



Saudi Telecom Company
(A Saudi Joint Stock Company)

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS PERIODS ENDED
30 JUNE 2020
(Unaudited)**

**Second Quarter
2020**

Saudi Telecom Company
A Saudi Joint Stock Company
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS PERIODS ENDED 30 JUNE 2020

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

Introduction:

We have reviewed the accompanying interim condensed consolidated statement of financial position of Saudi Telecom Company - a Saudi Joint Stock Company ("the Company") and its subsidiaries (collectively referred to as "the Group") as at 30 June 2020, and the related interim condensed consolidated statements of profit or loss and comprehensive income, for the three and six months periods ended 30 June 2020, and the related interim condensed statements of cash flows and changes in equity for the six 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: 2 Dhul-Hijjah 1441H
(23 July 2020)



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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
AS AT 30 JUNE 2020**

(All amounts in Saudi Riyals thousands unless otherwise stated)

	<u>Note</u>	<u>30 June 2020</u>	<u>31 December 2019</u>
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	5	45,342,055	45,085,342
Intangible assets and goodwill	6	9,654,226	9,906,688
Right of use assets	7	2,941,701	2,887,933
Investments in associates and joint ventures		6,532,104	6,618,526
Contract assets		530,395	648,069
Contract costs		734,645	922,922
Other non-current assets	8	7,161,222	7,415,284
TOTAL NON-CURRENT ASSETS		72,896,348	73,484,764
CURRENT ASSETS			
Inventories		1,321,673	1,721,530
Trade and other receivables	12,13	25,794,388	21,372,368
Short term murabahas		1,407,704	2,181,416
Contract assets		6,234,128	6,793,755
Other current assets	9	4,416,006	4,473,685
Cash and cash equivalents		7,437,882	8,031,010
		46,611,781	44,573,764
Assets held for sale	10	-	267,728
TOTAL CURRENT ASSETS		46,611,781	44,841,492
TOTAL ASSETS		119,508,129	118,326,256
EQUITY AND LIABILITIES			
EQUITY			
Issued capital		20,000,000	20,000,000
Statutory reserves		10,000,000	10,000,000
Other reserves		(3,222,114)	(2,745,608)
Retained earnings		36,145,162	34,508,202
Equity attributable to the equity holders of the Parent Company		62,923,048	61,762,594
Non-controlling interests		1,215,646	1,292,452
TOTAL EQUITY		64,138,694	63,055,046
LIABILITIES			
NON-CURRENT LIABILITIES			
Long term borrowings	14	8,728,620	8,923,476
End of service benefits provision	15	5,105,344	4,812,805
Lease liabilities	16	2,128,019	1,580,935
Provisions		861,245	891,210
Contract liabilities		1,159,918	771,915
Other non-current liabilities	17	5,068,046	5,100,617
TOTAL NON-CURRENT LIABILITIES		23,051,192	22,080,958
CURRENT LIABILITIES			
Trade and other payables		18,038,862	18,694,412
Provisions		4,610,722	5,157,110
Contract liabilities		2,624,404	2,465,735
Zakat and income tax	19	1,863,345	1,482,278
Lease liabilities	16	869,097	1,300,242
Short term borrowings	14	336,401	389,339
Other current liabilities	18	3,975,412	3,701,136
TOTAL CURRENT LIABILITIES		32,318,243	33,190,252
TOTAL LIABILITIES		55,369,435	55,271,210
TOTAL EQUITY AND LIABILITIES		119,508,129	118,326,256


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 AND SIX MONTHS PERIODS ENDED 30 JUNE 2020

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	For the three months period ended 30 June		For the six months period ended 30 June	
		2020	2019	2020	2019
Revenues	4	14,920,233	13,603,564	28,855,085	26,989,317
Cost of revenues		(6,579,241)	(5,396,271)	(12,318,212)	(10,878,548)
GROSS PROFIT		8,340,992	8,207,293	16,536,873	16,110,769
OPERATING EXPENSES					
Selling and marketing		(1,592,991)	(1,399,852)	(2,997,963)	(2,515,509)
General and administration		(1,406,463)	(1,152,129)	(2,867,480)	(2,554,445)
Depreciation and amortisation	5,6,7	(2,279,364)	(2,177,993)	(4,605,229)	(4,288,292)
TOTAL OPERATING EXPENSES		(5,278,818)	(4,729,974)	(10,470,672)	(9,358,246)
OPERATING PROFIT		3,062,174	3,477,319	6,066,201	6,752,523
OTHER EXPENSES AND INCOME					
Cost of early retirement program		(100,983)	(216,405)	(300,000)	(366,405)
Finance income		104,637	147,992	236,096	329,112
Finance costs		(158,449)	(244,302)	(331,214)	(408,478)
Net other expenses		(30,432)	(3,159)	(24,716)	(129,473)
Net share in results of investments in associates and joint ventures		6,780	78,713	(11,939)	43,175
Net other gains (losses)	10,11	130,724	(100,770)	561,535	(93,343)
TOTAL OTHER (EXPENSES) INCOME		(47,723)	(337,931)	129,762	(625,412)
NET PROFIT BEFORE ZAKAT AND INCOME TAX		3,014,451	3,139,388	6,195,963	6,127,111
Zakat and income tax	19	(235,351)	(229,963)	(465,734)	(410,516)
NET PROFIT		2,779,100	2,909,425	5,730,229	5,716,595
<i>Net profit attributable to:</i>					
Equity holders of the Parent Company		2,724,215	2,848,021	5,636,960	5,597,756
Non-controlling interests		54,885	61,404	93,269	118,839
		2,779,100	2,909,425	5,730,229	5,716,595
Basic and diluted earnings per share (In Saudi Riyals)		1.36	1.42	2.82	2.80


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 AND SIX MONTHS PERIODS ENDED 30 JUNE 2020

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	For the three months period ended 30 June		For the six months period ended 30 June	
		2020	2019	2020	2019
NET PROFIT		2,779,100	2,909,425	5,730,229	5,716,595
OTHER COMPREHENSIVE INCOME (LOSS):					
Items that will not be reclassified subsequently to consolidated statement of profit or loss:					
Re-measurement of end of service benefit provision	15	(698,509)	(665,289)	(403,895)	(669,750)
Fair value changes on equity instruments measured at fair value through other comprehensive income (FVOCI)		-	34	-	-
Total items that will not be reclassified subsequently to consolidated statement of profit or loss		(698,509)	(665,255)	(403,895)	(669,750)
Items that may be reclassified subsequently to consolidated statement of profit or loss:					
Foreign currency translation differences		37,762	2,256	(42,793)	(6,357)
Fair value changes from cash flow hedges		6,784	(2,432)	1,820	(3,338)
Net share of other comprehensive (loss)/income of associates and joint ventures		(2,585)	(15,067)	(65,504)	98,118
Total items that may be reclassified subsequently to consolidated statement of profit or loss		41,961	(15,243)	(106,477)	88,423
TOTAL OTHER COMPREHENSIVE LOSS		(656,548)	(680,498)	(510,372)	(581,327)
TOTAL COMPREHENSIVE INCOME		2,122,552	2,228,927	5,219,857	5,135,268
<i>Total comprehensive income attributable to:</i>					
Equity holders of the Parent Company		2,053,548	2,164,141	5,152,336	5,014,273
Non-controlling interests		69,004	64,786	67,521	120,995
		2,122,552	2,228,927	5,219,857	5,135,268



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 SIX MONTHS PERIOD ENDED 30 JUNE 2020

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	For the six months period ended	
		2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit before zakat and income tax		6,195,963	6,127,111
Adjustments for:			
Depreciation and amortisation	5,6,7	4,605,229	4,288,292
Impairment loss and amortisation of contract costs and contract assets		345,977	259,820
Impairment loss on trade receivables		422,814	307,291
Allowance for slow moving inventories		(401)	32,673
Finance income		(236,096)	(329,112)
Finance costs		331,214	408,478
Provision for end of service benefits and other provisions		246,371	816,118
Net share in results of investments in associates and joint ventures		11,939	(43,175)
Net other (gains) losses		(561,535)	93,343
Movements in:			
Trade receivables and others		(4,828,234)	(3,183,132)
Inventories		400,258	(373,376)
Contract costs		(94,278)	(150,660)
Contract assets		613,879	(1,045,705)
Other assets		(325,293)	(1,417,945)
Trade payables and others		(855,708)	(2,253,575)
Contract liabilities		546,672	(353,374)
Other liabilities		(503,261)	(3,297,069)
Cash generated from (used in) operations		6,315,510	(113,997)
Less: Zakat and income tax paid	19	(84,689)	(677,163)
Less: Provision for end of service benefits paid		(394,298)	(276,291)
Net cash generated from (used in) operating activities		5,836,523	(1,067,451)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment	5	(3,243,760)	(2,090,135)
Additions to intangible assets	6	(588,024)	(361,008)
Proceeds from sale of property and equipment		13,328	131,687
Proceeds from sale of an associate		755,651	-
Acquisition of a new subsidiary		-	(219,173)
Proceeds from finance income		314,286	259,979
Proceeds related to financial assets		2,464,902	13,653,000
Payments related to financial assets		(1,331,013)	(4,123,752)
Net cash (used in) generated from investing activities		(1,614,630)	7,250,598
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(4,065,194)	(8,105,775)
Repayment of lease liabilities		(385,226)	(376,610)
Repayment of borrowings	14	(201,826)	(280,926)
Proceeds from borrowings	14	20,000	5,299,552
Finance costs paid		(172,468)	(165,828)
Net cash used in financing activities		(4,804,714)	(3,629,587)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(582,821)	2,553,560
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		8,031,010	8,153,865
Net foreign exchange difference		(10,307)	904
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		7,437,882	10,708,329



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 SIX MONTHS PERIOD ENDED 30 JUNE 2020**

(All amounts in Saudi Riyals thousands unless otherwise stated)

Total equity attributable to the equity holders of the Parent Company

Note	Issued Capital	Statutory reserves	Other Reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance 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	-	-	-	5,597,756	5,597,756	118,839	5,716,595
Other comprehensive loss	-	-	(583,483)	-	(583,483)	2,156	(581,327)
Total comprehensive income	-	-	(583,483)	5,597,756	5,014,273	120,995	5,135,268
Dividends to the equity holders of the Parent Company	-	-	-	(8,000,000)	(8,000,000)	-	(8,000,000)
Dividends to non-controlling interests	-	-	-	-	-	(118,812)	(118,812)
Transfers	-	-	(425,974)	425,974	-	-	-
Balance as at 30 June 2019	20,000,000	10,000,000	(2,913,335)	35,441,292	62,527,957	1,150,097	63,678,054
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	-	-	-	5,636,960	5,636,960	93,269	5,730,229
Other comprehensive loss	-	-	(484,624)	-	(484,624)	(25,748)	(510,372)
Total comprehensive income	-	-	(484,624)	5,636,960	5,152,336	67,521	5,219,857
Dividends to the equity holders of the Parent Company	-	-	-	(4,000,000)	(4,000,000)	-	(4,000,000)
Dividends to non-controlling interests	-	-	-	-	-	(144,327)	(144,327)
Share of changes in other reserves of a joint venture's equity	-	-	8,118	-	8,118	-	8,118
Balance as at 30 June 2020	20,000,000	10,000,000	(3,222,114)	36,145,162	62,923,048	1,215,646	64,138,694

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Chief Financial Officer



Delegated Chief Executive Officer



Authorized Board Member

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND SIX MONTHS PERIODS ENDED 30 JUNE 2020**

(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, 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) 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

Saudi Telecom Company
A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND SIX MONTHS PERIODS ENDED 30 JUNE 2020 (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 2019.

3- THE GROUP'S ACCOUNTING POLICIES

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

Note that there are some other amendments to IFRS and IFRIC that were applied by the Group with effective dates before period ended 30 June 2020 and had no material impact on the Group's consolidated financial statements as follows:

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

4- SEGMENT INFORMATION

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

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

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

Saudi Telecom Company
A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND SIX MONTHS PERIODS ENDED 30 JUNE 2020 (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 30 June		For the six months period ended 30 June	
	2020	2019	2020	2019
Revenues ⁽¹⁾				
Saudi Telecom Company	10,283,060	10,340,077	20,616,102	19,852,276
Channels by stc	4,966,193	4,225,277	9,261,403	8,601,093
Other operating segments ⁽²⁾	3,779,314	3,051,219	7,389,502	5,582,281
Eliminations / adjustments	(4,108,334)	(4,013,009)	(8,411,922)	(7,046,333)
Total revenues	14,920,233	13,603,564	28,855,085	26,989,317
Cost of operations (excluding depreciation and amortisation)	(9,578,695)	(7,948,252)	(18,183,655)	(15,948,502)
Depreciation and amortisation	(2,279,364)	(2,177,993)	(4,605,229)	(4,288,292)
Cost of early retirement	(100,983)	(216,405)	(300,000)	(366,405)
Finance income	104,637	147,992	236,096	329,112
Finance cost	(158,449)	(244,302)	(331,214)	(408,478)
Net other expenses	(30,432)	(3,159)	(24,716)	(129,473)
Net share in results of investments in associates and joint ventures	6,780	78,713	(11,939)	43,175
Net other gains (losses)	130,724	(100,770)	561,535	(93,343)
Zakat and income tax	(235,351)	(229,963)	(465,734)	(410,516)
Net profit	2,779,100	2,909,425	5,730,229	5,716,595
Net profit attributable to:				
Equity holders of the Parent Company	2,724,215	2,848,021	5,636,960	5,597,756
Non-controlling interests	54,885	61,404	93,269	118,839
	2,779,100	2,909,425	5,730,229	5,716,595

Following is the gross profit analysis on a segment basis:

	For the three months period ended 30 June		For the six months period ended 30 June	
	2020	2019	2020	2019
Saudi Telecom Company	6,443,517	6,669,436	12,952,103	13,432,292
Channels by stc	326,066	340,943	656,796	693,302
Other operating segments ⁽²⁾	1,635,310	1,302,082	3,110,643	2,172,517
Eliminations / adjustments	(63,901)	(105,168)	(182,669)	(187,342)
Gross profit	8,340,992	8,207,293	16,536,873	16,110,769

Information about geographical segmentation:

Following is the geographical segmentation of revenues:

	For the three months period ended 30 June		For the six months period ended 30 June	
	2020	2019	2020	2019
Kingdom of Saudi Arabia	13,774,738	12,169,263	26,658,763	24,479,099
Others	1,145,495	1,434,301	2,196,322	2,510,218
	14,920,233	13,603,564	28,855,085	26,989,317

Saudi Telecom Company
A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND SIX MONTHS PERIODS ENDED 30 JUNE 2020 (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>30 June 2020</u>	<u>31 December 2019</u>
Assets		
Saudi Telecom Company	126,122,756	125,104,941
Channels by stc	5,111,087	4,560,238
Other operating segments ⁽²⁾	35,132,588	34,355,695
Eliminations / adjustments	(46,858,302)	(45,694,618)
Total assets	119,508,129	118,326,256
Liabilities		
Saudi Telecom Company	49,538,367	49,484,795
Channels by stc	3,602,389	3,122,999
Other operating segments ⁽²⁾	23,050,335	22,438,203
Eliminations / Adjustments	(20,821,656)	(19,774,787)
Total liabilities	55,369,435	55,271,210

- (1) Segment revenue reported above represents revenue generated from external and internal customers. There were SR 4,108 million and SR 8,412 million of inter-segment sales and adjustments (between the Group's Companies) for the three months and six months periods ended 30 June 2020, respectively (for the three months and six months periods ended 30 June 2019: SR 4,013 million and SR 7,046 million, respectively) which were eliminated at consolidation.
- (2) Other operating segments include Kuwait Telecommunications Company (stc Kuwait), stc Bahrain, Solutions by stc, Specialized by stc, stc Gulf, Sapphire, Aqalat, Telecommunications Towers Company, and Saudi Digital Payments Company (stc pay).

5- PROPERTY AND EQUIPMENT

During the six months period ended 30 June 2020, the Group acquired property and equipment with total cost of SR 3,540 million, including non-cash additions with an amount of SR 296 million (for the six months period ended 30 June 2019: SR 2,762 million, including non-cash additions with an amount of SR 672 million).

During the six months period ended 30 June 2020, the Group disposed of property and equipment with a net book value of SR 28 million (for the six months period ended 30 June 2019: SR 222 million) resulting in a loss on sale of property and equipment for the three months and six months periods ended 30 June 2020 with an amount of SR 9 million and SR 15 million, respectively (for the three months and six months periods ended 30 June 2019 with an amount of SR 82 million and SR 91 million, respectively).

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

	For the three months period		For the six months period	
	ended 30 June		ended 30 June	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Cost of revenues	1,249,937	1,254,707	2,537,041	2,458,849
Selling and marketing expenses	1,559	4,304	3,296	8,365
General and administration expenses	279,290	276,172	574,151	549,641
	1,530,786	1,535,183	3,114,488	3,016,855

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6- INTANGIBLE ASSETS AND GOODWILL

During the six months period ended 30 June 2020, the net additions in intangible assets amounted to SR 785 million, including non-cash additions with an amount of SR 197 million (for the six months period ended 30 June 2019: SR 361 million, including non-cash additions with an amount of Nil).

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

	For the three months period ended 30 June		For the six months period ended 30 June	
	2020	2019	2020	2019
Cost of revenues	165,790	133,347	337,651	261,803
Selling and marketing expenses	429	964	1,086	1,931
General and administration expenses	346,726	319,055	695,898	630,513
	512,945	453,366	1,034,635	894,247

7- RIGHT OF USE ASSETS

During the six months period ended 30 June 2020, the net additions in right of use assets amounted to SR 622 million (for the six months period ended 30 June 2019: SR 222 million).

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

	For the three months period ended 30 June		For the six months period ended 30 June	
	2020	2019	2020	2019
Cost of revenues	186,267	140,116	358,692	276,434
Selling and marketing expenses	3,185	1,686	3,800	3,672
General and administration expenses	46,181	47,642	93,614	97,084
	235,633	189,444	456,106	377,190

8- OTHER NON-CURRENT ASSETS

	30 June 2020	31 December 2019
Financial assets	6,822,270	7,323,433
Others	338,952	91,851
	7,161,222	7,415,284

9- OTHER CURRENT ASSETS

	30 June 2020	31 December 2019
Other assets	4,183,087	4,097,096
Financial assets	232,919	376,589
	4,416,006	4,473,685

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10- ASSETS HELD FOR SALE

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

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

Based on the information received by the Group during the second quarter of 2020 related to the holdback amount that is related to regulatory, tax and indemnity requirements necessary to finish the acquisition deal, the Group has assessed the recoverability of the holdback amount and recognized an amount of USD 41 million (equivalent to SR 152 million) as profit during the three months period ended 30 June 2020.

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

11- FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

There was no transfer between the level 1 and level 2 during the period and there were no transfers to or from level 3 to measure fair value during the six months period ended 30 June 2020. Note that the Group policy includes the recognition of the transfer to and from the fair value hierarchy levels at the end of the financial period.

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

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11- FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Reconciliation of financial assets measured at fair value through profit or loss (FVTPL) (Group's investment in the units of stc Ventures Fund and STV LP fund) categorised within Level 3 of the fair value hierarchy:

	<u>Venture Funds</u>
Net Asset Value (NAV) as at 1 January 2020	1,550,869
Contributions paid to the funds during the period	375,700
Distributions received from the funds during the period	(719,056)
Net unrealised loss recognised in the interim condensed consolidated statement of profit or loss for the period ^(*)	(65,963)
NAV as at 30 June 2020	<u>1,141,550</u>

(*) The net unrealised loss recognized included within net other gains item in the interim condensed consolidated statement of profit or loss for the period.

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.

12- TRADE AND OTHER RECEIVABLES

	<u>30 June 2020</u>	<u>31 December 2019</u>
Trade receivables	26,665,405	22,375,635
Less: Allowance for impairment loss	(2,834,590)	(2,818,056)
	23,830,815	19,557,579
Non-trade receivables	1,963,573	1,814,789
	<u>25,794,388</u>	<u>21,372,368</u>

13- RELATED PARTY TRANSACTIONS

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

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

	<u>For the three months period ended 30 June</u>		<u>For the six months period ended 30 June</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
<i>Telecommunication services provided</i>	76,506	124,061	131,246	255,311
<i>Telecommunication services received</i>	30,132	1,471	43,989	4,498

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

The following balances are outstanding with related parties:

	<u>Amounts due from related parties</u>		<u>Amounts due to related parties</u>	
	<u>30 June 2020</u>	<u>31 December 2019</u>	<u>30 June 2020</u>	<u>31 December 2019</u>
Associates	364,264	292,020	112,270	38,910
Joint ventures	21,279	12,215	191,785	168,173
	<u>385,543</u>	<u>304,235</u>	<u>304,055</u>	<u>207,083</u>

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13- RELATED PARTY TRANSACTIONS (CONTINUED)

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

Revenues from transactions with government and government related entities for the three months and six months periods ended 30 June 2020 amounted to SR 2,003 million and SR 3,852 million, respectively (for the three months and six months periods ended 30 June 2019 amounted to SR 1,956 million and SR 3,316 million, respectively). Expenses related to transactions with government and government related entities for the three months and six months periods ended 30 June 2020 (including government charges) amounted to SR 1,323 million and SR 2,268 million, respectively (for the three months and six months periods ended 30 June 2019 amounted to SR 963 million and SR 2,069 million respectively).

As at 30 June 2020, accounts total receivable from government entities was SR 22,556 million (31 December 2019: SR 18,508 million). And as at 30 June 2020, total accounts payable due to government entities was SR 951 million (31 December 2019: SR 953 million). Among the transactions with government entities, the Group invested in the Sukuk issued by the Ministry of Finance during the first quarter of 2019 with an amount of SR 3,902 million.

The following is the existing ageing with government:

	<u>30 June 2020</u>	<u>31 December 2019</u>
Less than a year	9,384,430	7,903,051
More than one year to two years	6,674,817	6,393,629
More than two years	6,497,054	4,211,395
	<u>22,556,301</u>	<u>18,508,075</u>

14- BORROWINGS

Total borrowings paid during the six months period ended 30 June 2020 amounted to SR 202 million (the six months period ended 30 June 2019 amounted to SR 281 million). Total borrowings received during the six months period ended 30 June 2020 amounted to SR 20 million (the six months period ended 30 June 2019 amounted to SR 5,300 million).

15- END OF SERVICE BENEFIT PROVISION

Calculation of end of service benefit provision as at 30 June 2020 was done using the most recent actuarial valuation as at 30 June 2020. During the period, the actuarial assumptions relating to the discount rate have been updated, resulting in an increase in the present value of the defined benefits obligations.

16- LEASE LIABILITIES

	<u>30 June 2020</u>	<u>31 December 2019</u>
Current	869,097	1,300,242
Non-current	2,128,019	1,580,935
	<u>2,997,116</u>	<u>2,881,177</u>

The interest expense on lease liabilities for the three months and six months periods ended 30 June 2020 amounted to SR 26 million and SR 53 million, respectively, were included in finance costs (for the three months and six months periods ended 30 June 2019 amounted to SR 40 million and SR 60 million, respectively). Total cash payments of lease liabilities for the three months and six months periods ended 30 June 2020 amounted to SR 163 million and SR 385 million, respectively (for the three months and six months periods ended 30 June 2019 amounted to SR 201 million and SR 377 million, respectively).

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17- OTHER NON-CURRENT LIABILITIES

	<u>30 June 2020</u>	<u>31 December 2019</u>
Deferred income (Government grants)	3,522,122	3,320,684
Financial liabilities	1,491,208	1,591,911
Other liabilities	54,716	188,022
	<u>5,068,046</u>	<u>5,100,617</u>

18- OTHER CURRENT LIABILITIES

	<u>30 June 2020</u>	<u>31 December 2019</u>
Financial liabilities	2,242,795	2,145,276
Other liabilities	1,729,886	1,534,601
Deferred income	2,731	21,259
	<u>3,975,412</u>	<u>3,701,136</u>

19- ZAKAT AND INCOME TAX LIABILITIES

The Group submitted all zakat returns until the end of 2018, 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) in accordance with the Ministerial Decree No.1005 dated 28/4/1428H.

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

The Group also received zakat assessment that includes differences related to zakat return for the year 2014 amounting to SR 518 million, and the Group has objected to it within the statutory deadline. The Group sees the merit of its legal position and believes it will not result in any material additional provisions.

The group also reached a final settlement with General Authority of Zakat and Tax (GAZT) in regards with the objection submitted on zakat assessment for the year 2018 by paying an amount of SR 62 million.

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20- FINANCIAL INSTRUMENTS

Fair value of financial instruments

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 (Note 11):

		30 June 2020		31 December 2019	
		<i>Fair value</i>			
		<i>measurement</i>	<i>Carrying</i>	<i>Carrying</i>	<i>Fair value</i>
	<i>hierarchy</i>	<i>amount</i>	<i>Fair value</i>	<i>amount</i>	<i>Fair value</i>
Financial assets					
Trade and other receivables	Level 3	25,794,388	25,794,388	21,372,368	21,372,368
Short term murabahas	Level 2	1,407,704	1,407,704	2,181,416	2,181,416
At fair value through profit or loss	Level 3	1,141,550	1,141,550	1,550,869	1,550,869
At amortised cost:					
Sukuk	Level 2	5,288,734	5,288,734	5,600,543	5,600,543
Loans to employees	Level 2	426,192	426,192	438,481	438,481
Others	Level 2	198,713	198,713	110,129	110,129
		34,257,281	34,257,281	31,253,806	31,253,806
Financial liabilities					
At amortised cost:					
Borrowings:					
Murabahas and Tawaruq – unsecured	Level 2	1,044,497	1,044,497	1,232,554	1,232,554
Sukuk – unsecured	Level 2	6,670,819	6,670,819	6,670,038	6,670,038
Murabahas – secured	Level 2	1,349,705	1,349,705	1,410,223	1,410,223
Other financial liabilities	Level 2	1,543,641	1,543,641	1,618,653	1,618,653
Dividends payable	Level 2	2,178,902	2,178,902	2,111,161	2,111,161
At fair value through profit or loss:					
derivative liabilities	Level 2	11,460	11,460	7,373	7,373
		12,799,024	12,799,024	13,050,002	13,050,002

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 comprehensive Settlement Agreement (Referred to as "Target Performance Indicators").
- (b) One of the Group's company has an agreement to invest in a fund aiming to improve the telecommunication and internet environment for USD 300 million (equivalent to SR 1,125 million) as at 30 June 2020 (31 December 2019: USD 300 million (equivalent to SR 1,125 million)).

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22- CONTINGENT LIABILITIES

- (a) The Group has outstanding letters of guarantee as at 30 June 2020 amounting to SR 4,229 million (31 December 2019: SR 4,514 million).
- (b) The Group has outstanding letters of credit as at 30 June 2020 amounting to SR 813 million (31 December 2019: SR 961 million).
- (c) On 21 March 2016, the Company received a letter from a key customer requesting a refund for paid balances amounted to SR 742 million related to construction of a fibre optic network. Based on the independent legal opinions obtained, the management believes that the customer's claim have no merit and therefore this claim has no material impact on the financial results of the Group.
- (d) The Group, in its ordinary course of business, is subject to proceedings, lawsuits and other claims. However, these matters are not expected to have any material impact on the Company's financial position or on the results of its operations as reflected in these condensed interim consolidated financial statements.
- (e) The Group has submitted an objection to the appeal committee with respect to GAZT withholding tax assessment on international operators' networks rentals outside Saudi Arabia for the years from 2004 to 2015 for an amount of SR 2.9 billion. The Group believes that Saudi tax regulations do not impose withholding tax on the rental of international operators' networks since the source of income did not occur inside the Kingdom, therefore this service should not be subject to withholding tax. Based on the opinions of tax specialists in this matter, the nature of the services and existing similar cases where the decision was in the favour of the companies in the telecom sector, the Group believes that this assessment will not result into any additional provisions.
- (f) During the first quarter 2020, the Group received a value added tax (VAT) assessment issued by the General Authority of Zakat and Tax (GAZT) for the year 2018 and January of 2019, for an amount to SR 99 million, other than fines. The Group will submit an objection on the aforementioned tax assessment due to the merit of its tax position, from its point of view. The Group also believes that the result of this objection will be on its favour with no additional provisions required as at 30 June 2020.
- (g) The agreement signed with government entities during the fourth quarter of 2018 includes detailed mechanisms relating to the performance indicators that the Company is required to achieve within three years starting from 2018. The Company has re-evaluated the related provisions in line with the expectations of the target performance indicators, which shall be reviewed periodically.

23- ACQUISITION OF A NEW SUBSIDIARY

On 29 January 2020, The Company signed a non-binding Memorandum of Understanding (MoU) with the Vodafone Global Group according to which the Company will acquire 55% of the shares of Vodafone Egypt with a value of approximately USD 2,392 million (equivalent to approximately SR 8,970 million). The final purchase consideration will be determined upon signing the final agreements.

Given the logistical challenges caused by the emerging of Coronavirus (COVID-19) pandemic and the need for more time to complete procedures related to the transaction, including due diligence, the two parties have agreed to extend the MoU for 90 days starting 13 April 2020. (see note 28)

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24- EMPLOYEE STOCK INCENTIVE PLAN

The Board of Directors have approved to purchase number of Company's shares with a maximum of 5.5 million shares and an amount not to exceed SR 300 million to allocate them within the Employee Stock Incentive Plan and raised its recommendation to the extraordinary general assembly (EGM) to be held on 20 April 2020 to approve the plan and to purchase the shares within (8) months from EGM's date of approval.

During the EGM meeting referred above, the plan was approved, taking into consideration that 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 custody.

25- DIVIDENDS

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

The dividends policy will remain subject to:

- 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 six months period ended 30 June 2020:

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

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

26- IMPACT OF CORONAVIRUS (COVID-19) OUTBREAK

A novel strain of coronavirus (COVID-19) was first identified at the end of December 2019, subsequently in March 2020 was declared as a pandemic by the World Health Organization (WHO). COVID-19 continues to spread throughout in nearly all regions around the world including the Kingdom of Saudi Arabia and resulted in travel restrictions and curfew in the cities, which resulted in a slowdown of economic and social activities and shutdowns of many sectors at global and local levels. At the end of the second quarter of 2020 the government of the Kingdom of Saudi Arabia has lifted the curfew completely and allowed the return of all economic and commercial activities, while observing the implementation of all preventive measures adopted for all activities, and commitment to social distancing. Also the suspension of Umrah and visit were continued, as well as the suspension of international flights.

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

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

As of the date of preparation of the interim condensed consolidated financial statements for the six months period ended 30 June 2020, the Group's operations and financial results have not incurred significant impact from the COVID-19 outbreak, taken 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 contains sources of uncertainty as it depends on many factors and future developments that cannot be reliably estimated.

The Group will continue to assess the nature and extent of the impact on its business and financial results.

27- APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

At its meeting held on 22 July 2020, the audit committee (delegated by the Company's Board of Directors) approved the interim condensed consolidated financial statements for the three and six months periods ended 30 June 2020.

28- SUBSEQUENT EVENTS

With reference to the the non-binding memorandum of understanding (MoU) with the Vodafone Group (Vodafone) in relation to the potential acquisition of Vodafone's 55% shareholding in Vodafone Egypt, (see note 23), and due to the logistical challenges caused by the COVID-19 pandemic, the parties need more time to complete the processes related to the transaction, including the due diligence and they have therefore agreed to extend the MoU for additional 60 days starting from 12 July 2020.

29- COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the classification used for the period ended 30 June 2020.