



Saudi Telecom Company
(A Saudi Joint Stock Company)

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED
31 MARCH 2021
(Unaudited)**

**First Quarter
2021**

Saudi Telecom Company
A Saudi Joint Stock Company
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED 31 March 2021

INDEX

	<u>Pages</u>
Independent auditor's review report	2
Interim condensed consolidated statement of financial position	3
Interim condensed consolidated statement of profit or loss	4
Interim condensed consolidated statement of comprehensive income	5
Interim condensed consolidated statement of cash flows	6
Interim condensed consolidated statement of changes in equity	7
Notes to the interim condensed consolidated financial statements	8-20



Ernst & Young & Co. (Certified Public Accountants) Registration No. 45/11/323
General Partnership C.R. No. 1010383821

Head Office
Al Faisaliah Office Tower, 14th Floor
King Fahad Road
P.O. Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

Tel: +966 11 215 9898
+966 11 273 4740
Fax: +966 11 273 4730

ey.ksa@sa.ey.com
ey.com/mena

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 March 2021, and the related interim condensed consolidated statements of profit or loss and comprehensive income, cash flows and changes in equity for the three months period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review:

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

Conclusion:

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

for Ernst & Young

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

Riyadh: 16 Ramadan1442H
(28 April 2021)



Saudi Telecom Company
A Saudi Joint Stock Company

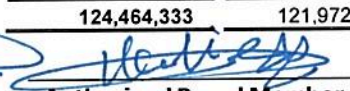
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
AS AT 31 MARCH 2021

(All amounts in Saudi Riyals thousands unless otherwise stated)

	<u>Notes</u>	<u>31 March 2021</u>	<u>31 December 2020</u>
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	5	47,284,851	47,847,623
Investment properties	6	36,980	36,980
Intangible assets and goodwill	7	10,144,387	10,466,408
Right of use assets	8	2,832,480	2,892,814
Investments in associates and joint ventures		6,729,135	6,704,947
Contract costs		608,367	637,470
Contract assets		602,985	457,657
Financial assets and others	9	7,204,301	7,069,285
TOTAL NON-CURRENT ASSETS		75,443,486	76,113,184
CURRENT ASSETS			
Inventories		933,581	1,008,645
Contract assets		6,359,617	6,059,440
Trade and other receivables	11,12	19,664,589	16,084,416
Financial assets and others	9	3,322,901	3,268,280
Short term murabahas		11,897,377	10,433,849
Cash and cash equivalents		6,842,782	9,004,286
TOTAL CURRENT ASSETS		49,020,847	45,858,916
TOTAL ASSETS		124,464,333	121,972,100
EQUITY AND LIABILITIES			
EQUITY			
Issued capital		20,000,000	20,000,000
Statutory reserves		10,000,000	10,000,000
Treasury shares	17	(300,000)	(300,000)
Other reserves		(3,097,194)	(3,262,245)
Retained earnings		38,463,103	37,508,027
Equity attributable to the equity holders of the Parent Company		65,065,909	63,945,782
Non-controlling interests		1,196,235	1,321,233
TOTAL EQUITY		66,262,144	65,267,015
LIABILITIES			
NON-CURRENT LIABILITIES			
Long term borrowings		8,452,688	8,637,605
End of service benefit provision	13	5,175,119	5,239,313
Lease liabilities	14	1,958,783	2,237,853
Provisions		691,846	725,625
Contract liabilities		771,915	771,915
Financial liabilities and others	15	5,862,350	6,201,591
TOTAL NON-CURRENT LIABILITIES		22,912,701	23,813,902
CURRENT LIABILITIES			
Trade and other payables		18,373,376	20,296,791
Provisions		3,893,191	4,158,923
Contract liabilities		2,323,384	1,901,237
Zakat and income tax		2,220,626	1,903,791
Lease liabilities	14	992,003	742,185
Short term borrowings		382,350	318,485
Financial liabilities and others	15	7,104,558	3,569,771
TOTAL CURRENT LIABILITIES		35,289,488	32,891,183
TOTAL LIABILITIES		58,202,189	56,705,085
TOTAL EQUITY AND LIABILITIES		124,464,333	121,972,100


Chief Financial Officer


Chief Executive Officer


Authorized Board Member

The accompanying notes from 1 to 24 form an integral part of these interim condensed consolidated financial statements.

Saudi Telecom Company
A Saudi Joint Stock Company

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2021

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	For the three months period ended 31 March	
		2021	2020
Revenues	4	15,695,497	13,934,852
Cost of revenues		(7,138,396)	(5,738,971)
GROSS PROFIT		8,557,101	8,195,881
OPERATING EXPENSES			
Selling and marketing		(1,350,199)	(1,404,972)
General and administration		(1,365,707)	(1,461,017)
Depreciation and amortisation	5,7,8	(2,359,588)	(2,325,865)
TOTAL OPERATING EXPENSES		(5,075,494)	(5,191,854)
OPERATING PROFIT		3,481,607	3,004,027
OTHER INCOME AND EXPENSES			
Cost of early retirement program		(80,319)	(199,017)
Finance income		101,864	131,459
Finance cost		(143,740)	(172,765)
Net other (expenses) income		(4,116)	5,716
Net share in results of investments in associates and joint ventures		21,920	(18,719)
Net other (losses) gains		(21,926)	430,811
TOTAL OTHER (EXPENSES) INCOME		(126,317)	177,485
NET PROFIT BEFORE ZAKAT AND INCOME TAX		3,355,290	3,181,512
Zakat and income tax	16	(355,330)	(230,383)
NET PROFIT		2,999,960	2,951,129
Net profit attributable to:			
Equity holders of the Parent Company		2,952,094	2,912,745
Non-controlling interests		47,866	38,384
		2,999,960	2,951,129

Earnings per share, based on net profit attributable to equity holders of the Parent Company
(in Saudi Riyals):

Basic	17	1.48	1.46
Diluted	17	1.48	1.46



Chief Financial Officer



Chief Executive Officer



Authorized Board Member

The accompanying notes from 1 to 24 form an integral part of these interim condensed consolidated financial statements.

Saudi Telecom Company
A Saudi Joint Stock Company

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2021

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	For the three months period ended	
		31 March	
		2021	2020
NET PROFIT		<u>2,999,960</u>	<u>2,951,129</u>
OTHER COMPREHENSIVE INCOME (LOSS):			
<i>Item that will not be reclassified subsequently to consolidated statement of profit or loss:</i>			
Re-measurement of end of service benefit provision	13	<u>147,318</u>	<u>294,614</u>
<i>Items that may be reclassified subsequently to consolidated statement of profit or loss:</i>			
Foreign currency translation differences		14,853	(80,555)
Fair value changes from cash flow hedges		-	(4,964)
Net share of other comprehensive income (loss) of associates and joint ventures		<u>10,823</u>	<u>(62,919)</u>
<i>Total items that may be reclassified subsequently to consolidated statement of profit or loss</i>		<u>25,676</u>	<u>(148,438)</u>
TOTAL OTHER COMPREHENSIVE INCOME		<u>172,994</u>	<u>146,176</u>
TOTAL COMPREHENSIVE INCOME		<u>3,172,954</u>	<u>3,097,305</u>
<i>Total comprehensive income attributable to:</i>			
Equity holders of the Parent Company		3,116,527	3,098,788
Non-controlling interests		56,427	(1,483)
		<u>3,172,954</u>	<u>3,097,305</u>



Chief Financial Officer



Chief Executive Officer



Authorized Board Member

The accompanying notes from 1 to 24 form an integral part of these interim condensed consolidated financial statements.

Saudi Telecom Company
A Saudi Joint Stock Company

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2021

(All amounts in Saudi Riyals thousands unless otherwise stated)

	<i>Notes</i>	<i>For the three months period ended</i>	
		<i>31 March</i>	
		<i>2021</i>	<i>2020</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit before zakat and income tax		3,355,290	3,181,512
Adjustments for:			
Depreciation and amortisation	5,7,8	2,359,588	2,325,865
Impairment loss and amortisation of contract costs and contract assets		158,325	114,097
Impairment loss on trade receivables		204,182	281,639
Allowance for slow moving inventories		26,318	25,057
Finance income		(101,864)	(131,459)
Finance costs		143,740	172,765
Provision for end of service benefit and other provisions		127,621	123,678
Net share in results of investments in associates and joint ventures		(21,920)	18,719
Share- based payment expenses	21	3,058	-
Net other losses (gains)		21,926	(430,811)
Movements in:			
Trade receivables and others		(3,784,356)	(2,185,586)
Inventories		48,747	522,269
Contract costs		(80,784)	(62,118)
Contract assets		(493,944)	(448,937)
Other assets		(397,007)	(309,757)
Trade payables and others		(1,760,658)	(2,499,360)
Contract liabilities		422,148	187,351
Provisions and other liabilities		484,475	1,302,073
Cash generated from operations		714,885	2,186,997
Less: Zakat and income tax paid	16	(20,421)	(196)
Less: Provision for end of service benefit paid		(52,890)	(169,124)
Net cash generated from operating activities		641,574	2,017,677
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment	5	(1,017,854)	(1,020,178)
Additions to intangible assets	7	(188,175)	(268,617)
Proceeds from sale of property and equipment		-	12,367
Proceeds from sale of an associate		-	451,542
Proceeds from finance income		74,206	80,747
Payments related to financial assets, net		(1,315,258)	(80,808)
Net cash used in investing activities		(2,447,081)	(824,947)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to the equity holders of the Parent Company		(1,456)	(274)
Dividends paid to non-controlling interests		(2,021)	(743)
Repayment of lease liabilities		(245,661)	(221,712)
Repayment of borrowings		(79,155)	(138,862)
Finance costs paid		(33,311)	(58,494)
Net cash used in financing activities		(361,604)	(420,085)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(2,167,111)	772,645
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		9,004,286	8,031,010
Net foreign exchange difference		5,607	(20,225)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		6,842,782	8,783,430



Chief Financial Officer



Chief Executive Officer



Authorized Board Member

The accompanying notes from 1 to 24 form an integral part of these interim condensed consolidated financial statements.


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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2021**

(All amounts in Saudi Riyals thousands unless otherwise stated)

	<i>Total equity attributable to the equity holders of the Parent Company</i>						<i>Non- controlling interests</i>	<i>Total equity</i>	
	<i>Notes</i>	<i>Issued capital</i>	<i>Statutory reserves</i>	<i>Treasury shares</i>	<i>Other reserves</i>	<i>Retained earnings</i>			<i>Total</i>
Balance as at 1 January 2020		20,000,000	10,000,000	-	(2,745,608)	34,508,202	61,762,594	1,292,452	63,055,046
Net profit		-	-	-	-	2,912,745	2,912,745	38,384	2,951,129
Other comprehensive income (loss)		-	-	-	186,043	-	186,043	(39,867)	146,176
Total comprehensive income		-	-	-	186,043	2,912,745	3,098,788	(1,483)	3,097,305
Dividends to the equity holders of the Parent Company		-	-	-	-	(2,000,000)	(2,000,000)	-	(2,000,000)
Dividends to non-controlling interests		-	-	-	-	-	-	(144,327)	(144,327)
Share of changes in other reserves of a joint venture's equity		-	-	-	8,945	-	8,945	-	8,945
Balance as at 31 March 2020		20,000,000	10,000,000	-	(2,550,620)	35,420,947	62,870,327	1,146,642	64,016,969
Balance as at 1 January 2021		20,000,000	10,000,000	(300,000)	(3,262,245)	37,508,027	63,945,782	1,321,233	65,267,015
Net profit		-	-	-	-	2,952,094	2,952,094	47,866	2,999,960
Other comprehensive income		-	-	-	164,433	-	164,433	8,561	172,994
Total comprehensive income		-	-	-	164,433	2,952,094	3,116,527	56,427	3,172,954
Dividends to the equity holders of the Parent Company	22	-	-	-	-	(1,997,018)	(1,997,018)	-	(1,997,018)
Dividends to non-controlling interests		-	-	-	-	-	-	(181,425)	(181,425)
Share-based payment transactions	21	-	-	-	9,174	-	9,174	-	9,174
Share of changes in other reserves of a joint venture's equity		-	-	-	(8,556)	-	(8,556)	-	(8,556)
Balance as at 31 March 2021		20,000,000	10,000,000	(300,000)	(3,097,194)	38,463,103	65,065,909	1,196,235	66,262,144


Chief Financial Officer


Chief Executive Officer


Authorized Board Member

The accompanying notes from 1 to 24 form an integral part of these interim condensed consolidated financial statements.

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2021**

(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 ultimate controlling party of the Company is the Government through the Public Investment Fund (PIF) which owns 70% of the total shares of the Company.

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, 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 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) Providing cybersecurity services.
- 16) 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.

Saudi Telecom Company
A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2021 (CONTINUED)

(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 2020.

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 2020.

There are no new standards or interpretations with application date effective on 1 January 2021. There are amendments to the standards that come into effect at 1 January 2021, but they do not have any material impact on the Group interim condensed consolidated financial statements.

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".

Saudi Telecom Company
A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2021 (CONTINUED)

(All amounts in Saudi Riyals thousands unless otherwise stated)

4- SEGMENT INFORMATION (CONTINUED)

The following is an analysis of the Group's revenues and results based on segments for the three months period ended 31 March:

	<u>2021</u>	<u>2020</u>
Revenues ⁽¹⁾		
Saudi Telecom Company	11,258,373	10,333,042
Channels by stc	4,929,837	4,295,210
Other operating segments ⁽²⁾	4,121,090	3,610,188
Eliminations / adjustments	(4,613,803)	(4,303,588)
Total revenues	15,695,497	13,934,852
Cost of operations (excluding depreciation and amortisation)	(9,854,302)	(8,604,960)
Depreciation and amortisation	(2,359,588)	(2,325,865)
Cost of early retirement	(80,319)	(199,017)
Finance income	101,864	131,459
Finance cost	(143,740)	(172,765)
Net other (expenses) income	(4,116)	5,716
Net share in results of investments in associates and joint ventures	21,920	(18,719)
Net other (losses) gains	(21,926)	430,811
Zakat and income tax	(355,330)	(230,383)
Net profit	2,999,960	2,951,129
Net profit attributable to:		
Equity holders of the Parent Company	2,952,094	2,912,745
Non-controlling interests	47,866	38,384
	2,999,960	2,951,129

Following is the gross profit analysis on a segment basis for the three months period ended 31 March:

	<u>2021</u>	<u>2020</u>
Saudi Telecom Company	6,871,319	6,508,586
Channels by stc	402,425	330,730
Other operating segments ⁽²⁾	1,652,026	1,475,333
Eliminations / adjustments	(368,669)	(118,768)
Gross profit	8,557,101	8,195,881

Information about geographical segmentation:

Following is the geographical segmentation of revenues for the three months period ended 31 March:

	<u>2021</u>	<u>2020</u>
Kingdom of Saudi Arabia	14,521,838	12,884,025
Others ^(*)	1,173,659	1,050,827
	15,695,497	13,934,852

(*) "Others" includes State of Kuwait and Kingdom of Bahrain

Saudi Telecom Company
A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2021 (CONTINUED)

(All amounts in Saudi Riyals thousands unless otherwise stated)

4- SEGMENT INFORMATION (CONTINUED)

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

	<u>31 March 2021</u>	<u>31 December 2020</u>
Assets		
Saudi Telecom Company	132,744,350	129,915,566
Channels by stc	5,989,825	5,527,646
Other operating segments ⁽²⁾	38,289,708	37,788,535
Eliminations / adjustments	(52,559,550)	(51,259,647)
Total assets	<u>124,464,333</u>	<u>121,972,100</u>
Liabilities		
Saudi Telecom Company	54,129,798	52,654,060
Channels by stc	4,347,355	3,943,509
Other operating segments ⁽²⁾	25,194,062	24,302,252
Eliminations / adjustments	(25,469,026)	(24,194,736)
Total liabilities	<u>58,202,189</u>	<u>56,705,085</u>

(1) Segment revenue reported above represents revenue generated from external and internal customers. There were SR 4,614 million of inter-segment sales and adjustments (between the Group's Companies) for the three months period ended 31 March 2021 (for the three months period ended 31 March 2020: SR 4,304 million) which were eliminated at consolidation.

(2) Other operating segments include: 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 three months period ended 31 March 2021, the Group acquired property and equipment with total cost of SR 1,055 million, including non-cash additions with an amount of SR 37 million (for the three months period ended 31 March 2020: SR 1,059 million, including non-cash additions with an amount of SR 39 million).

During the three months period ended 31 March 2021, the Group disposed of property and equipment with a net book value of SR 12 million (for the three months period ended 31 March 2020: SR 18 million) resulting in a loss on sale of property and equipment for the three months period ended 31 March 2021 with an amount of SR 12 million (for the three months period ended 31 March 2020: SR 6 million).

The following table shows the breakdown of depreciation expense if allocated to operating costs items for the three months period ended 31 March:

	<u>2021</u>	<u>2020</u>
Cost of revenues	1,353,717	1,287,104
Selling and marketing expenses	1,741	1,737
General and administrative expenses	294,901	294,861
	<u>1,650,359</u>	<u>1,583,702</u>

Saudi Telecom Company
A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2021 (CONTINUED)

(All amounts in Saudi Riyals thousands unless otherwise stated)

6- INVESTMENT PROPERTIES

	<u>31 March 2021</u>	<u>31 December 2020</u>
Lands (*)	36,980	36,980

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

The fair value of the land amounted to SR 148 million as at 31 December 2020 which was valued by Century 21 Saudi Company License No. (752/18/323) which was appointed as an independent, professionally qualified valuer accredited by the Saudi Authority for Accredited Valuers (Taqeem). There were no additions or disposals nor significant change in fair value of the land as at 31 March 2021. The fair value measurement is classified within level 3 based on valuation techniques applied i.e. (residual and market comparable approaches).

7- INTANGIBLE ASSETS AND GOODWILL

During the three months period ended 31 March 2021, the net additions in intangible assets amounted to SR 191 million, including non-cash additions with an amount of SR 3 million (for the three months period ended 31 March 2020: SR 462 million, including non-cash additions with an amount of SR 193 million).

The following table shows the breakdown of amortisation expense if allocated to operating costs items for the three months period ended 31 March:

	<u>2021</u>	<u>2020</u>
Cost of revenues	136,198	171,861
Selling and marketing expenses	782	657
General and administrative expenses	367,240	349,172
	504,220	521,690

8- RIGHT OF USE ASSETS

During the three months period ended 31 March 2021, the net additions in right of use assets amounted to SR 258 million (for the three months period ended 31 March 2020: SR 311 million).

The following table shows the breakdown of depreciation expense if allocated to operating costs items for the three months period ended 31 March:

	<u>2021</u>	<u>2020</u>
Cost of revenues	158,554	172,425
Selling and marketing expenses	2,821	615
General and administrative expenses	43,634	47,433
	205,009	220,473

Saudi Telecom Company
A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2021 (CONTINUED)

(All amounts in Saudi Riyals thousands unless otherwise stated)

9- FINANCIAL ASSETS AND OTHERS

9-1 Financial assets

	<u>31 March 2021</u>	<u>31 December 2020</u>
Financial assets measured at FVTPL	<u>979,696</u>	1,119,413
<i>Financial assets at amortised cost:</i>		
Sukuk	5,326,519	5,371,446
Loans to employees	399,037	411,665
Others	157,400	167,498
	<u>5,882,956</u>	<u>5,950,609</u>
	<u>6,862,652</u>	<u>7,070,022</u>
Current	174,853	180,397
Non-current	6,687,799	6,889,625
	<u>6,862,652</u>	<u>7,070,022</u>

9-2 Other assets

	<u>31 March 2021</u>	<u>31 December 2020</u>
Advances	2,234,075	2,366,620
Prepaid expenses	744,354	498,020
Deferred expenses	115,175	128,578
Others	570,946	274,325
	<u>3,664,550</u>	<u>3,267,543</u>
Current	3,148,048	3,087,883
Non-current	516,502	179,660
	<u>3,664,550</u>	<u>3,267,543</u>

10- FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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.

Saudi Telecom Company
A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2021 (CONTINUED)

(All amounts in Saudi Riyals thousands unless otherwise stated)

10- FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

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

Financial instruments categories	Fair value measurement hierarchy	Fair value as at	
		31 March 2021	31 December 2020
Financial assets			
At fair value through profit or loss:			
stc Ventures Fund and STV LP Fund	Level 3	979,696	1,119,413
Financial liabilities			
At fair value through profit or loss:			
Derivative liabilities	Level 2	5,085	9,882

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:

	31 March 2021	31 December 2020
Net assets value as at beginning of the period	1,119,413	1,550,869
Contributions paid to the funds during the period	-	375,700
Distributions received from the funds during the period	(136,214)	(723,767)
Net unrealised loss recognised in the interim condensed consolidated statement of profit or loss ^(*)	(3,503)	(83,389)
Net assets value as at ending of the period	979,696	1,119,413

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

The Group believes that the other financial assets and liabilities carried at cost in the consolidated financial statements approximate their fair value.

There are no transfers between levels of the fair value hierarchy during year ended 31 March 2021.

11- TRADE AND OTHER RECEIVABLES

	31 March 2021	31 December 2020
Trade receivables	21,337,746	17,660,288
Less: allowance for impairment loss	(2,800,334)	(2,859,566)
	18,537,412	14,800,722
Non trade receivables	1,127,177	1,283,694
	19,664,589	16,084,416

Saudi Telecom Company
A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2021 (CONTINUED)

(All amounts in Saudi Riyals thousands unless otherwise stated)

12- RELATED PARTY TRANSACTIONS

12-1 Trading transactions and balances with related parties (Associates and Joint Ventures)

The Group trading transactions with related parties during the three months period ended 31 March were as the following:

	<i>2021</i>	<i>2020</i>
<i>Telecommunication services provided</i>	<u>97,625</u>	<u>54,740</u>
<i>Telecommunication services received</i>	<u>27,209</u>	<u>13,857</u>

The following balances are outstanding with related parties:

	<i>Amounts due from related parties</i>		<i>Amounts due to related parties</i>	
	<u>31 March 2021</u>	<u>31 December 2020</u>	<u>31 March 2021</u>	<u>31 December 2020</u>
Associates	383,161	354,554	46,315	63,820
Joint ventures	33,995	47,249	132,107	157,830
	<u>417,156</u>	<u>401,803</u>	<u>178,422</u>	<u>221,650</u>

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.

12-2 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 ended 31 March 2021 amounted to SR 2,810 million (for the three months period ended 31 March 2020: SR 2,025 million). Expenses related to transactions with government and government related entities for the three months period ended 31 March 2021 (including government charges) amounted to SR 1,321 million (for the three months period ended 31 March 2020: SR 1,071 million).

As at 31 March 2021, total accounts receivable from government entities was SR 16,905 million (31 December 2020: SR 13,889 million). And as at 31 March 2021, total accounts payable due to government entities was SR 2,134 million (31 December 2020: SR 1,058 million).

As at 31 March 2021, total accounts receivable with government related entities was SR 938 million (2020: SR 912 million). And as at 31 March 2021, total accounts payable with government related entities was SR 127 million (2020: SR 345 million).

Receivable aging from government entities and government related entities is as follows:

	<u>31 March 2021</u>	<u>31 December 2020</u>
Less than a year	11,056,208	10,275,707
More than one year to two years	5,401,013	3,153,841
More than two years	447,780	459,707
	<u>16,905,001</u>	<u>13,889,255</u>

13- END OF SERVICE BENEFIT PROVISION

Calculation of end of service benefit provision was done using the most recent actuarial valuation as at 31 March 2021. During the period, the actuarial assumptions relating to the discount rate and salary increase rate have been updated, resulting in recording of net actuarial gain included in the interim condensed consolidated statement of comprehensive income for the three months ended 31 March 2021 amounting to SR 147 million (for the three months period ended 31 March 2020 net actuarial gain amounting to SR 295 million).

Saudi Telecom Company
A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2021 (CONTINUED)

(All amounts in Saudi Riyals thousands unless otherwise stated)

14- LEASE LIABILITIES

	<u>31 March 2021</u>	<u>31 December 2020</u>
Current	992,003	742,185
Non-current	1,958,783	2,237,853
	<u>2,950,786</u>	<u>2,980,038</u>

The interest expense on lease liabilities for the three months period ended 31 March 2021 amounted to SR 22 million included in finance costs (for the three months period ended 31 March 2020: SR 27 million).

15- FINANCIAL LIABILITIES AND OTHERS

15-1 Financial liabilities

	<u>31 March 2021</u>	<u>31 December 2020</u>
Dividends payable	4,514,876	2,151,116
Financial liabilities related to frequency spectrum licenses	1,944,636	2,276,505
Derivative liabilities and others	130,992	61,957
	<u>6,590,504</u>	<u>4,489,578</u>
Current	4,605,141	2,208,687
Non-current	1,985,363	2,280,891
	<u>6,590,504</u>	<u>4,489,578</u>

15-2 Other liabilities

	<u>31 March 2021</u>	<u>31 December 2020</u>
Deferred income	3,789,254	3,814,889
Government charges	2,347,949	1,085,873
Statutory dues and others	239,201	381,022
	<u>6,376,404</u>	<u>5,281,784</u>
Current	2,499,417	1,361,084
Non-current	3,876,987	3,920,700
	<u>6,376,404</u>	<u>5,281,784</u>

16- ZAKAT AND INCOME TAX

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 received final zakat assessments for all years up to 2007 and the years ended as at 31 December 2010, 2011, 2014 and 2018.

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.

Saudi Telecom Company
A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2021 (CONTINUED)

(All amounts in Saudi Riyals thousands unless otherwise stated)

16- ZAKAT AND INCOME TAX (CONTINUED)

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 objected 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.

17- EARNINGS PER SHARE

The following is the calculation of basic and diluted earnings per share for the three months period ended 31 March:

<i>Net profit attributable to equity holders of the Parent Company</i>	<u>2021</u> 2,952,094	<u>2020</u> 2,912,745
Number of shares "in thousands":		
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	1,999,207	2,000,000
Weighted average number of repurchased ordinary shares	<u>793</u>	-
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	<u>2,000,000</u>	<u>2,000,000</u>
<i>Earnings per share attributable to equity holders of the Parent Company (in Saudi Riyals):</i>		
- Basic	<u>1.48</u>	1.46
- Diluted	<u>1.48</u>	1.46

The following is the number of outstanding shares (in thousands) during the three months period ended 31 March 2021:

The number of outstanding shares at beginning of the period	1,997,017
The number of treasury shares purchased during the period	-
The number of outstanding shares at end of the period	<u>1,997,017</u>

The following is the number of treasury shares (in thousands) during the three months period ended 31 March 2021:

The number of treasury shares at beginning of the period	2,983
The number of treasury shares purchased during the period	-
The number of treasury shares at end of the period	<u>2,983</u>

18- CAPITAL COMMITMENTS

One of the subsidiaries 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 March 2021 (31 December 2020: SR 1,125 million (equivalent to USD 300 million)).

19- CONTINGENT ASSETS AND LIABILITIES

- (a) The Group has outstanding letters of guarantee on behalf the parent and the subsidiaries amounting to as at 31 March 2021 amounting to SR 4,963 million (31 December 2020 : SR 4,222 million).
- (b) The Group has outstanding letters of credit as at 31 March 2021 amounting to SR 943 million (31 December 2020: SR 977 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.

Saudi Telecom Company
A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2021 (CONTINUED)

(All amounts in Saudi Riyals thousands unless otherwise stated)

19- CONTINGENT ASSETS AND LIABILITIES (CONTINUED)

- (d) The Group, in its ordinary course of business, is subject to proceedings, lawsuits and other claims. However, these matters are not expected to have any material impact on the Company's financial position or on the results of its operations as reflected in these 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) On 28 December 2020, the Group received claims from the Communications and Information Technology Commission related to imposing government fees for selling devices in installments for the period from 2018 until the end of the third quarter of 2020, totaling SR 641 million. The group objected within the statutory deadline. Based on the opinions of the specialized consultants in this regard and the nature of these sales, The Group believes that the result will be in its favour and no material additional provisions are required.
- (g) In April 2017, Kuwait's Cassation Court invalidated a portion of the regulatory tariff decree levied on mobile telecommunication companies in Kuwait since 26 July 2011 by Kuwait's Ministry of Communications. Accordingly, stc Kuwait had filed a claim for the recovery of the excess amount paid from change in regulation date till date. On 30 June 2020, the Court of appeal of Kuwait has issued a verdict in favor of stc Kuwait obliging the appellant to pay amount of KD 18.3 million (equivalent to SR 225 million).

20- SUBSIDIARIES

On 21 November 2020, the Group signed an agreement with Western Union to sell a stake in stc Pay (a subsidiary company owned by 100%) with a value of SR 750 million (equivalent to USD 200 million) 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 stc Pay.
- Western Union will pay an amount of SR 250 million (equivalent to USD 66.67 million), in case stc Pay obtains a digital banking services license, increasing the shareholding of Western Union to 15%.
- The Group will inject an additional amount of SR 802 million into the capital of stc Pay in case stc Pay obtains a digital banking services license.

During the fourth quarter of 2020, the Company increased the share capital of stc Pay 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 stc Pay reaching SR 948 million.

21- EMPLOYEES LONG-TERM INCENTIVES PROGRAM

On 20 April 2020, the Extraordinary General Assembly voted to approve the purchase of a number of the Company's shares, with a maximum of 5.5 million shares, with an amount not to exceed SR 300 million to be allocated for the employees long-term incentives program (the Program). 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.

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2021 (CONTINUED)**

(All amounts in Saudi Riyals thousands unless otherwise stated)

21- EMPLOYEES LONG-TERM INCENTIVES PROGRAM (CONTINUED)

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 duration of service and 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 for the three months period ended 31 March 2021 amounted to SR 3.1 million (31 March 2020: Nil), 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.

22- 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 the same policy, the Company announced the distribution of cash dividends to the shareholders of the Company for the fourth quarter of 2020 at a rate of SR 1 per share.

On 12 Shaaban 1442H (corresponding to 25 March 2021) the board of directors also recommended to distribute additional cash dividends for the year 2020 at the rate of SR 1 per share and to be presented for approval to the General Assembly at its next meeting scheduled to be held in 26 April 2021.

In addition, in line with the same policy, the Company will distribute cash dividends to the shareholders of the Company for the first quarter of 2021 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 21). Therefore, no cash dividends were distributed for these shares.

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2021 (CONTINUED)**

(All amounts in Saudi Riyals thousands unless otherwise stated)

23- IMPACT OF CORONAVIRUS (COVID-19) OUTBREAK

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.

24- APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

At its meeting held on 22 April 2021, the audit committee (delegated by the Company's Board of Directors) approved the interim condensed consolidated financial statements for the three months period ended 31 March 2021.