officer



Authorized Board Member

(All amounts in Saudi Riyals thousands unless otherwise stated)

1. GENERAL INFORMATION

A) ESTABLISHMENT OF THE COMPANY

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

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

B) GROUP ACTIVITIES

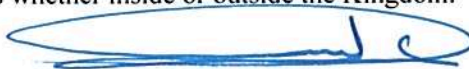
The main activities of the Company and its subsidiaries (the "Group") comprise the provision and introduction of telecommunications, information and media services, which include, among other things:

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

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



Chief Financial Officer



Delegated Chief Executive Officer



Authorized Board Member

(All amounts in Saudi Riyals thousands unless otherwise stated)

2. BASIS OF PREPARATION

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

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

3. THE GROUP’S ACCOUNTING POLICIES

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

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

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

4.1 IFRS 16 “LEASES”

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

IFRS 16 supersedes the following Standards and Interpretations:

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

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

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

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

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

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

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

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

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

4.1 IFRS 16 “LEASES” (CONTINUED)

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

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

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

Impact of transition to IFRS 16

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

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

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

The Group has elected to apply the following practical expedients:

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

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

Saudi Telecom Company
A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
31 DECEMBER 2019

(All amounts in Saudi Riyals thousands unless otherwise stated)

5. SEGMENT INFORMATION

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

	<i>For the three month period ended 31 December</i>		<i>For the year ended 31 December</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
Revenues (1)				
Saudi Telecom Company	10,112,363	9,562,790	40,259,106	39,356,283
STC Channels (Channels by STC)	1,636,352	1,361,486	6,630,668	5,371,771
Other operating segments (2)	3,691,233	2,613,092	12,628,202	9,502,560
Eliminations / Adjustments	(2,166,467)	(322,481)	(5,141,552)	(2,267,371)
Total Revenues	13,273,481	13,214,887	54,376,424	51,963,243
Cost of operations (excluding depreciation and amortisation)	(8,270,476)	(7,825,500)	(33,095,071)	(32,127,488)
Depreciation and amortisation	(2,599,706)	(1,912,948)	(8,797,480)	(7,590,530)
Cost of early retirement	(155,324)	(17,513)	(609,092)	(450,000)
Finance income	145,807	136,633	629,529	551,535
Finance costs	(219,023)	(83,719)	(766,220)	(395,440)
Other income (expenses), net	58,996	(12,096)	(74,131)	102,943
Share in results of investments in associates and joint ventures, net	46,374	(91,794)	56,188	(10,605)
Other gains (losses), net	178,658	(88,817)	(60,179)	(215,493)
Zakat and income tax	23,752	(136,055)	(645,161)	(747,667)
Net profit	2,482,539	3,183,078	11,014,807	11,080,498

Following is the gross profit analysis on a segmental basis:

	<i>For the three month period ended 31 December</i>		<i>For the year ended 31 December</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
Saudi Telecom Company	6,565,675	7,335,385	26,299,935	25,408,542
STC Channels (Channels by STC)	403,746	347,225	1,418,463	1,314,706
Other operating segments (2)	1,419,862	837,699	4,912,952	3,795,174
Eliminations/Adjustments	(13,922)	-	(224,405)	(45,340)
Total	8,375,361	8,520,309	32,406,945	30,473,082

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5. SEGMENT INFORMATION (CONTINUED)

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

	<i>31 December 2019</i>	<i>31 December 2018</i>
<u>Assets</u>		
Saudi Telecom Company	125,088,870	116,882,397
STC Channels (Channels by STC)	4,560,238	3,333,662
Other operating segments (2)	34,808,314	19,539,165
Eliminations/ Adjustments	(45,405,142)	(30,384,630)
Total Assets	119,052,280	109,370,594
<u>Liabilities</u>		
Saudi Telecom Company	49,369,668	38,998,013
STC Channels (Channels by STC)	3,122,999	2,068,819
Other operating segments (2)	23,001,768	10,512,261
Eliminations/ Adjustments	(19,584,406)	(8,870,097)
Total Liabilities	55,910,029	42,708,996

(1) Segment revenue reported above represents revenue generated from external and internal customers. There were SR 2,166 million and SR 5,142 million for the three month and the year ended 31 December 2019 respectively (for the three month and the year ended 31 December 2018: SR 322 million and SR 2,267 million, respectively) inter-segment sales and adjustments eliminated at consolidation.

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

6. PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2019, the Group acquired property plant and equipment with total cost of SR 9,303 million (31 December 2018: SR 8,415 million).

During the year ended 31 December 2019, the Group disposed of property plant and equipment with a net book value of SR 465 million (31 December 2018: SR 414 million) resulting in a loss on sale of property, plant and equipment amounting to SR 116 million and SR 325 million, respectively, for the three month and the year ended 31 December 2019 (for the three month and the year ended on 31 December 2018: SR 112 million and SR 291 million, respectively).

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

	<i>For the three month period ended</i>		<i>For the year ended</i>	
	<i>31 December</i>		<i>31 December</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
Cost of revenues	1,479,449	1,211,648	4,931,663	4,859,646
Selling and marketing expenses	4,065	5,960	16,239	31,472
General and administration expenses	307,508	252,728	1,138,905	1,013,873
	1,791,022	1,470,336	6,086,807	5,904,991

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7. INTANGIBLE ASSETS AND GOODWILL

During the year ended 31 December 2019, the net additions in intangible assets amounting to SR 1,898 million (31 December 2018: SR 4,133 million). Net additions to goodwill amounted to SR 68.3 million (see note 23).

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

	<i>For the three month period ended 31 December</i>		<i>For the year ended 31 December</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
Cost of revenues	253,193	137,603	643,440	550,947
Selling and marketing expenses	736	(4,270)	3,493	23,283
General and administration expenses	345,268	309,279	1,297,266	1,111,309
Total	599,197	442,612	1,944,199	1,685,539

8. RIGHT OF USE ASSETS

	<i>31 December 2019</i>
Balance at 1 January 2019	<u>2,555,524</u>
Additions	1,203,600
Depreciation	(766,474)
Disposal and others	<u>(97,716)</u>
Balance at 31 December 2019	<u><u>2,894,934</u></u>

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

	<i>For the three month period ended 31 December 2019</i>	<i>For the year ended 31 December 2019</i>
	Cost of revenues	<u>153,925</u>
Selling and marketing expenses	1,817	7,539
General and administration expenses	<u>53,745</u>	<u>196,421</u>
Total	<u><u>209,487</u></u>	<u><u>766,474</u></u>

9. OTHER NON CURRENT ASSETS

	<i>31 December 2019</i>	<i>31 December 2018</i>
Financial assets (*)	7,549,100	3,373,016
Other assets	90,994	371,621
	<u>7,640,094</u>	<u>3,744,637</u>

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

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

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10. OTHER CURRENT ASSETS

	<u>31 December 2019</u>	<u>31 December 2018</u>
Financial assets	133,615	5,488,245
Other assets	4,321,867	1,952,878
	<u>4,455,482</u>	<u>7,441,123</u>

11. FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

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

The funds' investment in Careem company has been fair valued taking into account Uber's acquisition deal of Careem, which was signed on March 26, 2019 and completed on January 2, 2020 (see Note 14, 25).

12. RELATED PARTIES TRANSACTIONS AND BALANCES

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

The following are the transactions with associates and joint ventures:

	<i>For the three month period ended</i>		<i>For the year ended</i>	
	<i>31 December</i>		<i>31 December</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
<i>Telecommunication services provided</i>	136,773	146,913	430,682	503,008
<i>Telecommunication services received</i>	14,884	-	29,050	17,188

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12. RELATED PARTIES TRANSACTIONS AND BALANCES (CONTINUED)

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

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 2019</i>	<i>31 December 2018</i>	<i>31 December 2019</i>	<i>31 December 2018</i>
Associates	292,020	338,652	38,910	23,184
Joint ventures	12,215	5,444	168,173	112,801
	304,235	344,096	207,083	135,985

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

Revenues related to transactions with governmental parties for the three month and the year ended 31 December 2019 amounted to SR 1,864 million and SR 6,873 million, respectively (for the three month and the year ended 31 December 2018 amounted to SR 1,341 million and SR 6,335 million, respectively) and expenses related to transactions with governmental parties for the three month and year ended 31 December 2019 (including government charges) amounted to SR 1,169 million and SR 4,317, respectively (for the three month and the year ended 31 December 2018 amounted to SR 1,631 million and SR 4,139 million, respectively). It is worth mentioning that based on the Council of Ministers' resolution No. (196) dated 4 Rabi Thani 1440H (corresponding to 11 December 2018), the percentage of government charges collected by the government for providing telecommunications services commercially has been amended to become a uniform annual fee of 10% of net telecommunications revenues effective 1 January 2018 instead of the previous calculation mechanism which were 15% of net mobile service revenues, 10% of net fixed line revenues and 8% of net revenues from data services. Furthermore, the Company's services licenses have been combined into a unified license.

As at 31 December 2019, accounts receivable from Government entities totalled SR 18,508 million (31 December 2018: SR 12,343 million) and as at 31 December 2019, accounts payable to government entities totalled SR 953 million (31 December 2018: SR 3,706 million).

The following is the existing ageing with government:

	<i>31 December 2019</i>	<i>31 December 2018</i>
Less than a year	7,903,051	6,936,884
One to two years	6,393,629	5,367,424
More than two years	4,211,395	38,416
	18,508,075	12,342,724

In addition, as part of the transactions with government entities, the Group subscribed to an amount of SR 3,902 million in Sukuk issued by the Ministry of Finance during the first quarter of 2019 (see note 9).

13. ASSOCIATES AND JOINT VENTURES

At its meeting held on 4 Jumada Al-Awal 1440H (corresponding to 10 January 2019), the Board of Directors approved to buy an additional 39% stake in Virgin Mobile Saudi Arabia for SR 151 million. Due to the non-completion of the legal and regulatory procedures during 2019, the Company decided not to complete the acquisition procedures of the additional stake and the Company's shareholding in Virgin Mobile Saudi Arabia remains at (10%) as of 31 December 2019.

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14. ASSETS HELD FOR SALE

On March 26, 2019 Uber Technologies signed an assets purchase agreement with Careem (the Group holds a direct shares of 8.88%) to acquire the net assets of Careem for about USD 3.1 billion (Equivalent up to SR 11.6 billion) subject to modifications.

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

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

The acquisition was completed by Uber on January 2, 2020 after obtaining the approval of most of the regulatory authorities in the relevant countries with retention of the equivalent of 25% of the deal value for a period of two years (see Note 25 - subsequent events).

15. BORROWINGS

15-1 Sukuk issuance in US Dollars:

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

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

15-2 Borrowings paid and received:

Total borrowings paid during the year ended 31 December 2019 amounted to SR 351 million (for the year ended 31 December 2018: SR 636 million). Total borrowings received (Including the amount of the above sukuk) during the year ended 31 December 2019 amounted to SR 5,381 million (for the year ended 31 December 2018: SR 304 million).

16. PROVISION FOR END OF SERVICE BENEFITS

The provision for end of service benefit as at 31 December 2019 is calculated using the latest actuarial valuation as at 31 December 2019. During the year, the actuarial assumptions relating to the discount rate have been updated, resulting in an increase in the present value of the identified benefit obligations.

17. LEASE LIABILITIES

	<u>31 December 2019</u>
Current	1,304,542
Non-Current	1,582,648
	<u>2,887,190</u>

Interest expense on lease liabilities for the three and year ended 31 December 2019 amounted to SR 27 million and SR 98 million respectively included in financing costs. Total cash outflow for leases liabilities for the three and the year ended 31 December 2019 amounted to SR 178 million and SR 711 million respectively.

18. OTHER NON-CURRENT LIABILITIES

	<u>31 December 2019</u>	<u>31 December 2018</u>
Deferred income	3,320,684	2,144,290
Financial liabilities	1,502,954	1,526,259
Other liabilities	30,432	32,726
	<u>4,854,070</u>	<u>3,703,275</u>

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19. OTHER CURRENT LIABILITIES

	<u>31 December 2019</u>	<u>31 December 2018</u>
Financial liabilities	2,145,764	90,731
Deferred income	56,791	41,141
Other liabilities	1,743,025	4,077,577
	<u>3,945,580</u>	<u>4,209,449</u>

20. ZAKAT AND INCOME TAX

The Company submitted all zakat returns until the end of 2018, with payment of zakat due based on those returns, and accordingly received zakat certificates for those years. Effective from the year 2009, the Company started the submission of consolidated zakat return for the Company and its wholly owned subsidiaries (whether directly or indirectly) in accordance with the Ministerial Decree No.1005 dated 28/4/1428H.

The Company received the zakat assessments until 2011 after reaching a final settlement during 2019, in relation to the objections of the years 2008 until 2011, which has not resulted in additional liabilities on the Company.

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

21. CAPITAL COMMITMENTS

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

22. CONTINGENT LIABILITIES

- (a) The Group has outstanding letters of guarantee amounting to SR 4,514 million as at 31 December 2019 (31 December 2018: SR 6,597 million).
- (b) The Group has outstanding letters of credit as at 31 December 2019 amounting to SR 961 million (31 December 2018: SR 655 million).
- (c) On 21 March 2016, the Company received a letter from a key customer requesting a refund for paid balances amounted to SR 742 million related to construction of a fibre optic network. Based on the independent legal opinions obtained, the management believes that the customer's claims have no merit and therefore this dispute has no material impact on the financial results of the Group.
- (d) The Group, in its ordinary course of business, is subject to proceedings, lawsuits and other claims. However, these matters are not expected to have any material impact on the Company's financial position or on the results of its operations as reflected in these interim condensed consolidated financial statements.
- (e) The Company has submitted an objection to the appeal committee with respect to GAZT withholding tax assessment on international operators' networks rentals outside Saudi Arabia for the years from 2004 to 2015 for an amount of SR 2.9 billion. The Company believes that this service should not be subject to withholding tax as the Saudi tax regulations do not cover withholding tax on the rental of international operators' networks as well as recognition of source of income is outside Saudi Arabia. Based on the opinions of tax specialists, the nature of the services and existing similar cases where the decision was in the favour of the companies in the telecom sector, the Company believes that this assessment will not result into any additional provisions.

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22. CONTINGENT LIABILITIES (CONTINUED)

- (f) The agreement signed with government agencies during the fourth quarter of 2018 includes detailed mechanisms relating to the performance indicators that the Company is required to achieve within three years starting from 2018. The Company has re-evaluated the related provisions in line with the expectations of the target performance indicators which shall be reviewed periodically.

23. SUBSIDIARIES

- (a) During 2018, STC Kuwait entered into a binding contract to acquire 100% of the total issued shares of Qualitynet General Trading and Contracting Company W.L.L. (QualityNet), which operates in Kuwait in the field of providing internet services. On 6 May 2019, STC Kuwait completed the acquisition procedures and acquired QualityNet's net assets amounting to KWD 23.8 million (equivalent to SR 294.6 million) with a purchase consideration amounting to KWD 29.3 million (equivalent to SR 362.9 million) resulting into a goodwill of KWD 5.5 million (equivalent to SR 68.3 million) as per the most updated price purchase allocation reports on acquired net assets.
- (b) During the third quarter of 2019, STC Pay ownership was transferred from Solutions by STC to the Company with no financial impact at the group level.
- (c) During the fourth quarter of 2019, the Company increased the capital of the following subsidiaries:
- 1) Saudi Digital Payments Company (STC Pay) with an amount of SR 300 million with the total capital becoming SR 400 million.
 - 2) Telecommunications Towers Company (TAWAL) with an amount of SR 2,300 million with the total capital becoming SR 2,500 million.
- (d) During the fourth quarter of 2019, the Company established a special purpose vehicle subsidiary (Smart Zone Real Estate Company) with a share capital of approximately SR 107 million.

24. DIVIDENDS

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

The dividends policy will remain subject to:

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

In line with this policy, the Company distributed the following cash dividends during the year ended 31 December 2019:

- SR 2,000 million at a rate of SR 1 per share for the fourth quarter of 2018.
- SR 4,000 million at a rate of SR 2 per share as an additional one-time special dividends for the year 2018.
- SR 2,000 million at a rate of SR 1 per share for the first quarter of 2019.
- SR 2,000 million at a rate of SR 1 per share for the second quarter of 2019.
- SR 2,000 million at a rate of SR 1 per share for the third quarter of 2019.

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

25. SUBSEQUENT EVENTS

On 2 January 2020, Uber completed the acquisition deal of Careem company assets. The impact on Group's results from the sale of its direct investment in Careem Company will be recorded during the first quarter of 2020.

26. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the classification used for the year ended 31 December 2019.