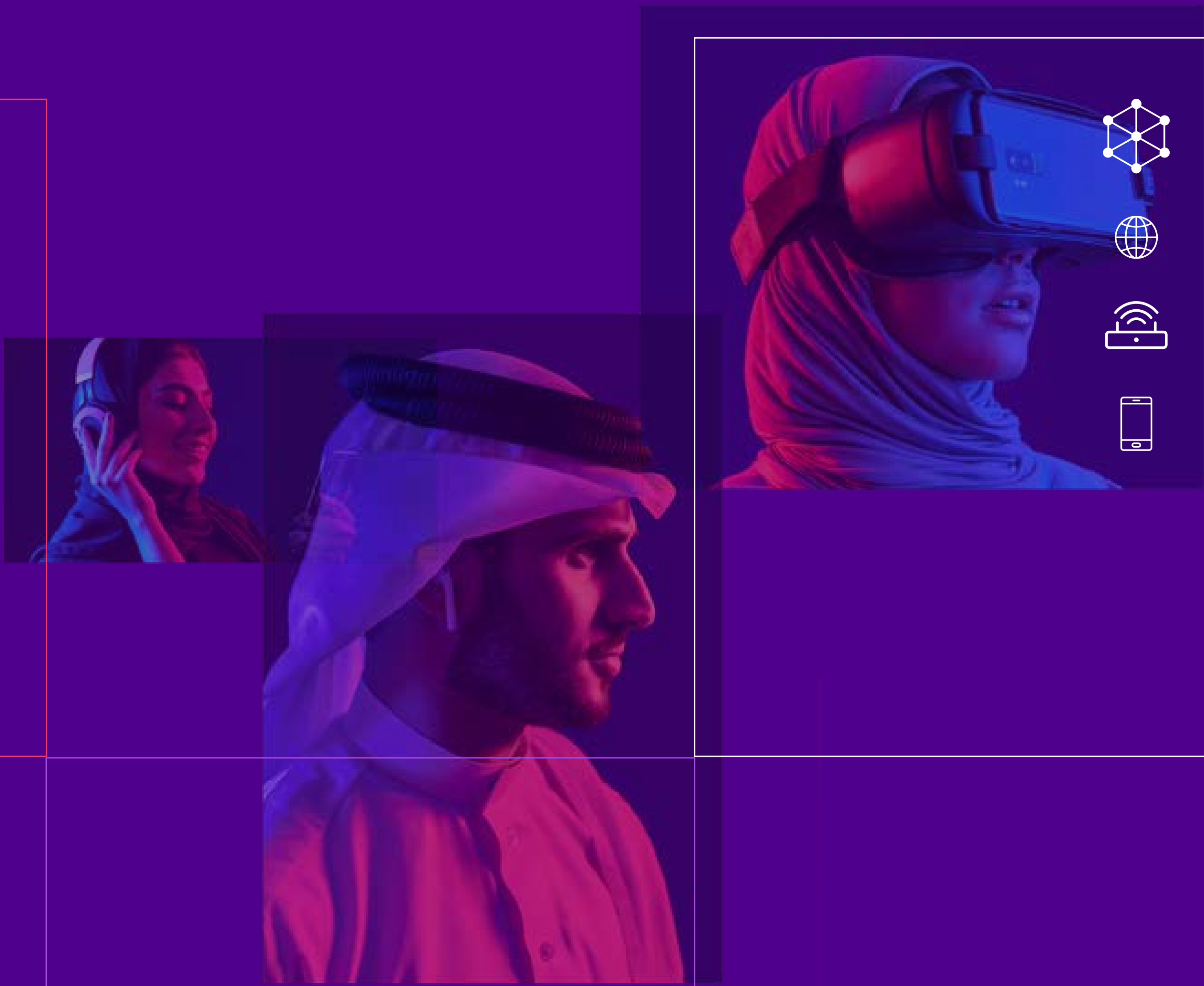
PUSHING THE BOUNDARIES TOWARD THE **FUTURE**

stc.com.sa



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about us

We are a forward-focused digital champion, always focused on innovation and evolution, and thinking ahead to stay ahead as a truly meaningful and purposeful organization.

We offer a variety of digital solutions and services in several categories including telecommunication, information technologies, financial technology, digital media, cybersecurity, and other advanced digital solutions, with that we are leading digital transformation nationally and regionally.

our vision

We are a world-class digital leader providing innovative services and platforms to our customers and enabling the digital transformation of the Middle East and North Africa (MENA) region.

our purpose

We create and bring greater dimension and richness to people's personal and professional lives.

our values

dynamism

How we become a company that is continuously looking to improve and adopt new and better ways of doing things, with a fresh and ingenious view.

Agile - Collaborative - Fresh

devotion

The desire to become a "customer-centric" company for our clients and our employees.

Caring – Committed - Trustworthy

drive

We are "restless", looking for the best possible solutions for our clients and our employee..

Proactive – Inventive - Inquisitive

in the name of allah, the most gracious, the most merciful

Dear stc shareholders,

Peace be upon you and Allah's mercy and blessings.

During 2019, stc made outstanding achievements that enabled it to move forward in terms of digital services that enrich the lives of our customers and employees. The Group plays a key role in enabling digital transformation in the Kingdom of Saudi Arabia in line with the Saudi Vision 2030 and the goals of stc's DARE strategy for new growth opportunities. On the financial level, consolidated revenues increased by 4.63% in 2019 compared to the same period of the previous year to reach SR 54,368 million, gross profit increased by 6.29% to reach SR 32,391 million, and operating profit increased by 1.92% to reach SR 12,480 million, and the net profit reached SR 10,665 million by the end of 2019.

In 2019, we culminated our strategy by launching the Group's new brand, in line with its leading position in the communications and information technology sector in the Kingdom. Today, stc is more than just a company, it's an integrated system of communications, information technology, and digital solutions. The new brand reflects the Group's dynamism as a leading digital enabler locally, regionally, and globally. It also aligns with the Group's progress in the field of digital transformation with digital payments, media, and entertainment, in line with the digital data revolution and accelerating changes in the communications and information technology sector.

The Group also maintained its commitment to empowering Saudi human resources, relying on qualified staff, appointing young Saudis in leadership positions, and empowering women to take on important leading positions. All these measures are aimed at improving the Group's performance, in line with its pivotal role in enabling digital transformation in the Kingdom for the government and private sectors in accordance with the Saudi Vision 2030.

As for global rankings, stc scored top positions from several international entities. For instance, stc ranked first in the MENA region according to Forbes Magazine, among the world's top 50 digital companies, and one of the world's top 10 largest communications companies in terms of market value. stc also obtained the 2019 Best Practices Award in the Business Intelligence, Visual Analytics, and Data Discovery category from TDWI, which is considered the premier source for in-depth education and research on all things data.

Additionally, stc took the lead in launching commercial 5G services in the Kingdom, Kuwait, and Bahrain, as the first operator in the region. stc strived to accelerate the deployment of the 5G network that offers a great technological transformation and an essential network for the applications of the future. This contributed to the development of the communications and information technology sector in the Kingdom and the improvement of the infrastructure in which stc invested to pave the way for a high-tech future.

Furthermore, stc won the 2,300MHz frequency band with a 15-year license starting from 1/1/2020. Obtaining these frequencies is an additional investment aimed at creating a significant increase in mobile network capacities, in order to meet the growing demand for services, increase internet speed and quality, and provide the best communications services. Thanks to its investments in infrastructure, stc obtained the award of the fastest mobile network in the Kingdom from Ookla, the broadband speed test company. stc also obtained the award of the highest mobile internet download speed in the Kingdom during Q3 2019, according to the Meqyas report issued by the Communications and Information Technology Commission (CITC).

To support tech startups with innovative solutions that contribute to increasing their added value, the Group signed a cooperation agreement with the Badir Technology Incubators and Accelerators Program. Therefore, stc offers its services to Small and Medium Enterprises (SMEs), starting from the establishment of an enterprise's infrastructure, to the provision of day-to-day technical services such as the phone and the Internet, and advanced services such as cloud computing, cybersecurity solutions, sales management, and the Internet of Things (IoT).

In 2019, stc also achieved great leaps locally and regionally. stc was the first operator in the region to activate DNSSEC for its main domain, and the first telecommunications company in the Middle East to obtain membership in the Social International Value Organization. The Group also became a member of NB-IoT and was selected by GSMA to represent Saudi Arabia in the Global Artificial Intelligence Challenge.

Given its role in local content promotion and localization, stc obtained membership in the Local Content Coordination Council. This council emanated from the Local Content Partnerships initiative, which was launched by the Local Content and Government Procurement Authority, as its first strategic initiative to establish a sustainable partnership with leading national companies and the private sector to develop local content. stc also concluded a joint cooperation agreement with the Saudi Industrial Development Fund (SIDF) to promote local and foreign investments, in order to increase local content and highlight product localization opportunities.

Finally, in recognition of the unlimited support provided by our wise leadership, I would like to take this opportunity to extend my sincere thanks and appreciation to the Custodian of the Two Holy Mosques, King Salman bin Abdul-Aziz, and to the Crown Prince HRH Prince Mohammed bin Salman. Their tremendous support of the communications and information technology sector in the Kingdom contributed to its development and growth, and to the improvement of its infrastructure in record time, thus helping achieve digital transformation in line with the goals of the Saudi Vision 2030. I would also like to thank the Ministry of Communications and Information Technology (MCIT) and the CITC for their contribution to developing the digital capabilities of the Kingdom and keeping pace with national requirements and global developments. Many thanks also to our esteemed shareholders for their trust and continuous support for the board, to our valued customers who are our success partners, and to my colleagues in the Group inside and outside the Kingdom for their hard work to ensure the continued success of the Group.

Peace be upon you and Allah's mercy and blessings.

Prince Mohammed bin Khalid Abdullah Al Faisal
Chairman of the Board of Directors

in the name of allah, the most gracious, the most merciful

Dear stc shareholders,

Peace be upon you and Allah's mercy and blessings.

2019 was a significant year in the history of the Group. stc made massive leaps rendering it a leading digital enabler for the public and private sectors both locally and regionally, thus contributing to one of the main goals of the Saudi Vision 2030. For instance, stc advanced the fields of big data, cloud computing, cybersecurity, the Internet of Things (IoT), and artificial intelligence. It also supported Saudi talents in technology and innovation. Additionally, stc increased financial results compared to the previous year, supported by increased revenues from the consumer and wholesale sectors and the subsidiaries of the Group.

2019 was also the year the Group launched its new unified commercial brand "stc" in Saudi Arabia, Kuwait, and Bahrain, to enhance its performance and its role as a leading digital enabler in the region, and highlight its role in enriching the lives of its customers by providing innovative communications services and products that enable the business sector to operate effectively and economically. The new brand marks the start of a new journey for stc, whose establishment in 1998 was a key event in the telecommunications and technology sector. Over the course of 21 years, stc proved to be one of the most important success stories of privatization and expansion in the Kingdom and the region.

To boost its financial standing and to demonstrate the success of its investment plans in the era of digital technologies and services, stc achieved great success with its investment in Careem, which was acquired by Uber for US $3.1 billion. The Group's share in Careem is around 8.8%, which amounts to US $274 million. The Group will also continue to support creative projects and ideas that keep up with the rapid changes in the industry and in the lifestyle of customers.

In the field of digital payments, stc pay achieved remarkable success in the Kingdom. A year after its launch, stc pay became one of the best financial services and money transfer tools in terms of quality and cost. stc pay offers its services in more than 30,000 points of sale in the Kingdom and deals with over 525,000 approved Western Union agents worldwide.

As part of its efforts to enrich the lifestyle of individuals and institutions, complete the digitization of the infrastructure, and address the challenges faced by the health sector, stc business concluded a strategic agreement with Philips to activate the Ministry of Health's Digital Initiatives project by providing Tele-ICU health care services.

As part of stc's initiatives to disseminate broadband services in the Kingdom, especially since it owns the largest, fastest, and most advanced fiber optic network in the region, the Group signed an agreement with Zain KSA to deliver fiber optic broadband services to homes. Under this agreement, Zain

KSA benefits from stc's infrastructure to deploy broadband services and offer integrated services in the communications and information technology sector and enable digital services in various regions of the Kingdom.

During 2019, stc culminated its collaborations with international partners to improve the system of 5G services and new technologies by launching the first commercial offer of 5G services in the Kingdom, Kuwait, and Bahrain.

As part of the Group's commitment to provide possible tools to support women at work, and its efforts to improve women's experience in business environments and increase their job satisfaction, stc launched the first board for women's empowerment to enhance their participation in the labor market. In this regard, stc is driven by its belief in the importance of investing in its employees and giving them the best opportunities to develop their skills and capacities, in line with the National Transformation Program, which aims to enable all segments of society to enter the labor market, improve its attractiveness, and increase the economic participation of Saudi women.

Furthermore, to emphasize the Group's leadership, its brand was among the top 50 most valuable Saudi brands in 2019 according to Brand Finance, with a value of US $7.095 billion and an increase of 6.7% compared to the previous year, which reflects the excellence of stc's brand. In addition, stc won seven awards at the Transform Awards MENA in Dubai for its branding.

With stc receiving many awards and certificates, we can call 2019 the year of the harvest. For instance, stc business received the world's top cloud computing services certification from VMware, which is a company specialized in providing cloud solutions and services, making stc the first Saudi company to be internationally certified and accredited as a cloud computing service provider. The Group also obtained the award of the fastest mobile network in the Kingdom from Ookla, the broadband speed test company. Additionally, stc obtained the award of the highest mobile internet download speed in the Kingdom in Q3 2019 from the Meqyas report issued by the CITC. Furthermore, the digital payment company, stc pay, obtained the gold award for the best visual identity in the financial services sector, in addition to the gold award for the best development of a new brand within a portfolio.

stcs, one of the Group's subsidiaries, ranked as the top provider of information technology services in the Kingdom according to a report issued by IDC, which specializes in market research. Additionally, stc obtained the 2019 Best Practices Award in the Business Intelligence, Visual Analytics, and Data Discovery category from TDWI, the premier source for in-depth education and research on all things data. mystc application received the App of the Year Golden Award at the Network PG's 2019 IT World Awards.

With steady steps and a clear vision, stc strives to achieve its sustainability strategy, as a leader in providing digital services and innovative platforms for its customers in the MENA region. Indeed, stc adopted the values of Dynamism, Devotion and Drive to further improve its business, through a new, smart, and innovative vision. stc also strives to work for the best of its customers and employees and provide them with the best solutions possible.

Moreover, the stc Group is keen to support innovation and entrepreneurship and promote initiative-taking among Saudi youth. In this regard, stc launched the "Future Solutions" platform to support young Saudi talent in the fields of technology and innovation, by investing and offering innovative technology solutions to create a suitable environment for local talent to contribute to making Saudi Arabia a strong competitor in the world of modern technology. stc also established the InspireU business incubator to support entrepreneurs in the communications and information technology sector. InspireU currently supports 28 projects, with a total investment amounting to US $80 million, which contributed to creating more than 160,000 job opportunities, including part-time jobs.

As part of the Group's achievements to serve pilgrims, it introduced 5G technologies for the first time during the Hajj season and it expanded the 4G network by 50% compared to the previous year. These expansions proved most effective at peak hours, which saw a huge surge in activity compared to the previous year.

stc plays a key role in enabling digital transformation, developing the communications and information technology sector in the Kingdom, and enriching the lives of its customers by providing innovative digital solutions and the latest wireless technologies to connect to the Internet with a faster data transmission, reception and download speeds. In this context, stc provided 5G services to the visitors of many events organized by the Kingdom, including the Future Investment Initiative (Davos in the Desert), Formula E races, and Saudi Seasons.

In conclusion, I would like to extend my gratitude to the Chairman of the Board of Directors, HRH Prince Mohammed bin Khalid Abdullah Al Faisal, the esteemed members of the board, and our valued shareholders for their confidence and support. I would also like to thank all the employees of stc Group for their outstanding hard work that helped stc grow and move forward. Thanks to all of you, stc strengthened its leading position locally, regionally, and globally by establishing a strong and developed digital infrastructure that contributes to accelerating the digital transformation process, and supports the Saudi Vision 2030 aimed at strengthening the role of the communications and information technology sector in building a digital society, a digital government, and a thriving digital economy.

Eng. Nasser Bin Sulaiman Al Nasser
Chief Executive Officer (CEO)

in the name of allah, the most gracious, the most merciful

stc (the 'Company') was established as a Saudi joint-stock company pursuant to Royal Decree No. M/35 dated 24th Dhul Hijjah 1418 AH (corresponding to April 21, 1998). The decree authorized 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, in accordance with the Council of Ministers' Resolution No. 213 dated 23rd Dhul Hijjah 1418 AH (corresponding to April 20, 1998), which approved the Company's Articles of Association (the 'Articles'). The Company was, at this point, wholly-owned by the Kingdom's Government (the "Government"). Pursuant to the Council of Ministers' Resolution No. 171 dated 2nd Rajab 1423 AH (September 9, 2002), the Government sold 30% of its shares.

The Company commenced its operations as the provider of telecommunications services in the Kingdom (the "Kingdom") on the 6th of Muharram 1419 AH (corresponding to May 2, 1998) and received Commercial Registration No. 1010150269 as a Saudi joint-stock company on the 4th of Rabi' al-awwal 1419 AH (corresponding to June 29, 1998). The Company's head office is located within the King Abdulaziz Communications Complex, Imam Mohammed Bin Saud Street, Al Mursalat Area, in Riyadh, the Kingdom of Saudi Arabia. The Company has made various investments in associate companies, subsidiaries, and joint ventures, collectively known in financial statements as the "Group". The details of these investments are as follows:

subsidiaries:

		Effective Shareholding Percentage	
Name of Subsidiary	**Country of incorporation**	**December 31, 2019**	**December 31, 2018**
Arabian Internet and Communications Services Company Limited (stc Solutions)	Kingdom of Saudi Arabia	100%	100%
Telecom Commercial Investment Company Limited (TCIC)	Kingdom of Saudi Arabia	100%	100%
stc Bahrain (Formerly: VIVA Bahrain)	Kingdom of Bahrain	100%	100%
Aqalat Company Limited (Aqalat)	Kingdom of Saudi Arabia	100%	100%
stc Specialized	Kingdom of Saudi Arabia	100%	100%
Sapphire Company Limited (Sapphire)	Kingdom of Saudi Arabia	100%	100%
stc Turkey Holdings Limited (stc Turkey)	British Virgin Islands	100%	100%
stc Asia Holdings Limited (stc Asia)	British Virgin Islands	100%	100%
stc Gulf Investment Holding S.P.C. (stc Gulf)	Kingdom of Bahrain	100%	100%
stc channels	Kingdom of Saudi Arabia	100%	100%
Kuwait Telecom Company (stc Kuwait) (Formerly: VIVA Kuwait)	Kuwait	51.8%	51.8%
Telecommunications Towers Co. Ltd. (TAWAL)	Kingdom of Saudi Arabia	100%	100%
Saudi Digital Payments Company Limited (stc pay)	Kingdom of Saudi Arabia	100%	-
Smart Zone Real Estate Company	Kingdom of Saudi Arabia	100%	-

associate companies:

Name of Associate Company	Country of incorporation	Proportion of Ownership Interest / Voting Rights December 31, 2019	December 31, 2018
Arab Satellite Communications Organization (Arabsat)	Kingdom of Saudi Arabia	36.66%	36.66%
Virgin Mobile Saudi Consortium (VMSC)	Kingdom of Saudi Arabia	10%	10%
Oger Telecom Limited (OTL)	United Arab Emirates	35%	35%

joint ventures:

Name of Joint Venture	Country of incorporation	Proportion of Ownership Interest / Voting Rights December 31, 2019	December 31, 2018
Arab Submarine Cables Company Limited	Kingdom of Saudi Arabia	50%	50%
Contact Center Company (CCC)	Kingdom of Saudi Arabia	49%	49%
Binariang GSM Holding (BGSM)	Malaysia	25%	25%

activities of the group:

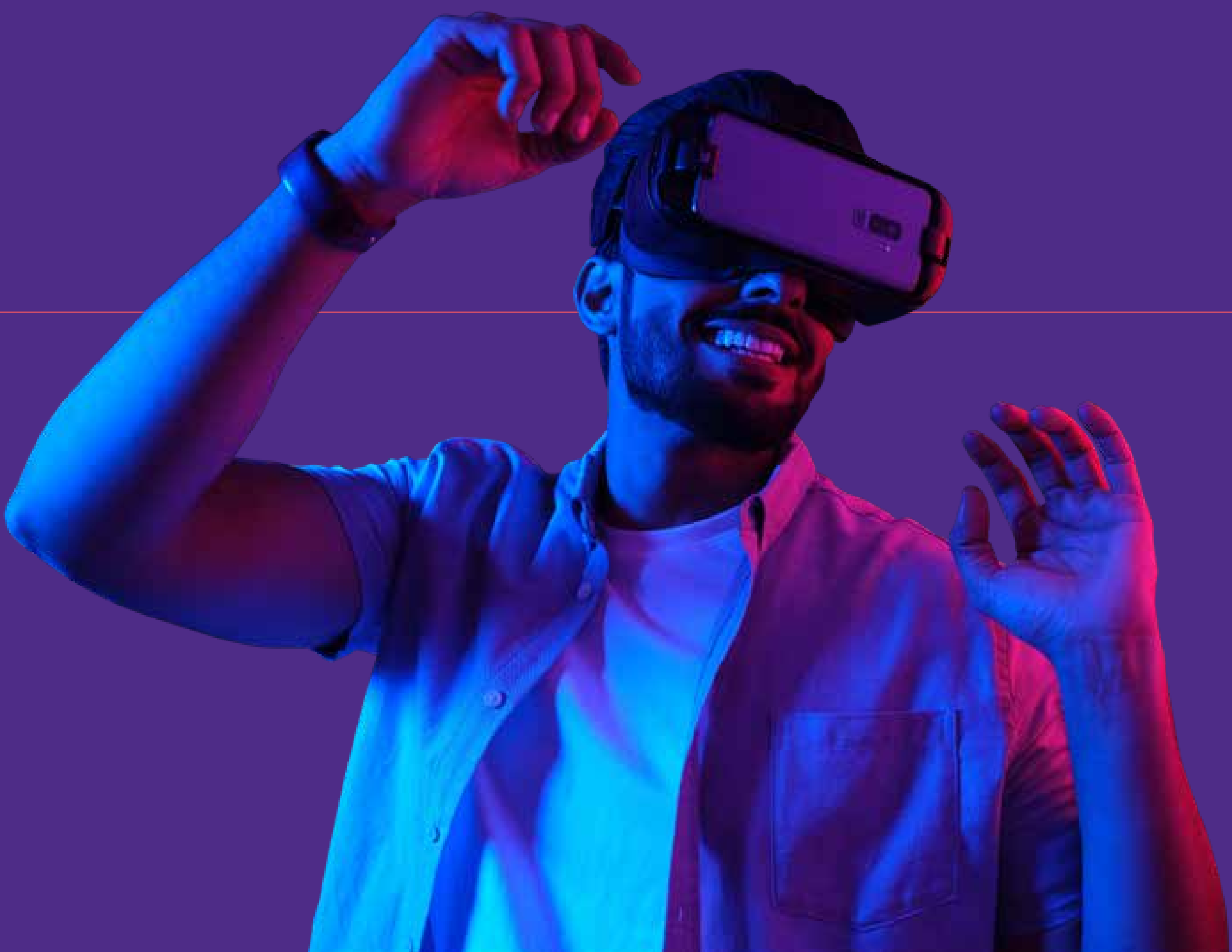
The main activities of the Company and its subsidiaries (referred to collectively as the "Group") are the provision of communications, information, media, and digital payment services which include, but are not limited to, the following:

1. Creating, managing, operating, and maintaining fixed and mobile communication networks, systems, and infrastructure.
2. Providing customers with various Communications and Information Technology services, as well as maintaining and managing them.
3. Preparing the plans and studies necessary for developing, implementing, and providing Communications and Information Technology services in all technical, financial and administrative aspects. Preparing and implementing training plans and consulting services in the Communications and Information Technology field.
4. Expanding and developing Communications and Information Technology networks, systems and infrastructures by using the latest devices and equipment in the field of communication technologies, especially in the area of providing and managing services, applications, and programs.
5. Providing information technology and comprehensive telecommunications services, including, but not limited, to the following: telecommunications, IT services, managed services, and cloud services.
6. Providing customers with information and information-based systems, as well as providing communication means to offer Internet services.
7. Wholesale and retail trade, importing, exporting, purchasing, owning, renting, manufacturing, marketing, selling, developing, designing, installing, and maintaining equipment and devices for the various telecommunications networks, including fixed, mobile and private networks, as well as computer software and other intellectual property.
8. Investing the Company's properties and the consequent actions such as selling, purchasing, leasing, managing, developing, and maintaining such real estate.
9. Obtaining loans and owning fixed and movable assets in order to achieve their objectives.
10. Providing financial and administrative support and other services to subsidiaries.
11. Providing development and training services, asset management, and other related services.
12. Providing decision support solutions, business intelligence, and data investment.
13. Providing supply chain services and other services.
14. Providing digital payment services.
15. Constructing, maintaining, and repairing telecommunication and radar stations and towers.

Furthermore, the Company may establish other Limited Liability or Closed Joint Stock companies and buy stocks and shares in other companies or merge with them. The Company also has the right to join other companies in establishing Joint Stock or Limited Liability companies or any other entities in the Kingdom or abroad.

The Company's Board of Directors is pleased to submit to the valued shareholders this annual report on the Group's performance, and its results for the fiscal year 2019, reflecting the continued development of the Group's performance in the various aspects of its activities. The report illustrates the Group's role in the promotion and development of the telecommunications sector in the Kingdom of Saudi Arabia so as to serve Saudi society, achieve national development plans, effectively contribute in strengthening the national economy, and achieve rewarding returns for its shareholders, in line with the objectives of National Transformation Program 2020 and Saudi Vision 2030.

first: performance and **activities in 2019**



a. operational performance

1. stc

In 2019, stc continued deploying the fiber optic network across the Kingdom to fulfill its commitment to achieving the digital initiatives outlined in Saudi Vision 2030, as part of the National Broadband (NBB) Network Initiative. The number of fiber-to-the-home (FTTH) service customers increased by 23% in 2019 compared to the previous year. By the end of 2019, the length of the optical fiber service cables was about 217,000 km. As a testimony of stc's commitment to maintaining its leading position, the Meqyas report issued by the CITC indicated that stc achieved the highest average mobile internet download speed in the Kingdom, reaching 45.4 Mbps. This achievement was possible thanks to stc's continuous investments in infrastructure. To continue the integration project for infrastructure development, stc launched 5G services in the Kingdom as the first operator to offer the service for commercial use and make it available to customers in a number of Saudi cities. Over 2,300 5G towers were installed during 2019. It is expected that 5G technology will play a major role in enabling digital transformation, as it will serve as an essential platform for future applications in areas such as the Internet of Things and artificial intelligence, which will enable the emergence of smart cities and facilities, support the cybersecurity infrastructure, and provide high-speed mobile internet in all the regions of the Kingdom. On another front, the Company launched the new unified brand "stc" for it and its subsidiaries in the Kingdom, Kuwait, and Bahrain, to keep up with the Group's progress in the field of digital transformation with digital payments, media, and entertainment, in line with the accelerating changes in the communications and information technology sector. The new brand helped enhance its value as one of the most valuable brands in the Middle East in 2019 according to the Brand Finance index, reaching SR 26.6 billion (US $7.1 billion). stc was also ranked among the world's top 50 digital companies and the first in the Middle East and North Africa in 2019 according to Forbes Magazine.

Furthermore, stc invested in supporting creative solutions and digital transformation. For instance, it developed digital payments, big data, cloud computing, cybersecurity, the Internet of Things, and artificial intelligence. Additionally, stc inaugurated the King Saud Medical City Infrastructure project. With the active participation of the Ministry of Health, stc managed to complete the implementation of managed services and cloud computing for the digital infrastructure of the King Saud Medical City, rendering it one of the most distinguished digital medical cities in the region. The Company, represented by stc Business, entered into a strategic agreement with Philips to activate the Ministry of Health's Digital Initiatives project by providing Tele-ICU health care services.

In cooperation with the Ministry of Health, the Company also launched telemedicine services that will contribute to providing the highest levels of remote medical care to patients regardless of their geographical location.

As an affirmation of stc's leading position as a provider of innovative digital solution services, stc Business recently obtained the cloud computing services certification by VMware, which is a company specialized in providing cloud solutions and services, making stc the first Saudi company to be internationally certified and accredited as a cloud computing service provider. The Company's wholesale business also achieved qualitative achievements, by meeting needs and providing international services to business units within the Company in terms of telephone and internet services, as well as to the Company's customers consisting of local, regional, and international operators, service providers, and the regional business sector.

2. local subsidiaries

- **Arabian Internet and Communications Services Co. Ltd (stc Solutions) - Kingdom of Saudi Arabia**

Arabian Internet and Communications Services Co. Ltd (stc Solutions) was established in Saudi Arabia in April 2002. The company is engaged in providing Internet services, operating communications projects, and the transfer and processing of data in the Saudi market. Its head office is located in Saudi Arabia and it operates in Saudi Arabia. In December 2007, stc acquired the entire share capital of the Arabian Internet and Communications Services Co. which had a capital of SR 100 million.

- **Telecom Commercial Investment Company Limited TCIC) - Kingdom of Saudi Arabia**

Telecom Commercial Investment Company (TCIC) was established in the Kingdom of Saudi Arabia in October 2007 with a capital of SR 1 million wholly-owned by stc. Its main activities comprise the operation and maintenance of telecommunications networks, business systems, and computer and Internet networks, as well as the operation, maintenance and installation of communications and information technology systems and software. Its head office is in Saudi Arabia and it operates in Saudi Arabia.

- **Aqalat Company Limited - Kingdom of Saudi Arabia**

Aqalat Company Limited was established in March 2013 in the Kingdom of Saudi Arabia with a capital of SR 70 million wholly-owned by stc. The company's operations include establishing, owning, investing, and managing real estate and contracting processes, as well as providing consultancy, importing, and exporting services to stc. Its head office is in Saudi Arabia and it operates in Saudi Arabia.

- **stc Specialized Co (stc Specialized) - Kingdom of Saudi Arabia**

stc Specialized Co was established in February 2002 in the Kingdom of Saudi Arabia. In January 2014, stc acquired 100% of the company's share capital of SR 252 million. The company works in the field of electrical and telecommunication networks, wholesale and retail in telecommunications and electrical devices, and the import, marketing, installation, and maintenance of licensed telecommunications and information technology. Its head office is in Saudi Arabia and it operates in Saudi Arabia.

- **Sapphire Company Limited (Sapphire) - Kingdom of Saudi Arabia**

Sapphire Company Limited (Sapphire) was established in the Kingdom of Saudi Arabia in June 2014 with a capital of SR 100 million wholly-owned by stc. The company works in the wholesale and retail of computers, computer systems, telecommunications, Internet equipment, advertising materials, spare parts, electrical appliances, automatic payment machines, point of sales (POS) equipment, telecommunications services, the establishment of call centers, and other services. Its head office is located in Saudi Arabia and it operates in Saudi Arabia. In November 2017, the Board of Directors decided to liquidate Sapphire and merge its business with stc starting from January 1, 2018. The legal procedures for the liquidation of the company are expected to complete during the year 2020.

- **stc channels - Kingdom of Saudi Arabia**

stc channels was established in January 2008 in the Kingdom of Saudi Arabia. The company works in wholesale and retail of smart card services, communications equipment, and computer services; selling and reselling of all fixed and mobile telecommunications services; and the maintenance and operation of commercial complexes. Its head office is located in Saudi Arabia where it operates, as well as in Bahrain and Oman through subsidiaries with the same activity. In December 2011, stc acquired a 60% stake in stc channels with a capital of SR 100 million. In January 2017, stc acquired the remaining shares for SR 400 million. This acquisition made stc channels 100% owned by stc.

- **Telecommunications Towers Co. Ltd. (TAWAL) - Kingdom of Saudi Arabia**

During Q1 2018, stc established Telecommunications Towers Company Limited (TAWAL), a limited liability company of which stc owns 100% of its SR 200 million capital. Its head office is located in Saudi Arabia where it operates. The company is responsible for owning, constructing, operating, leasing and commercially investing in the towers in the Kingdom. During Q1 2019, Telecommunications Towers Company obtained the necessary operational licenses from the CITC. During Q4 2019, the Company increased the capital of Telecommunications Towers Company Limited by SR 2,300 million, thus making its total capital SR 2,500 million.

- **Saudi Digital Payments Company (stc pay) - Kingdom of Saudi Arabia**

During Q4 2017, stc Solutions established the Saudi Digital Payments Company Limited (stc pay) in the Kingdom of Saudi Arabia with a capital of SR 100 million. stc pay's main activity is providing digital payment services. During Q3 2019, the ownership of stc pay was transferred from stc Solutions to stc. This transfer did not have any financial impact on the Group.During Q4 2019, stc increased the capital of stc pay by SR 300 million, thus making its total capital SR 400 million. In January 2020, the Saudi Arabian Monetary Agency (SAMA) licensed stc pay as a digital wallet company. The head office of stc pay is located in Saudi Arabia where it operates.

- **Smart Zone Real Estate Company - Kingdom of Saudi Arabia**

During Q4 2019, stc established a special purpose subsidiary called the Smart Zone Real Estate Company in the Kingdom of Saudi Arabia with a capital of about SR 107 million. The company's main activity is to develop, finance, and manage real estate projects; and establish residential, commercial, and office facilities, complexes, and buildings. The head office of the Smart Zone Real Estate Company is located in Saudi Arabia where it operates.

3. international subsidiaries

- **stc Bahrain (Formerly: VIVA Bahrain) - Kingdom of Bahrain**

stc Bahrain was established in February 2009 in the Kingdom of Bahrain with a capital of BD 75 million equivalent to SR 746 million at the exchange rate as of that date. stc Bahrain offers mobile, international telecommunications, broadband, and other related services to the Bahraini market. Commercial operations commenced on March 3, 2010. Its head office is located in Bahrain where it operates.During Q1 2018, stc Bahrain acquired Mena Telecom (Ltd) in the Kingdom of Bahrain (as a subsidiary) whose main activity is the provision of Internet services and which operates in the Kingdom of Bahrain.

- **stc Turkey Holdings Limited (stc Turkey)**

stc Turkey, a limited liability company, was incorporated under the Commercial Companies Law in the British Virgin Islands on 8 April 2007, and it offers services and support to the Group's investment activities.

In April 2008, stc Turkey acquired 35% of the Dubai-based Oger Telecom's share capital of US $3.6 billion, equivalent to SR 13.5 billion at the exchange rate of that date.

During 2016, due to continuing losses and the depletion of the Group's entire investment balance in Oger Telecom, the Group ceased to recognize its share of additional losses in Oger Telecom Ltd. (For more details, see Note 21-1 in the annual financial statements).

- **stc Asia Holdings Ltd (stc Asia)**

stc Asia is a limited liability company that was incorporated under the Commercial Companies Law in the British Virgin Islands on July 24, 2007, and which offers services and support to the Group's investment activities. stc Asia invests in companies operating in Malaysia. It also owns investments in stc Malaysia Holdings Ltd (stc Malaysia, a subsidiary wholly-owned by stc Asia), which was incorporated under the Commercial Companies Law in the British Virgin Islands, and which provides the necessary services and support to the Group's investment activities. stc Malaysia Holdings Ltd owns a 25% stake in the Binariang GSM Holding Group headquartered in Malaysia (For more details, see Note 21-2 in the annual financial statements).

- **stc Gulf Investment Holding S.P.C. (stc Gulf) - Kingdom of Bahrain**

stc Gulf was established in the Kingdom of Bahrain on March 12, 2008. It is a private company that wholly owns many subsidiaries in the Kingdom of Bahrain as indicated below. The main goal of this company and its subsidiaries is to provide the necessary services and support to the Group's investment activities.

a. stc Gulf Investment Holding 1 (S.P.C)
b. stc Gulf Investment Holding 2 (S.P.C)
c. stc Gulf Investment Holding 3 (S.P.C)

stc Gulf Investment Holding 3 (S.P.C) and stc Gulf Investment Holding 2 (S.P.C) have a 100% stake in Integral Holding Company (2018: 100%) Integral Holding Company was incorporated in the Kingdom of Bahrain in June 2009 with a capital of BD 28 million, equivalent to SR 281 million at the exchange rate of that date. Integral Holding Company owns stakes in companies operating in the field of content and digital media services in the GCC. In 2018, the Company increased the capital of Integral Holding Company to BD 101 million, equivalent to SR 1,008 million at the exchange rate of December 31, 2018.

- **Kuwait Telecommunication Company (stc Kuwait) (Formerly: VIVA Kuwait) - Kuwait**

In December 2007, stc acquired 26% of the capital of Kuwait Telecommunication Company (stc Kuwait) which amounted to KD 50 million, equivalent to SR 687 million at the exchange rate of that date. Kuwait Telecommunication Company (stc Kuwait) is headquartered in Kuwait where it operates in the field of mobile phone services in the Kuwaiti market. It started its commercial operations on December 4, 2008. It was listed as a joint-stock company in the Kuwait Stock Exchange on December 14, 2014.

In November 2015, the Company offered an option to buy shares of Kuwait Telecommunication Company (stc Kuwait) which it did not own, amounting to 74% of the issued shares of Kuwait Telecommunication Company (stc Kuwait). The offer was made by the Company to the shareholders of Kuwait Telecommunication Company (stc Kuwait) for one Kuwaiti Dinar per share (equivalent to SR 12.37 at the exchange rate of that date). The offer ended on January 31, 2016. A total of 128,860,518 shares accepted this offer, representing 25.8% of the total issued shares. As a result, stc owned 51.8% of the total issued shares of Kuwait Telecommunication Company (stc Kuwait).

In 2018, Kuwait Telecommunication Company entered into a binding contract to acquire 100% of the total issued shares of Qualitynet General Trading & Contracting Company W.L.L (QualityNet), which operates in Kuwait in the field of providing Internet services. On May 6, 2019, Kuwait Telecommunication Company completed the acquisition procedures of Qualitynet, and the net value of the acquired assets amounted to KD 23.96 million (equivalent to SR 296.6 million). The consideration value amounted to KD 29.41 million (equivalent to SR 364.1 million). This acquisition resulted in KD 5.45 million (equivalent to SR 67.5 million) recognized as goodwill, based on the latest reports regarding the distribution of the fair value of the net assets acquired. The cash balance from the purchased company amounted to KD 10.61 million (equivalent to SR 131.35 million). Therefore, the net cash flows resulting from the merger amounted to KD 18.79 million (equivalent to SR 232.66 million).

No debt instruments in the form of Sukuk or bonds were issued for the above-mentioned companies except for the following:

- **Saudi Telecom Company (stc)**

During Q2 2014, stc approved a Sukuk program worth a maximum total of SR 5 billion. The first tranche was issued, and below is its information as of December 31, 2018:

Issuance	Issuance date	Issuance category	Total value of issuance	Interest rate	Due date
National stc Sukuk	June 2014	SR 1 million	SR 2 Billion	3-month SAIBOR + 0.7%	June 2024
International stc Sukuk	May 2019	US $200,000	SR 4.670 Billion	3.89%	May 2029

4. investments

a. Investments registered under Under the Equity Method

Investments in Joint Ventures

- **Arab Submarine Cables Company Limited - Kingdom of Saudi Arabia**

Arab Submarine Cables Company Limited was established in September 2002 for the purpose of creating, leasing, managing, and operating a submarine cable connecting Saudi Arabia and the Republic of Sudan to enable communication between them and other countries.

The operational activities of the company started in June 2003. In September 2002, stc acquired 50% of the Arab Submarine Cables Company Limited with a capital of SR 75 million. In November 2016, the company's capital was reduced to SR 25 million. Its head office is located in Saudi Arabia where it operates.

- **Contact Center Company (CCC) - Kingdom of Saudi Arabia**

Call Centers Company (CCC) was created with Aegis at the end of December 2010 to provide call center and directory services in Saudi Arabia, with a capital of SR 4.5 million, of which the Company owns 50%. During Q4 2015, the Company sold 1% of its stake in the Call Centers Company to the other partners in accordance with the terms of the Partners Agreement. The Company's share thus became 49%. The Call Centers Company is located in Saudi Arabia where it operates.

- **Binariang GSM Holding (BGSM) - Malaysia**

Binariang GSM Group is a holding investment group headquartered in Malaysia, with investments through which it operates. It holds 62% of the Malaysian Maxis Holdings Group (Maxis), which operates in Malaysia's mobile communications sector. Binariang GSM Group also had other investments in India (Aircel), which was terminated in 2018. In September 2007, stc acquired 25% of the Binariang Group (through its subsidiaries stc Asia Holdings and stc Malaysia Holdings) which had a capital of MYR 20.7 billion, equivalent to SR 23 billion at the exchange rate at that date. During 2013, the Group reviewed its external investment in the Binariang GSM Holding Group (joint venture), including its management method and determined the effectiveness of the investment. Accordingly, the amended agreement was signed with the other partners in the Binariang Group with respect to its operational rights in the Aircel Group (a subsidiary of the Binariang Group). Accordingly, the Group ceased to process its investment in the Aircel Group in a proprietary level starting from Q2 2013.

Investments in Associate Companies

- **Arab Satellite Communications Organization (Arabsat) - Kingdom of Saudi Arabia**

The Arab Satellite Communications Organization (Arabsat) was established by the Member States of the League of Arab States in April 1976. Its head office is located in the Kingdom of Saudi Arabia. Arabsat provides a number of services to these member states as well as to all official and private sectors within its scope of coverage, mainly in the Middle East. Services currently provided include regional telephone services (voice, data transmission, fax, and telex), television, regional radio, service restoration services, and capacity rentals on an annual or monthly basis. In April 1999, stc acquired a 36.66% stake in the Arab Satellite Communications Organization (Arabsat) which had a capital of US $ 500 million, equivalent to about SR 1.875 million at the exchange rate at that date.

- **Virgin Mobile Saudi Consortium (VMSC) - Kingdom of Saudi Arabia**

Virgin Mobile Saudi Consortium was established in 2013 to provide virtual mobile network operator services, and it started working in 2014. stc holds a 10% stake in VMSC's capital. The Group has the ability to exercise significant influence on important transactions between VMSC and stc due to the reliance of VMSC on stc's technical network. VMSC's head office is located in Saudi Arabia where it operates.

On the 4th of Jumada al-awwal, 1440 AH, corresponding to January 10, 2019, the Board of Directors approved the purchase of an additional 39% stake in VMSC with an amount of SR 151 million. Since the legal and regulatory procedures were not completed in 2019, stc decided not to complete the acquisition procedures for the additional stake, thus keeping the Company's share in VMSC at 10% as of December 31, 2019.

- **Oger Telecom Limited - United Arab Emirates**

Oger Telecom Limited is a holding company registered in Dubai, United Arab Emirates. In April 2008, stc acquired (through its subsidiary, stc Turkey Holdings) 35% of Oger Telecom's capital of US $ 3.6 billion, equivalent to SR 13.5 billion at the exchange rate at that date. On January 1, 2016, the entire balance of the Group's investment in Oger Telecom was depleted. Therefore, the Group ceased to recognize its share of additional losses. Oger Telecom faced financial difficulties in settling current loan receivables and its ability to comply with financial commitments agreed upon with the lenders. During 2018, Oger Telecom completed the necessary procedures to liquidate its major subsidiaries and restructure its investments in Turkey and South Africa to meet commitments with the lenders. During 2019, the liquidation procedures of OTAS (a subsidiary of Oger Telecom in Turkey) started. The liquidation of Oger Telecom is expected to start in the foreseeable future after the completion of the liquidation of OTAS.

b. Other Investments

- **stc Venture Capital Fund (stc Ventures)**

The Venture Capital Fund is a fund that invests in emerging small and medium-sized companies operating in the fields of telecommunications and information technology in the Saudi market and other international markets. On December 31, 2019, the investment units owned by the fund were valued at SR 724 million (December 31, 2018: SR 614 million).

- **Saudi Technology Ventures (ST Ventures)**

This venture capital fund invests internationally in high-growth, private, pioneering technology companies with a total value of US $500 million (equivalent to SR 1.875 million), financed through five equal tranches. The value of each tranche is US $100 million (equivalent to SR 375 million). During 2018, the first and second tranches worth a total amount of US $200 million (SR 750 million) were paid. On December 31, 2019, the investment units owned by the fund were valued at SR 846 million (December 31, 2018: SR 781 million).

Investments in the Sukuk Issued by the Ministry of Finance

The Group invested in the Sukuk issued by the Ministry of Finance during Q1 2019 as follows:

Item (Thousands of Riyals)	First Tranche	Second Tranche
Nominal Investment Value	1,762,000	2,140,000
Investment Duration	5 years	10 years
Annual Rate of Return	3.17%	3.9%
Due Date Investment Value	1,771,755	2,227,188

Investment in the Sukuk Issued by Binariang GSM Holding (BGSM)

On December 31, 2007, stc Asia Holdings Ltd (a subsidiary) invested in the Sukuk issued by Binariang GSM Holding (BGSM) for a value of MYR 1,508 million (equivalent to SR 1,383 million) for a period of 50 years (callable after 10 years), with an annual profit margin of 10.75% until December 28, 2017, and a profit margin of 9.25% for subsequent periods. These Sukuk are not past due or impaired. Their book value was SR 1,587 million as of December 31, 2019 (December 31, 2018: SR 1,490 million).

b. financial performance of the group

- Net profits for the year 2019 amounted to SR 10,665 million compared to SR 10,780 million for the year 2018, a decrease of 1.07%. Earnings per share for 2019 amounted to SR 5.33 compared to SR 5.39 for 2018. Gross profit for 2019 amounted to SR 32,391 million compared to SR 30,473 million for 2018, an increase of approximately 6.29%. Operating profit for 2019 amounted to SR 12,480 million compared to SR 12,245 million for 2018, an increase of 1.92%.
- Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) for 2019 amounted to SR 21,265 million compared to SR 19,836 million for 2018, an increase of 7.21%.
- Total assets amounted to SR 118,326 million at the end of 2019 compared to SR 109,371 million at the end of 2018, an increase of 8.19%
- Commitments amounted to SR 55,271 million at the end of 2019 compared to SR 42,709 million at the end of 2018, an increase of 29.41%.
- The Group's shareholders' equity amounted to SR 61,763 million at the end of 2019, compared to SR 65,514 million at the end of 2018, a decrease of 5.73%.

- **The Financial Impact of the Core Activities at the Group's Level**

The Group's main activity is the provision of telecommunication services and related goods. The majority of the Group's revenues, assets, and income related to its operations in the Kingdom (stc and stc channels). The Group operates outside the Kingdom through its subsidiaries, associate companies, and joint ventures in multiple countries.

Revenue is allocated to the operating sector based on the entity that submitted the revenue report. Intersectoral sales are calculated at normal business transaction rates.

The sectors that were independently disclosed exceeded 75% of the total revenues. Therefore, the rest of the operating sectors were grouped under "other operating sectors".

The following is an analysis of the Group's revenues and results on a sector basis for the year ended December 31:

Item (thousands of riyals)	2019	2018
Revenues (1)		
stc	40,259,106	39,356,283
stc channels	17,409,802	16,882,726
Other operating sectors (2)	12,628,185	9,502,560
Exclusions/Adjustments	(15,929,562)	(13,778,326)
Total revenues	54,367,531	51,963,243
Cost of operations (excluding depreciation and amortization)	(33,102,551)	(32,127,488)
Depreciation and amortization	(8,784,587)	(7,590,530)
Cost of early retirement program	(600,000)	(450,000)
Financing income	639,161	551,535
Financing costs	(765,154)	(395,440)
Other net income (expenses)	(76,062)	102,943
Share in the results of investments in the net income of associate companies and joint ventures	49,597	(10,605)
Other losses	(40,960)	(215,493)
Zakat and income tax	(762,144)	(747,667)
Net profit	10,924,831	11,080,498
Net profit attributable to:		
Company shareholders	10,664,666	10,779,771
Non-controlling interests	260,165	300,727

The following is an analysis of the total profit on a sector basis for the year ended December 31:

Item (Thousands of Riyals)	2019	2018
stc	26,299,935	25,408,542
stc channels	1,418,463	1,314,706
Other operating sectors (2)	4,910,725	3,795,174
Exclusions/Adjustments	(237,898)	(45,340)
Total profit	32,391,225	30,473,082

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

Item (Thousands of Riyals)	December 31, 2019	December 31, 2018
Assets		
stc	125,104,941	116,882,397
stc channels	4,560,238	3,333,662
Other operating sectors (2)	34,355,695	19,539,165
Exclusions/Adjustments	(45,694,618)	(30,384,630)
Total assets	118,326,256	109,370,594
Liabilities		
stc	49,484,795	38,998,013
stc channels	3,122,999	2,068,819
Other operating sectors (2)	22,438,203	10,512,261
Exclusions/Adjustments	(19,774,787)	(8,870,097)
Total liabilities	55,271,210	42,708,996

The following are the additions to non-current assets on a sector basis for the year ended December 31:

Additions to non-current assets

Item (Thousands of Riyals)	2019	2018
stc	9,109,544	11,373,307
stc channels	116,352	56,427
Other operating sectors (2)	2,412,991	1,118,474
Total	11,638,887	12,548,208

(1) Revenue from the above-mentioned sectors represent revenues generated from external and internal clients. Inter-sector sales and adjustments (between the Group's companies) for the year ended December 31, 2019, amounted to SR 15,930 million (December 31, 2018: SR 13,778 million) which were eliminated upon consolidation.

(2) The "other" sector includes stc Kuwait, stc Bahrain, stc Solutions, stc Specialized, stc Gulf, Sapphire, Aqalat, Telecommunications Towers Company, and stc pay.

For the purpose of monitoring the performance of the sectors, assets/ liabilities are allocated to the sectors and no assets and liabilities are used across sectors.

Summary of the Group's assets, liabilities, and results for the past five fiscal years:

Application of standards	Prepared in accordance with Saudi Accounting Standards	Prepared in accordance with International Financial Reporting Standards (IFRS), and other approved standards and versions in the Kingdom of Saudi Arabia*			
Statement (Millions of Riyals)	**2015 Consolidated Revised**	**2016 Consolidated Revised**	**2017 Consolidated Adjusted**	**2018** Consolidated Adjusted**	**2019 Consolidated Revised**
Income list:					
Activity revenues	50,651	52,674	50,661	51,963	**54,367**
Costs of activity revenues	(20,306)	(23,986)	(22,106)	(21,490)	**(21,976)**
Total profit of the activity	30,345	28,688	28,555	30,473	**32,391**
Operating expenses	(18,486)	(18,737)	(17,569)	(18,228)	**(19,911)**
Profit from operating activity	11,859	9,951	10,986	12,245	**12,480**
Other revenues and expenses - net	(1,373)	(74)	3	(417)	**(793)**
Zakat, taxes, and non-controlling interests	(1,228)	(978)	(973)	(1,048)	**(1,022)**
Net profit attributable to the Company's shareholders	9,258	8,899	10,016	10,780	**10,665**
Other comprehensive income					
Net profit including non-controlling interests		9,126	10,269	11,080	**10,925**
Total items that will not be reclassified subsequently to the consolidated statement of profit or loss	-	(64)	(27)	127	**(710)**
Total items that will be reclassified subsequently to the consolidated statement of profit or loss	-	141	(24)	(257)	**212**
Total (comprehensive loss) / other comprehensive income	-	77	(51)	(130)	**(498)**
Total comprehensive income	-	9,203	10,218	10,950	**10,427**
Total comprehensive income attributable to the Company's shareholders		8,980	9,958	10,651	**10,164**
Total comprehensive income attributable to non-controlling interests		223	260	299	**263**
Statement of Financial Position:					
Current assets (A)	36,989	40,834	44,436	46,030	**44,841**
Current liabilities (B)	22,714	30,055	33,639	29,457	**33,190**
Working capital (A-B)	14,275	10,779	10,797	16,573	**11,651**
Current assets	36,989	40,834	44,436	46,030	**44,841**
Fixed and intangible assets	45,271	46,667	47,115	51,481	**54,992**
Other non-current assets	14,401	15,157	16,931	11,860	**18,493**
Total assets	96,661	102,658	108,482	109,371	**118,326**
Current liabilities	22,714	30,055	33,639	29,457	**33,190**
Long term loans	3,744	4,017	4,006	3,965	**8,923**
Other non-current liabilities	8,241	6,644	7,036	9,287	**13,158**
Total liabilities	34,699	40,716	44,681	42,709	**55,271**
Paid Capital	20,000	20,000	20,000	20,000	**20,000**
Reserves, retained earnings and exchange differences	40,541	40,687	42,862	45,514	**41,763**
Equity attributable to shareholders of the Company	60,541	60,687	62,862	65,514	**61,763**
Non-controlling interests	1,421	1,255	939	1,148	**1,292**
Total equity	61,962	61,942	63,801	66,662	**63,055**
Total liabilities and equity	96,661	102,658	108,482	109,371	**118,326**
Cash flow statement:					
Net operating cash flow	20,716	18,375	15,916	19,132	**9,921**
Net investment cash flow	(11,737)	(7,728)	(7,006)	(5,027)	**(1,977)**
Net financing cash flow	(9,942)	(11,511)	(9,980)	(8,517)	**(8,068)**
Net cash flow	(963)	(864)	(1,070)	5,588	**(124)**
Cash and cash equivalents at the beginning of the year	5,467	4,488	3,631	2,567	**8,154**
Impact of foreign currency exchange differences	-	7	6	(1)	**1**
Cash and cash equivalents at the end of the year	4,504	3,631	2,567	8,154	**8,031**

*The Group prepared its consolidated financial statements for the years 2019, 2018, 2017, and 2016 in accordance with the IFRS adopted in the Kingdom of Saudi Arabia and other standards and publications approved by the Saudi Organization for Certified Public Accountants (SOCPA).
**Certain comparative figures for the year ended December 31, 2018, were reclassified to conform with the classification used in the financial statements for the year ended December 31, 2019.

Geographical analysis of standard service revenues at the Group's level:

During the year 2019, the Group achieved total revenues of SR 54,367 million. Foreign investments at the Group's level accounted for 8% of this total. The following table shows their geographical distribution:

Revenues of the Kingdom of Saudi Arabia - Local (Millions of Riyals)	Other revenues - non-local (Millions of Riyals)	Total
stc, Arabian Internet and Communications Services Co. Ltd (stc Solutions), Telecom Commercial Investment Company Limited (TCIC), stc channels, stc Specialized, Aqalat Company Limited (Aqalat), Sapphire Company Limited, stc pay, Telecommunications Towers Company Limited (TAWAL), and Smart Zone Real Estate Company.	stc Bahrain (formerly: VIVA Bahrain), stc Gulf Investment Holding (stc Gulf), stc Turkey Holdings Limited (stc Turkey), stc Asia Holdings Limited (stc Asia), and stc Kuwait (formerly: VIVA Kuwait)	
49,970	**4,397**	**54,367**

As for the local distribution of revenues, there is no geographical analysis of the revenues of the Company at the local level, due to the nature of the sector's work. Revenues generated by customers are not linked to one area, as accounts can be created in an area, while the calls customers are invoiced for occur in different areas depending on their location in the Kingdom. As for international calls and international roaming conducted by customers, they cannot be linked to any area because they occur outside the geographical boundaries of the Kingdom of Saudi Arabia.

Highlights of the Group's operating results in 2019 compared to 2018:

Statement (Millions of Riyals)	2019 Consolidated	2018 Consolidated (adjusted)	Difference	%
Income list:				
Revenues	**54,367**	51,963	2,404	4.63%
Cost of revenues	**(21,976)**	(21,490)	(486)	2.26%
Total profit	**32,391**	30,473	1,918	6.29%
Total operating expenses	**(19,911)**	(18,228)	(1,683)	9.23%
Operating Profit	**12,480**	12,245	235	1.92%
Other income and expenses	**(793)**	(417)	(376)	90.17%
Zakat and income tax	**(762)**	(748)	(14)	1.87%
Net Income	**10,925**	11,080	(155)	(1.40%)
Net income attributable to the Company's shareholders	**10,665**	10,780	(115)	(1.07%)
Net income attributable to non-controlling interests	**260**	300	(40)	(13.33%)

The decrease in the net profit of the year 2019 by SR 115 million compared to the previous year is mainly due to the following reasons:

1) The increase in the cost of revenues by SR 486 million.
2) The increase of depreciation and amortization expenses by SR 1,194 million. This increase is due to the Company's continued investment in the infrastructure for 5G technology and fiber optic; the Company's large investments in programs and systems related to cloud computing services, managed services, and information security programs; the impact of the application of the IFRS 16 starting from January 1, 2019.

3) The other total income (expenses) amounting to SR 793 million compared to SR 417 million for the previous year, mainly due to the increase in financing costs by US $370 million. This increase is due to the Company's issuance of international Sukuk with the amount of US $1,250 million, in addition to the reclassification of part of the leasing contract expenses as part of the financing costs following the implementation of IFRS 16 starting from January 1, 2019.
4) As a result of applying IFRS 16 as of January 1, 2019, EBITDA for the current period was positively affected by an amount of SR 756 million.

The Group's loans are as follows:

Statement (Millions of Riyals)	2019 Consolidated	2018 Consolidated
Short term Murabaha	327	321
Long term Murabaha	2,253	1,965
Total Murabaha	2,580	2,286
Sukuk	6,670	2,000
Tawarruq	62	-
Total	9,312	4,286

Sukuk details are as follows:

stc has adopted a Sukuk program worth a maximum total value of SR 5 billion. The first tranche was issued and its details as of December 31, 2019, are as follows:

Issuance	Issuance date	Issuance category	Total value of issuance	Interest rate	Due date
National Sukuk	June 2014	SR 1 million	SR 2 Billion	3-month SAIBOR + 0.7%	June 2024
International Sukuk	May 2019	US $ 200,000	SR 4.670 Billion	3.89%	May 2029

Murabaha details are as follows:

All amounts in SR Million								Paid during the year		Outstanding Balance			
Company	Granting Authority	Type of Financing	Term of Financing	Date of Obtaining Financing	Currency	Value of Financing	Amount Used	2019	2018	Current portion		Non-current portion	
										2019	2018	2019	2018
Saudi Telecom Company (stc) - Kingdom of Saudi Arabia	Samba Bank	Murabaha	10 years	April 2008	SR (Saudi Riyal)	1,000	1,000	0	55	0	0	0	0
	Riyadh Bank	Murabaha	10 years	April 2008	SR (Saudi Riyal)	3,500	3,500	0	194	0	0	0	0
	National Commercial Bank	Murabaha	10 years	April 2008	SR (Saudi Riyal)	5,000	5,000	0	278	0	0	0	0
	Debt Instruments Market	Sukuk	10 years	January 2014	SR (Saudi Riyal)	2,000	2,000	0	0	0	0	2,000	2,000
	Debt Instruments Market	Sukuk	10 years	May 2019	US Dollar	4,670	4,670	0	0			4,670	0
Total						**16,170**	**16,170**	**0**	**527**	**0**	**0**	**6,670**	**2,000**
Subsidiaries	Local and International Banks	Murabaha, Tawarruq, and Credit Facilities	From 1 to 10 years	Since 2011	Various	4,333	953	6	117	389	92	2,253	596
Total Group's Murabahas or Loans						**20,503**	**17,123**	**6**	**644**	**389**	**320**	**8,923**	**3,965**

- Some of the above-mentioned Murabahas are guaranteed with bond orders and letters of credit.
- The current and non-current portions of Murabaha include approximately SR 54 million against the mortgaging of fixed assets.

The following is a statement on the due regulatory amounts paid by the Company along with brief descriptions and reasons.

Statement	SR Million	Description	Reason
Government Fees	866	The amounts paid or carried forward to the period for licensing granted to the Company for the provision of commercial services and spectrum usage fees	Regulatory requirement
Dividends	4,707	The amounts paid or carried forward as dividends to governmental and semi-governmental authorities (Public Investment Fund, Public Pension Agency (PPA), and General Organization for Social Insurance)	Regulatory requirement
Social insurance	623	The amounts paid or carried forward to the period pursuant to the provisions of the Kingdom's Labor Law.	Regulatory requirement
Zakat, withholding tax, and others	803	The amounts paid or carried forward to the period pursuant to the zakat provisions and rules, income tax law, and fees payment laws applicable in the Kingdom.	Regulatory requirement
Total amounts due and paid to governmental and semi-governmental authorities	6,999	This represents the due regulatory amounts paid to the Government	

Punishments, Penalties, and Precautionary Attachments

The committee examining violations to the Telecommunications Act made in the CITC and the Tender Board issued a number of edicts against stc. In line with its responsibility to protect shareholders' equity in accordance with the rights granted to it by law, the Company appealed those decisions with lawsuits.

The reasons behind the edicts issued against the Company varied according to the type of claim attributed to it. Some were related to the issuance of prepaid SIM cards, while others were about the alleged non-routing of international calls through the network of another operator, the rejection of number transfer requests, the provision of offers unapproved by the CITC, the use of unlicensed frequencies, or failure to implement CITC's guidelines regarding customer complaints within the deadlines.

The Company filed 1,306 cases by the end of the fiscal year 2019 worth a total of SR 919 million. The details of the status of these cases are as follows:

- 878 cases valued at SR 293 million ended against the Company by the end of fiscal year 2019.
- 336 cases valued at SR 553 million ended in favor of the Company by the end of the fiscal year 2019.
- The number of cases that are still being negotiated before the Board of Grievances by the end of the fiscal year 2019 stood at 92 cases valued at SR 74 million, including 26 cases for which preliminary judgments were issued in favor of the Company at a total amount of SR 31 million.

Corporate Risk Management

Strategic and Operational Risks:

The telecommunications sector is facing rapid developments in the technical, legislative, economic, and other fields, which leads to renewed upside and downside risks. This requires enterprises to look ahead, be reactive and flexible, and examine risks in a comprehensive manner. The Group has developed the necessary policies, frameworks, and procedures, based on internationally accepted risk management standards in order to tap into opportunities, face challenges, reduce the impact of negative risks, invest in positive opportunities, enhance the Group's reputation, preserve shareholders' rights, and provide the best services to its customers. These policies also help identify potential risks in advance, and subsequently analyze and measure them, set plans to face them, and submit quarterly reports to the Board of Directors and the Audit Committee. The Group also collaborates with government entities, including the MCIT, the CITC, the National Risk Unit, the National Cybersecurity Authority, and other relevant entities, to prepare reports containing the necessary recommendations and submits them to the Executive Committee of Risks and the Audit Committee.

This year, the Group developed an index to measure the performance of risk management as part of the capacity of each vice president and launched a mandatory training aimed at raising awareness and competence in risk management at all levels. Risks are then monitored by risk management representatives in each sector.

The table below summarizes the major strategic and operational risks identified after the implementation of the risk management procedure, in accordance with the International Risk Management Standard ISO_31000, and some of the control plans. Financial risks are presented in the financial performance section of this report.

Risk

Cyber-attacks:
Cyber-attacks on vital sectors, including the communications and information technology sector, are more likely to occur in light of regional and international developments. Such attacks may lead to the disruption of communications and information technology services and data hacking.

Business continuity and disaster containment:
The continuity and availability of services in line with international standards is a primary goal that stc seeks to achieve, by providing an integrated environment, plans, and programs that can face any emergency that might lead to the cessation of all or some of the Group's services.

Regulatory Developments:
The regulatory environment in the Group's work environment is constantly changing and directly affecting its business. With there being several legislative authorities, the Group faces new challenges and opportunities. These should be dealt with and complied with in a manner that maintains the Group's gains and the interests of the stakeholders.

Supply Chain Disturbances:
The Group deals with a large number of service providers. This mitigates the risk of depending on one provider to carry out major works in the Group.

Risk Control Plans
The Group is continuously strengthening its cybersecurity unit, by developing internal regulations and policies, increasing security procedures, raising awareness, and testing the efficiency of information security plans.

The Group is in the process of completing a disaster containment program, which targets the most important infrastructure systems and applications. The Group launched a number of additional projects to enhance disaster containment systems, in order to ensure the continuity of business and services while taking into account different possibilities. The emergency response team supervises major contingency plans and conducts virtual experiments on a regular basis.

The Group continuously studies regulatory legislation, coordinates with related sectors inside and outside the Group, and applies the best standards to ensure the provision of the best services to its customers with the aim of achieving the goals of national plans. The Group also adopted a new administrative organization for the regulatory affairs sector to contribute to enhancing the Group's capabilities in the regulatory field.

The Group diversifies its supply chains to avoid relying on a limited number of suppliers while ensuring in its contracts that systems are consistent despite having different suppliers. Furthermore, the Group periodically reviews the status of the companies it contracts with to ensure their solvency, their operational efficiency to meet the requirements of the Group and technical developments, and the safety of their business plans.

Financial Risks:

- **Credit Risk Management**

The Group adopts policies and guidelines that allow dealing only with other parties with high credit ratings and limit each party's exposure to risk. The Group's policies and guidelines permit investment only in other parties with a good credit rating issued by global credit rating agencies and limit each party's exposure to risk, providing that the exposure does not exceed 30% of the equity of the other party's partners. The Group's credit risks are monitored on a quarterly basis. Excluding the credit risk concentration mentioned in Note 11 of the consolidated annual financial statements, the risk concentration related to commercial debtors is limited because the Group has a large number of unrelated customers. The terms of payment and credit limits are set in accordance with telecommunications sector standards.

The financial status of commercial debtors is continuously assessed. Management believes that there is no need to create a credit risk provision in excess of the current provision for impairment of these assets (see Note 11 of the consolidated annual financial statements).

Additionally, the Group is exposed to credit risk on financial guarantees provided with respect to financing arrangements for certain subsidiaries. The Group's maximum exposure to these risks is the higher amount that the

Group may have to pay when the guarantee is due. There is no indication that the Group will incur any losses related to its financial guarantees as of the reporting date of the consolidated financial statements.

■ Foreign Currency Risk Management

The Saudi Riyal is the functional currency of the Group, with a fixed exchange rate against the US Dollar. Therefore, the Group is exposed to exchange rate fluctuations only from transactions in foreign currencies other than the US Dollar. This makes the foreign currency fluctuation risk low at the Group's level.

■ Liquidity Risk Management

The Group established a comprehensive liquidity risk management framework to meet the Group's short, medium, and long-term funding and liquidity requirements under the approved guidelines.

The Group ensures the availability of liquidity by maintaining cash reserves, short-term investments, and committed undrawn credit facilities with high credit rated local and international banks. The Group determines its liquidity requirements by continuously monitoring short and long term cash forecasts in comparison to actual cash flows.Liquidity is reviewed regularly for the Group and stress tests are carried out using various assumptions relating to capital expenditure, dividend distribution, trade receivable collections, and loan repayment without refinancing.

The following table indicates the remaining contractual maturities of the Group's financial liabilities and the agreed payment periods. The table is based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group is required to make the payment.

December 31, 2019 (SR Thousand)	Undiscounted cash flows			
	Book Value	1 year or less	More than 1 year to 5 years	More than 5 years
Trade and other payables (Note 32)	9,007,687	9,007,687	-	-
Loans (Note 25)	9,312,815	401,967	2,918,857	6,053,423
Dividends payable (Note 30)	2,111,161	2,111,161	-	-
Lease contracts liabilities (Note 29)	2,881,177	1,532,798	1,689,324	483,919
Other financial liabilities (Note 30)	1,618,653	221,347	885,386	1,068,815
Derivative liabilities (Note 30)	7,373	5,523	1,243	607
	24,938,866	13,280,483	5,494,810	7,606,764
December 31, 2018 (SR Thousand)				
Trade and other payables (Note 32)	4,082,329	4,082,329	-	-
Loans (Note 25)	4,286,012	323,196	2,020,001	2,000,000
Dividends payable (Note 30)	81,927	81,927	-	-
Other financial liabilities (Note 30)	1,528,923	221,347	885,386	1,290,161
Derivative liabilities (Note 30)	6,140	4,451	1,689	-
	9,985,331	4,713,250	2,907,076	3,290,161

The Group has unused financing facilities amounting to SR 4,611 million as of December 31, 2019 (2018: SR 1,072 million). The Group expects to meet its obligations from operating cash flows, cash and cash equivalents, and proceeds of maturing financial assets. In accordance with the terms of the agreements with the operators, commercial debtors and creditors are set off in connection with the charges for calls and roaming, and the net amounts due are paid. Accordingly, the amounts related to them are shown in the net in the consolidated statement of financial position.

The following table presents the recognized financial instruments that are offset or are subject to enforceable master netting agreements and other similar agreements as of:

December 31, 2019 (SR Thousand)	Gross amounts	Amounts set off	Net amounts
Financial assets Trade and other receivables	**26,131,053**	**(4,758,685)**	**21,372,368**
Financial liabilities Trade and other payables	**23,453,097**	**(4,758,685)**	**18,694,412**
December 31, 2018 (SR Thousand)			
Financial assets Trade and other receivables	17,052,530	(2,559,381)	14,493,149
Financial liabilities Trade and other payables	16,652,288	(2,559,381)	14,092,907

Changes in liabilities arising from financial activities are as follows:

Item (Thousands of Riyals)	January 1, 2019	Cash flowsa	Non-cash changes	December 31, 2019
Short term loans	**320,533**	**(242,147)**	**310,953** (1)	**389,339**
Lease contract liabilities - current portion	**1,471,935**	**(712,467)**	**540,774** (2)	**1,300,242**
Long term loans	**3,965,479**	**5,272,616**	**(314,619)**	**8,923,476**
Total	**5,757,947**	**4,318,002**	**537,108**	**10,613,057**
Item (Thousands of Riyals)	January 1, 2018	Cash flows	Non-cash changes	December 31, 2018
Short term loans	647,763	(460,840)	133,610 (1)	320,533
Long term loans	4,005,980	-	(40,501) (1)	3,965,479
Total	4,653,743	(460,840)	93,109	4,286,012

1. Mainly includes reclassification from non-current to current.
2. Mainly includes new lease contracts.

- **Profit Rate Risks**

The Group's main risks related to profitability from loans and financial assets arise from changing interest rates. Some of the Group's companies manage profit rate risks through Profit Rate Swap contracts.

No changes were made to the Group's exposure to profit risks or the method under which such risks are managed and measured. The impact below was analyzed based on exposure to profit rates for non-derivative financial instruments at the end of the financial year. The impact analysis refers to the impact of the change in the profit rate prevailing in the market on profit or loss. As for floating rate assets and liabilities, this analysis was based on the assumption that the amounts outstanding at the end of the year are available throughout the year. An increase or decrease by 20 basis points represents the management's assessment of possible and reasonable changes in the profit rate. If profit rates are higher (lower) by 20 basis points and the rest of the variables are held constant, the Group's profit will decrease (increase) by SR 18 million (2018: SR 4.5 million). This possible impact on the Group's profit arises primarily from the potential impact of financial liabilities at a variable rate of profit.

- **Fair Value of Financial Instruments**

The Group uses assessment techniques that are appropriate to current circumstances and provide sufficient data to measure fair value. For financial reporting purposes, fair value measurements are classified under level 1, 2, or 3 based on whether such inputs to fair value measurements are observable, and the importance of these inputs in measuring fair value in a comprehensive manner (for more details, see Note 42-2 in the annual financial statements).

- **Capital Management**

The Group manages its capital to ensure:

- Its ability to survive pursuant to the continuity principle.
- Its ability to finance its working capital and strategic investments requirement efficiently.
- Its ability to provide a long-term dividend distribution policy that ensures the stability of dividend payments.
- Maximized returns for shareholders.
- Maintaining an appropriate combination of debt and equity.

The Group reviews its capital structure in light of strategic investment decisions and economic environment changes, and it evaluates the impact of such changes on capital cost and capital risk. The Group is not subject to any external requirements pertaining to its capital structure. The Group did not introduce any amendments to the capital management objectives and procedures during the year ended December 31, 2019.

The Group reviews the capital structure annually to assess capital costs and risks. The Group aims to achieve the following ratios:

1. Debt to Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) ratio equal to 200% or less.
2. Debt to debt plus equity ratio equal to 50% or less.
(For more details, see Note 42-1 in the annual financial statements)

Transactions with Related Parties

Commercial Transactions and Balances with Related Entities (Associate Companies and Joint Ventures)

During the year, the Group's commercial transactions with related entities for the year ended December 31 were as follows:

Statement (SR Thousand)	2019	2018
Provided telecommunication services	**430,682**	503,008
Received telecommunication services	**29,050**	17,188

Sales and purchases transactions with related entities are carried out in accordance with normal terms of business. Outstanding balances are unsecured and commission-free. No guarantees on the due amounts were provided to or received from related parties.

The following is a statement on the outstanding balances at the end of the fiscal year:

Statement (SR Thousand)	Amounts due from related entities		Amounts due to related entities	
	December 31, 2019	December 31, 2018	**December 31, 2019**	December 31, 2018
Associate companies	**292,020**	338,652	**38,910**	23,184
Joint ventures	**12,215**	5,444	**168,173**	112,801
	304,235	344,096	**207,083**	135,985

Commercial Transactions with Related Entities (Government Authorities and Government-related Authorities)

For the year ended December 31, 2019, revenues from transactions conducted with government authorities and government-related authorities were SR 6,873 million (December 31, 2018: SR 6,335 million). Expenses related to the transactions conducted with the government authorities and government-related authorities (including government fees) for the year ended December 31, 2019, were SR 2,748 million (December 31, 2018: SR 3,214 million).

It is worth noting that according to the Council of Ministers' Decision No. (196) dated Rabie Al-Awal 4, 1440 AH. corresponding to December 11, 2018, the percentage of the financial return paid to the State in consideration of the telecommunication services provided commercially in the Kingdom was amended to become a consolidated ratio of 10% per annum of the net telecommunications revenue as of January 1, 2018, in lieu of the previous percentages which were 15% of the net revenue from mobile services, 10% of the net revenue from landline services, and 8% of the net revenue from data services. In addition, the Company's service licenses were merged into one consolidated license.

The total receivables balance with government authorities on December 31, 2019, stood at SR 18,508 million (December 31, 2018: SR 12,343 million). (For more details, see Note 11-2 in the annual financial statements). The total accounts payable balance with government authorities on December 31, 2019, stood at SR 953 million (December 31, 2018: SR 3,706 million). As part of the commercial transactions with government authorities, the Group invested SR 3,902 million in the Sukuk issued by the Ministry of Finance during Q1 2019 (For more details, see Note 17-2 in the annual financial statements).

- **Loans to Related Entities**

Statement (SR Thousand)	December 31, 2019	December 31, 2018
Loans to the Group's Senior Executive Personnel	**5,358**	2,360

- **Interests of Related Parties (Directors and Executive Management)**

The Company did not conduct any business or conclude any contracts in which there was a substantial interest owned by the Directors, the CEO, the Chief Financial Officer (CFO) or any other related person.

- **Contribution to National Income**

stc's total contribution to national GDP from 2000 to the end of 2019 amounted to more than SR 180 billion. This amount represents government fees paid to the Kingdom and the Kingdom's share of the annual profits.

c. strategic directions

stc's vision is to be a leading digital services provider regionally, thus enabling a diverse and digital economy in the Kingdom and the MENA region. stc's DARE strategy is a plan to achieve this vision by focusing on the following pillars:

D - Digitize stc
A - Accelerate core asset performance
R - Reinvent customer experience at world-class standards
E - Expand aggressively scale and scope

In 2019, stc continued its leading role in diversifying the Kingdom's economy and other regional economies by enabling digitization and providing innovative digital products and services for individuals, companies, and governments. During the last two years, since the launch of the DARE strategy, stc was keen to provide the best services to its customers and develop human and technological capabilities and processes. As a result, stc achieved remarkable results in financial performance and key strategic outcomes. stc is one of the best-performing telecommunications companies worldwide in terms of profit margin and return on investment. Additionally, stc was ranked as one of the 10 best telecommunications companies worldwide in terms of market value. This was a testament to the trust that investors place in the Company's performance, capabilities, and potential for growth. stc's new brand enhances its ability to enable digital economies in the MENA region in line with its values of dynamism, devotion, and drive.

One of the core drivers of the DARE strategy is ensuring diverse and innovative digital services, away from the traditional telecommunication services.

Therefore, the Company's management focused on providing digital services to customers and ensuring internal digital transformation in the Company. stc's strategies in the field of financial technology (stc pay) and digital media (Jawwy TV) garnered remarkable performance and demand from customers. Furthermore, internal digitization efforts led to major improvements in the efficiency and time needed to launch services and implement campaigns, helped increase data-based analysis, and boosted the use of the mystc application for individuals and the MyBusiness application for businesses (customer service and digital sales applications). stc also invested in upgrading its infrastructure in 2019. The Company also fulfilled its national commitments in terms of coverage and speed in fixed and mobile broadband technologies, as part of the National Broadband Plan, in addition to launching and expanding 5G services.

d. human resources

In 2019, human resources activities focused on strategic initiatives and projects aimed at making major improvements to the stc's business and contributing to increasing its focus on both customers and employees. The Human Resources Department created a human resources strategy that supports and complements stc's strategy, with a focus on digitizing processes regulating human resources activities and introducing a range of best practices in leading companies. The department implemented a number of programs, the most notable of which are presented below.

- Restructuring the Human Resources Department
- Increasing the Saudization Rate and Women's Empowerment

In line with Saudi Vision 2030 and the Company's strategy, employment plans were put in place for the fiscal year 2019 to inject new impetus into the Company in an effort to increase the Saudization rate on the one hand, and support the employment of young national staff on the other hand. These efforts resulted in the following outcomes:

- Injecting new impetus into the Company by employing over 570 Saudi citizens, 379 of which were fresh graduates in 2019.
- Increasing the Saudization rate in the Company from 90.43% at the end of 2018 to 90.8% at the end of 2019.
- Maintaining the average age of employees at the Company at 40.7 at the end of 2019, as it was at the end of 2018. The average age is expected to decrease in the foreseeable future.
- Empowering women through a 42% increase in the employment of women compared to last year. Over 233 women were employed in 2019, compared to 317 at the end of 2018.
- Empowering women by appointing them in leadership positions. The Company has 21 women in leadership positions. In 2019, 18 women were appointed in supervisory positions, with two directors-general, three department directors, and 13 unit managers.
- Increasing the Saudization rate by 10% for contract employees as part of the outputs of the project aimed at improving the quality of contractors. The Saudization rate increased from 51% at the end of 2018 to 61% at the end of 2019.

- **Early Retirement Program**

The Company continued implementing the early retirement program from which 586 employees benefited in 2019, which helped improve the Company's efficiency by reducing surplus labor, thus increasing its net profit, reducing its long-term expenses, and reducing the average age of its employees.

- **Human Resources Policies**

The Human Resources Department conducted a comprehensive review of the current policies regulating and governing human resources activities at the Company, taking into consideration the interest of both the employees and the Company. The department identified improvement areas to regulate the relationship between the Company and its employees, in an effort to build an enabling work environment, namely in the following areas:

  - Updating and approving the Strategic Human Resources Policy.
  - Updating and approving the Education and Development Policy.
  - Updating and approving the Payroll Management Policy.
  - Updating the approving the Employees Performance Management Policy.
  - Updating and approving the Allowances Policy.
  - Updating and approving the Job Assignment Policy.
  - Updating and approving the Internal Recruitment Policy (Nafes).
  - Updating and approving the Car Loan Policy.
  - Updating and approving the Code of Conduct.
  - Updating and approving the violations and penalties table.

- Redesigning the organizational structure of the Consumer Unit.
- Scaling up the organizational level of the General Department of Regulatory Affairs to the Regulatory Affairs Department.
- Creating the Legal Affairs Department.
- Redesigning the organizational structure of the Business Unit.
- Creating the Corporate Affairs Unit.
- Restructuring the Strategy Unit.
- Structuring the Information Security Unit.
- Reviewing certain employee benefits in line with the Company's strategy.

- **Quality and Adopted International Specifications**

The Company has always strived for the learning and development methodology and processes to be in accordance with the latest methods and highest international quality standards adopted in the learning and development fields. The Company's efforts were culminated by obtaining the following international quality certificates:

  - ISO 9001:2015 quality management systems
  - ISO 10667-2 Assessment service delivery
  - ISO 29993 learning services outside formal education
  - ISO 40180 information technology

Learning and Development Achievements in Numbers in 2019:

- Training 10,755 employees in 2019.
- Reaching a total of 13,132 trainees in online and interactive English language training programs, administrative training programs, and specialized training programs.
- Offering 156,4.31 online training hours in 2019.
- Organizing 1.048 training events, including several specialized technical programs, administrative programs, and specialized international certificates.
- Sending 831 employees to external training.
- Organizing workshops and seminars for 2,339 participants.
- Training 379 employees through the TIP program.

Succession Planning

Succession planning is a crucial and proactive process that gives a competitive advantage, as the Company ensures that a number of leaders are ready to undertake executive positions to improve readiness for approved substitutes. Succession planning has helped increase the percentage of internal recruitment for leadership positions to 84% in 2019. Furthermore, rotation in leadership positions reached 29%.

Housing Loans Program

The Company pays great attention to human resources. Therefore, given the importance of homeownership for family stability and its positive impact on employee productivity and talent retention, the Company helped around 1,218 employees become homeowners this year through its housing loans program, thus supporting the Kingdom's efforts to increase the number of Saudi homeowners, which is one of the most important objectives of Saudi Vision 2030.

Car Loans

The Company lends its Saudi employees appointed in unit manager positions and above, and their equivalents, a specific amount of money to purchase cars. A total of 509 employees benefited from this program.

Contribution to Children's Education

In line with the Company's commitment to provide the best working environment and ensure employee stability, the Company contributes to covering education fees for children of employees holding supervisory positions. Over 3,000 students benefited from this program.

Financial Support Programs for Employees

The Company has four programs (grants program, Qard Hassan program, marriage allowance, and a support program for families of deceased employees). These programs were designed to help employees facing financial burdens by offering them soft loans or non-refundable financial subsidies in accordance with each program's terms. 2,580 employees benefited from the Company's various support programs.

- **Special Medical Conditions Fund**

This Fund benefits employees and their families in some special conditions that are not covered by the medical insurance policy. Around 630 people benefited from this Fund for rehabilitation programs, advanced dental treatment for children, vision correction surgeries, infertility treatment, and prosthetics.

- **Education Allowances for Persons with Special Needs**

Education allowances were provided for around 358 children with special needs.

- **Development and Improvement of the Sales Commission Program (Testahel)**

    - Through practice and application on the ground, improvement and development areas were identified for the Testahel commission program, which consists of subprograms in lieu of the previous program to achieve the Company's objectives:
    - The Testahel sales commission program aims to incentivize sales staff, raise their productivity, and increase customer satisfaction, with the ultimate goal of improving the Company's profits and revenues.
    - During the year, 766 employees benefited from this program.
    - Incentives worth a total of SR 81.6 million were paid to sales employees through the Testahel sales commission program during the year.

- **stc Academy Partners**

stc Academy currently has strategic partnerships with several internal and external entities, including but not limited to the following: The Center for Creative Leadership, Udacity, MiSK Foundation, and Google. Upcoming partnerships are expected with Harvard University, MIT, and Imperial College London.

- **Programs Since the Launch of stc Academy**

Name of the Program	Provider	Number of Participants
Cybersecurity Program	Security Encore Company	20 participants
Several data analysis and artificial intelligence programs	Udacity Program	200 participants
Artificial Intelligence Competition (AIDEA)	Microsoft	50 participants
Digital Marketing Program	Google	240 participants
Several courses in data analysis and programming	Udacity program in cooperation with MiSK	1,200 participants
Dream Making Initiative	Ministry of Labor and Social Development	600 participants
CyberCraft Camp for High School Students	stc Academy	56 participants
Stc digitization programs (including the Academy's digital leadership programs)	stc Academy	3,774 participants

e. corporate social responsibility

As the leading national company in the communications and information technology sector in the Kingdom and the main enabler of digital transformation, stc continues its social responsibility achievements, while enhancing growth in new unconventional tracks to enrich community life.

The transformation journey includes all the Company's business and the improvement of its performance in cooperation with all relevant parties in an effort to stay abreast of global trends. The Company thus identifies opportunities, mitigates risks, and introduces the desirable change in order to develop and increase its ability to adjust to the evolving business environment. stc adopted the United Nations Sustainable Development Goals and conducted an assessment of the goals it can contribute to achieving. Next, stc linked those goals with its sustainability approach. Thanks to its firmly grounded culture of social responsibility since its establishment, stc always supports social responsibility projects and programs. stc's partnership with King Khalid Foundation in 2018 helped advance stc's sustainability to further and more innovative dimensions in 2019. As a result, stc maximized and sustained the impact of social responsibility programs, and managed to measure non-financial performance, while tapping into the Foundation's rich and diverse relations with non-profit entities in the Kingdom. The sustainability strategy was based on four pillars:

1. Increasing access and connectivity through technology.
2. Investing in workforce development and wellbeing.
3. Adopting responsible and accountable business practices.
4. Developing innovative digital solutions for the future.

During this past eventful year, and in line with its commitment to sustainability leadership and partnership and relationship activation at the regional and international levels, stc joined a number of leading international sustainability and social responsibility organizations specialized in impact measurement. For instance, stc joined Social Value International, an organization headquartered in Britain and accredited by the British Cabinet. Social Value International has members from 45 countries, and it specializes in measurement criteria for Social Return on Investment (SROI), with the goal of measuring the social, environmental, and economic impacts of projects. stc's journey during the year was culminated by joining the Global Reporting Initiative (GRI), a leading international independent organization specializing in sustainability reporting since 1997, and which helps businesses understand the impact of their operations on sustainability issues such as climate change, human rights, governance, and social well-being. stc is the first telecommunications company in the region to become a member of such international organizations. The Company also joined the recently established Supply Chain and Procurement Society, a non-profit society developing the supply chain and procurement sector in the Kingdom, providing value-added and sustainable services to support the local content, localizing knowledge and technology for the benefit of national personnel, building strategic relationships with local and international partners to adopt a governance system and build an effective corporate communication system with government and private entities, and activating cooperation and integration with such entities.With these steps, the Company is adding an unprecedented achievement to its proven track record.

Below are the major social responsibility projects and programs undertaken by the Group in 2019.

Strategic Projects:

Empowering Women in the field of Communications and Information Technology

As the Group believes in the important role of Saudi women in national development, it designed and planned this project. Launched in 2018 in line with the Company's sustainability strategy, this project aims to empower women, boost their presence in specialized fields in communications and technology, and build a digital society that effectively contributes to realizing comprehensive development. As part of the "Aqdimi stc" initiative, a session was held to discuss the "difficult conversations" in the work environment, the challenges that working women face in the labor market, and solutions to enhance women's role and empowerment in the Communications and Information Technology field. The Company also participated as a platinum sponsor in the "Forum of Women in the communications and information technology sector" organized by the MCIT at its headquarters in Riyadh and attended by more than 400 women interested in the technology field. The forum aimed to educate Saudi women in the technology field and motivate them to gain knowledge and experience. stc announced the creation of the first board to empower women and promote their participation in the labor market, chaired by the Group's CEO. The board is an internal reference for all matters related to the Company's female employees, with the goal of supporting and empowering them in various fields, especially in leadership positions based on meritocracy.The Company is proud of offering Saudi women the opportunity to assert themselves in the communications and information technology sector.

Specialized Volunteering Club

stc aims to enable the third sector and non-profit organizations and build their capacities to help them make a sustainable impact, in light of the various challenges they face, such as the insufficient specialized human resources and the lack of professional practices in the development of the third sector and non-profit organizations. This project was launched by the corporate responsibility department, and it succeeded in attracting over 1000 employees across the Kingdom to register as volunteers. Since its creation, this club promoted a culture of specialized volunteering among employees and stressed its importance for social development by tapping into specialized human resources working across all specialties in the Company (information technologies, programming, marketing, translation). The club also developed the volunteers' capabilities by helping them acquire new skills and experiences through volunteering for certain hours in various charities.Since its beginning, the club organized and expanded volunteer activities to maximize their impact, and provided specialized volunteer services to nonprofit organizations concerned with communication difficulties to save costs, increase work efficiency, and reach final beneficiaries.The club suggested a minimum volunteering time of two hours per week, 8 hours per month,
and 24 hours per year.

Impact- U
The Group strives to promote a culture of social entrepreneurship in the internal and external communications community. In this context, the Group launched the "Impact- U" Project, a social business incubator aimed at helping develop innovative solutions for today's social problems or find and leverage opportunities for the development of the local community. Through "Impact- U", stc seeks to involve society members in coming up with sustainable development solutions and localize a culture of social innovation to create a social impact and address the local economic and environmental challenges. This project challenges all participants to collaborate and compete to identify a social problem and suggest a solution. Next, it incubates ideas in an initial incubation phase focused on problem analysis, solution development, and impact measurement. In the last stage, i.e. final incubation, workshops are held to test solution models and build work and change theory models. The project is aligned with Saudi Vision 2030, which aims to sustain and enhance the role and impact of the nonprofit sector, by activating social responsibility in this sector through the innovation of projects with a positive social return and encouraging the private sector to pay it forward through sustainability and social responsibility programs.

Enterprise Resource Planning (ERP) for Charities
The lack of a transparent, elaborate, unified, and technical umbrella contributed to creating many challenges and difficulties for charitable work, charities, and nonprofit organizations in the Kingdom. The most notable of those challenges are reduced transparency, low performance and productivity in the third sector, the lack of integration of charities' data, and the weak infrastructure of charities' technical systems. All these difficulties lead to inefficient services for beneficiaries and call for an advanced and efficient system to organize charities' needs in terms of human resources, accounting, donation management, and others. As stc believes in its important and instrumental role, and out of its commitment to social responsibility, the Company adopted the ERP for charities program, with specialized partners that have extensive technical expertise. Today, around 20 charities and nonprofit organizations are benefiting from this program, and many more throughout the Kingdom will join them soon. The project is an integrated electronic platform to plan and manage the resources of charitable organizations and associations. The project's settings can be customized through an unlimited number of accounts, departments, divisions, cost centers, activities, profit centers, account analysis, and classifications of goods and services.

stc Grant Program
The Group strives to improve its business and initiatives to be in line with its sustainability and social impact goals. As a demonstration of its commitment to adopting sustainable business practices, the Group developed the stc Grant Program. This program aims to change the culture of direct sponsorship for charity programs and projects, by sponsoring projects that have a high social impact and value, and that can improve work quality and procedures within organizations or help solve a social issue in a creative manner to benefit the final beneficiaries, in accordance with standards and controls that aim to achieve the program's objectives. The program aims to build the capacities of the nonprofit sector and find sustainable and innovative solutions for development problems, in order to enable different segments in society and maximize social impact, by targeting nonprofit organizations that focus

on people with communication problems, such as the vision and hearing impairment, and individuals with stuttering problems, Down syndrome, and autism. The program also focuses on designing innovative technological solutions for social challenges. In accordance with the SROI measurement criteria and method, projects and programs go through six stages, namely: determining the project's scope and identifying and involving stakeholders, describing results by creating an "Impact Map" in cooperation with stakeholders, verifying and evaluating results, assessing impact using several approved assessment methods, measuring SROI, and preparing and submitting the final report to stakeholders. In order to benefit from this program, the charity must be licensed by the Ministry of Labor and Social Development (MLSD), target people with low income or with communication problems, and focus on at least one social investment area, such as communication through technology, workforce development, and innovative digital solutions.

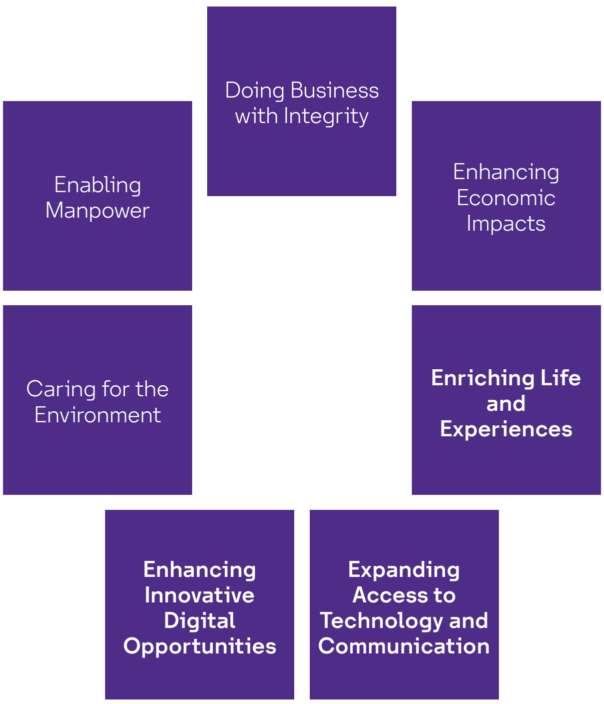
Social Investment Programs and Projects

- Enabling the Saafah Foundation by supporting it with SR 1 million to achieve its objectives of promoting transparency, fairness, and justice in society; serve as a national reference for knowledge and expertise in matters related to transparency and integrity; and conduct extensive research in areas related to transparency, integrity, and combating corruption.
- Launching blood donation campaigns at the Company's headquarters and various areas in the Kingdom for the benefit of inpatients in public hospitals.
- Sponsoring, designing, and developing the Clinicians application in collaboration with a number of Saudi doctors. The application aims to provide medical services and consultations for patients in remote areas through an innovative technology platform with over 2,000 doctors from 45 medical specializations. The application has treated around 500 cases throughout the Kingdom.
- Creating a tactile graphic printing unit at the National Association of the Blind in Riyadh, to print tactile media and produce 2D and 3D paintings to enable blind people to formulate mental images of objects. It also seeks to educate them through tactile educational media produced by this unit to help them become active members and facilitate their integration in society. The project also aims to help the association in its teaching mission with specialized and innovative tools.In cooperation with several education entities, the project has an integrated unit containing computers connected to printers made for producing tactile educational tools such as textbooks and 3D paintings, and for printing in Braille. The goal of this unit is to enable blind people to use touch to read, learn, and integrate. The unit is managed by a technical team specialized in these devices.
- Equipping rooms for children on the autism spectrum at the Charitable Society of Autism Families in the Eastern Region. These rooms include the following:
    - Speech and communication room
    - Physiotherapy and functional therapy room
    - Skills development and behavior modification room
    - Sensory integration room
    - Workshop and lecture room
- Launching a sign language dictionary for children in cooperation with the Saudi Association of Sign Language Interpreters to disseminate knowledge about this universal language and serve our deaf brothers and sisters.

- Empowering entrepreneurs through the InspireU incubator program and provide the best services, consultancy, and technical solutions to select incubated projects.
- Launching the "Short Code" service to donate via text messages to charitable organizations in the Kingdom. This technical solution is aimed at ensuring the sustainability of charitable projects and programs, and it has helped about 300 charities.
- Offering technical support for the child support hotline 116111, which is one of the leading projects in the National Family Safety Program aimed at serving children in the Kingdom with an easy communication channel for users.
- Enabling local content through the Rawafed program, with the goal of developing the Small and Medium Enterprises (SMEs) sector, focusing on innovation and local industries, and localizing jobs to increase the rate of Saudization in leadership and technical positions.This project's contribution to the local content amounted to around SR 4 billion.
- Equipping an integrated lab with computers and computer technologies and a lab with audio tools for visually-impaired students at Al-Nour Institute to provide them with, and train them to use, supporting technologies.
- Donating computers and peripherals with Ertiqa, to make use of decommissioned computers and peripherals. Ertiqa refurbishes and distributes those computers to charitable or educational entities to serve groups with communication challenges and enable them technically using functional decommissioned devices. The Company delivered the first batch of 100 computers.

f. sustainability program

stc aspires to enable the community by leading digital transformation in the Kingdom and the region, in a way that increases positive economic, social, and environmental outcomes. stc's sustainability framework involves seven main fields that are instrumental to its success. Excellence in these fields could enable stc to contribute to a sustainable future.



Doing Business with Integrity
We commit to follow an approach that goes beyond simply adhering to the law, to promote responsible business practices that constantly develops new transparency, integrity, trust, and effective governance standards. A major part of stc's identity lies in developing strategic programs that address issues such as effective governance, work ethics, commitment, responsible supply chain management, and strong competitiveness to manage risks and human rights.

Enhancing Economic Impacts
We aspire to contribute to promoting a prosperous economy in line with Saudi Vision 2030 and the region's goals. We will seek to achieve this goal through our direct economic activities, by supporting the economic development of our telecommunication infrastructure and the evolving digital platforms and services.

Enriching Life and Experiences
Enriching life and experiences by making communications easier and more secure, and providing high-quality services that help customers protect themselves against potential risks arising from new technologies.In addition to providing key requirements for high-quality services to create the best customer experience and an easier digital life where we promote the responsible use of technology.

Expanding Access to Technology and Communication
We are committed to having the best digital infrastructure for communications in the Kingdom and building a 5G infrastructure. We are also determined to ensure everyone's access to affordable digital and communication services.

Enhancing Innovative Digital Opportunities
Enabling and supporting limitless innovations in technology and digital transformation to create new capabilities for sustainable development.We are also determined to facilitate this development in the e-health and e-learning fields while enabling thousands of projects to limit their environmental impacts through digital transformation.

Caring for the Environment
Our goal is to reduce the direct impacts of technical services and communication products on the environment, thus addressing the effects of climate change, which is one of the main challenges facing humanity in general and our region in particular. Therefore, we are committed to having net-zero emissions to be the first to achieve this goal at the regional level.

Enabling Manpower
Investing extensively and continuously in developing national workforces in the countries where we operate. We also aim to empower women by increasing the proportion of the female workforce at all levels.

g. serving Hajj pilgrims during the 1440 AH Hajj season

stc Group continued providing the best services to Hajj pilgrims and relevant sectors during the 1440 AH Hajj season. stc launched its 5G network in over 196 locations in Madina, Makkah, and the Holy Sites. It also provided many services, technologies, and digital solutions. The Company's expansions, which are the largest in the history of the Holy Sites, helped stc's network achieve record numbers. These expansions proved effective during peak hours when traffic witnessed a huge surge with a peak of 137% compared to the previous year.

Furthermore, voice calls were carried out through the 4G network VoLTE with a 366% growth during peak hours compared to the previous year.
stc launched the 5G network for three main services: Wi-Fi, hologram technology, and drones, which were used for the first time during Hajj. As a result, Hajj pilgrims were able to use wifi in a number of locations at Masjid al-Haram and the Holy Sites, and the hologram technology was used in certain locations to provide Hajj pilgrims with interactive, direct, and translated instructions related to rituals, safety, and tawaf directions.

Internet speed reached unprecedented records in Makkah's history in particular, and the Kingdom's history in general, according to Oockla reports, despite the huge increase in provided services through the network, and the rainfall and weather volatility that coincided with the Hajj season.

For the first time ever, stc's network at the Holy Sites recorded a 7 GB data consumption through the 5G network. Total data usage in Mina reached over 7 TB, 6 TB of which was through the mobile network in Mina with a 39% increase compared to the previous year. In addition, data usage through the 5G network reached 7 GB. The number of international roaming customers increased by 12% compared to the previous year. The network achieved remarkable success indicators that exceeded 99.7%.

Compared to the previous year, data usage increased by 75% in Muzdalifa. Data usage through the 4G network increased by 92%, and the number of domestic and international customers who chose the stc network increased by 12% and 23% respectively. In Arafat, data usage increased by 90%, 4G usage increased by 108% and the number of international roaming customers increased by 4%.

The critical communication technology of stc Specialized, which was used by the General Cars Union of the Ministry of Hajj and Umrah on Tarwiyah Day at Mena, served more than one million Hajj pilgrims in 6 hours. The Ministry of Health also relied on the critical communication technology to run ambulance convoys that helped move ill pilgrims who were hospitalized in Medina hospitals to the Holy Sites in Mecca to complete pilgrimage rituals.

stc equipped 230 technical support vehicles for the network, 55 maintenance centers, and 50 emergency technical teams working around the clock to serve the Hajj pilgrims and the various sectors working on Hajj. In addition, stc provided over 190 service centers in several areas such as airports, Hajj pilgrim accommodations, and retail outlets, all of which were equipped with the online recharging option. The Company also provided sale platforms between Mina and Arafa.

stc also supported the national campaign "Hajj is Worship and Civilized Behavior" to educate Hajj pilgrims, and participated in the media plan of the MCIT under the title of #Smart_Hajj on social networking sites. In addition, 2220 stc employees assisted Hajj pilgrims in more than 6 languages.

stc dedicated its state-of-the-art services, such as cloud computing and the Internet of Things, to support the Kingdom's efforts to serve the Hajj pilgrims. These technologies monitor temperatures, gas emissions, and pollution levels remotely. Additionally, stc provided safety services and fire sensors which use data to send early alerts to 911, the number dedicated by the Minister of Interior to receive all communications.

HRH Prince Khalid Al Faisal, Consultant of the Custodian of the Two Holy Mosques, Governor of Makkah, and President of the Central Hajj Committee, honored stc for its support for the national campaign "Hajj is Worship and Civilized Behavior" to educate Hajj pilgrims: and he also honored the CITC for its active contribution to the success of the operational plan of the 1440 AH Hajj season.

second: board of directors

the composition of the board of directors and its committees and the classification of its members and executive management

The Company's Articles of Association specify the number of members of the Board of Directors as being nine. This is in line with the Corporate Governance Regulations issued by the Capital Market Authority (CMA). A new Board of Directors was elected on 28/4/2018 for the seventh session for a period of three calendar years. The following tables list the names of the members of the Board and their memberships in boards of directors in joint-stock companies listed or not in the financial market, in the Kingdom or abroad, along with a description of their portfolios.

Members of the Board of Directors and its Committees and the Classification of their Memberships

No.	Name	Membership	Academic Qualifications	Professional Experience	Current Occupation	Previous Occupation	Membership Classification
1	HRH Prince Mohammed bin Khalid Al-Abdullah Al-Faisal	Chairman of the Board Executive Committee President Chairman of the Investment Committee	Master of Business Administration	26 years of banking and management experience	Chairman, Al Faisaliah Holding Group	Vice President, Al Faisaliah Holding Group	Independent
2	H.E. Dr. Khaled bin Hussain Biyari	Vice-Chairman of the Board Executive Committee Member	Ph.D. in Electrical Engineering	Associate Professor, King Fahd University of Petroleum and Minerals for 12 years and 23 years of business experience	Assistant Secretary of Defense for Executive Affairs - Ministry of Defense	CEO, stc	Non-executive / non-independent
3	H.E. Mohammed Talal Al-Nahhas	Member of the Board of Directors Investment Committee Member	Bachelor of Accounting	Experience in banking, business development, and management for 32 years	Governor, Public Pension Agency (PPA)	Director of Branch Network, Al-Enma Bank	Non-executive / non-independent
4	Mr. Rashid bin Ibrahim Sharif	Member of the Board of Directors Investment Committee Member	Master of Business Administration	Practical experience in the financial sector and a member of several joint-stock companies	Head of General Administration, Local Investments - Public Investment Fund	CEO, Riyad Capital	Non-executive / non-independent
5	Mr. Sanjay Kapoor	Member of the Board of Directors Executive Committee Member	Master of Business Administration	Experience in administrative work for 12 years	Consultant	Chairman, Micromax	Non-executive / non-independent
6	Mr. Roy Chestnutt	Member of the Board of Directors Investment Committee Member	Master of Business Administration	Experience in administrative work for 31 years	Consultant	Executive Vice President and Chief Strategy Officer, Verizon	Non-executive / non-independent
7	Dr. Ibrahim bin Abdulrahman Kadi	Member of the Board of Directors Audit Committee President Executive Committee Member	Ph.D. in Electrical Engineering	Professor of Communication Engineering, King Saud University for 26 years, with 35 years of experience in communication, informatics, strategic planning, risk management, information security, and the economic and social impacts of technology.	Independent Consultant	Senior Advisor, Communications and Information Technology Commission (CITC)	Independent
8	Mr. Osama bin Yassin Al-Khiary	Member of the Board of Directors President of the Nominations and Remuneration Committee	Bachelor of Operations Research	25 years of administrative experience	Retired - Independent Consultant	General Director and Head of Government Sector, Accenture	Independent
9	Mr. Ahmed bin Mohammed Al-Omran	Member of the Board of Directors Member of the Nominations and Remuneration Committee	Master of Computer Science	Experience in the field of information technology for 18 years	Assistant Governor of the General Organization for Social Insurance for Information Technology	Director-General of IT Infrastructure Management, General Organization for Social Insurance	Non-executive / non-independent

Members of the External Committees of the Board of Directors

No.	Name	Membership	Academic Qualifications	Professional Experience	Current Occupation	Previous Occupation	Membership Classification
1	**Mr. Medhat Ben Farid Tawfiq**	Audit Committee Member	Master Program Citibank Asia Pacific	Technical and managerial experience in auditing and risk management	Founder of IRSAA Business Solutions, an outsourcing company for risk management and internal audit	Head of Private Banking and Product Manager of the Lending Program and Private Bank Grants, Samba Financial Group	External Member
2	**Mr. Medhat Ben Farid Tawfiq**	Account Manager,	Master Program Citibank Asia Pacific	Technical and managerial experience in auditing and risk management	Founder of IRSAA Business Solutions, an outsourcing company for risk management and internal audit	Account Manager, Samba Financial Group	External Member
3	**Samba Financial Group**	External Member	Ph.D. in Accounting	9 years of experience in accounting	Executive Vice President of Business, Dussur	CFO, Saudi Arabian Amiantit Company	External Member
4	**Eng. Tareq bin Abdulaziz Al Rukhaimi**	Audit Committee Member	Master of Science	27 years of experience in financial and banking services, investment banks management, and risk management	Independent financial consultant and investment and risk management consultant	CEO, Saudi Kuwaiti Finance House	External Member
5	**Mr. Sultan bin Abdul Malik Al Sheikh**	Executive Committee Member	Master of Finance	Experience in investment banking	Senior Vice President of the Local Investment Department, Public Investment Fund	Vice President, Banking Investment, Saudi Fransi Capital	External Member
6	**Eng. Nasser bin Sulaiman Al Nasser**	Executive Committee Member	Bachelor of Electrical Engineering	Experience in the telecommunications sector	Chief Executive Officer (CEO) stc	Chief Operating Officer, stc	External Member
7	**Mr. John Brand**	Member of the Nominations and Remuneration Committee	Master of Business Economics, Master of Business Law, and Master of Private Law	Experience in leadership advisory	Independent consultant in a leading consulting firm	A key partner at Egon Zehnder	External Member
8	**Mrs. Hoda bint Mohammed Al Ghosn**	Member of the Nominations and Remuneration Committee	Master of Business Administration	Experience in human resources	Executive Director of Staff Relations and Training, Aramco	Director General of Training and Development, Aramco	External Member
9	**Mr. Mazen bin Ahmed Al Jubair**	Investment Committee Member	Master of Business Administration	Experience in managing a number of companies	Managing Director, Guaras	Executive Vice President, Amwal Al Khaleej	External Member

Executive Management Members

No.	Name	Academic Qualifications	Current Occupation (stc)	Previous Occupation	Company
1	Eng. Nasser bin Sulaiman Al Nasser	Bachelor of Electrical Engineering	CEO, stc Group	Chief Operating Officer	Mobily
2	Mr. Ameen bin Fahd Alshiddi	Master of Accounting	CFO	Vice President for Finance	stc
3	Eng. Emad A. Alaoudah	Bachelor of Information Systems	Vice President for Procurement and Support Services	CEO, NUPCO	NUPCO
4	Jeremy Sell	Master of Geography	Head of Strategic Operations	Group CFO	Mountain Partners AG
5	Eng. Haithem M. Alfaraj	Bachelor of Computer Engineering	Senior Vice President for Technology and Operations	Vice President for Operations	stc
6	Mr. Abdullah M. Alowini	Master of Computer Engineering	Vice President of Enterprise Architecture	Vice President of Technology	stc
7	Mr. Abdulaziz A. Alqatie	Bachelor of Accounting	Vice President, Financial Reporting and Control	CFO, stc Kuwait	stc Kuwait
8	Mr. Riyadh S. Muawad	Bachelor of Computer Science	Senior Vice President of Business Unit	Vice President, Government Sales and Corporate	stc
9	Mr. Riyadh H. Alonazi	Bachelor of Information Systems	Vice President, Customer Experience and Operations	Vice President, Customer Care Centers	stc
10	Eng. Ahmad M. Alghamdi	Bachelor of Systems Engineering	Vice President, Human Resources Department	Director General of Human Resources Planning and Organizational Development	stc
11	Eng. Mohammed A. Alabbadi	Master of Business Administration	Vice President, Strategy Execution and Corporate Affairs	CEO, Cisco	Cisco
12	Mr. Sultan H. Binsaeed	Bachelor of Information Technology	Vice President, Business Development	CEO, stc Solutions	stc Solutions
13	Dr. Khalid M. Albarrak	PhD in Information Technology	Vice President, Corporate Analytics and Data	Consultant, Arab Internet Services Company	Arab Internet Services
14	Mr. Markus M. Golder	Master of Business Administration	Vice President, Customer Management	Vice President, Marketing	stc
15	Mr. Wijnand E. Van Till	Master of Financial Management	Vice President, Business Finance	Vice President, Pricing Strategy and Incentives	Etisalat, UAE
16	Mr. Alan F. Whelan	Bachelor of Psychology	Vice President, Wholesale	Vertiv Company Managing Director Northern Europe	Vertiv
17	Mr. Abdullah S. Alanizi	Master of Executive Management	Chief, Internal Audit	General Manager, Information Systems and Network Audit	stc
18	Dimitris Lioulias	Master of Business Administration	Vice President, Corporate Strategy	Group chief operating officer	LAP GreenN – Dubai
19	Rafat B. Malik	Bachelor of Aerospace Engineering	Dean, stc Academy	Vice President	IE Corporate Learning Alliance
20	Ali A. Alharbi	Master of Accounting	Vice President, Corporate Finance	CFO	Bahri
21	Bader A. Allhieb	Bachelor of Electrical Engineering	Vice President, Operations	General Manager, Customer Service Operations	stc
22	Yasser Z. Al Otaibi	Bachelor of Electrical Engineering	Vice President, Business Operations	Director General, Business Development	stc
23	Khaled I. Aldharrab	Bachelor of Industrial Engineering	Vice President, Infrastructure	Director General, Infrastructure Design	stc
24	Ulaiyan M. Alwetaid	Bachelor of Electrical Engineering	Senior Vice President, Consumer Business Unit	CEO, stc Bahrain	stc Bahrain
25	Othman D. Aldahash	Master of Business Administration	Vice President, Corporate Development	Vice President, Research and Development	Advanced Solutions
26	Abdulaziz M. Alhaider	Bachelor of Electrical Engineering	Vice President, Enterprise Accounts	Director General, Government Sales	stc
27	Yasser N. Alswailem	Bachelor of Information Systems	Vice President, Cyber Security	Director General, Information Security Department	stc
28	Bandar M. Allehyani	Master of Business Administration	Vice President, Mobility Services	Director General, Mobility Services Department	stc
29	Munif Nayef Bin Darwish	Master of Business Administration	Vice President, Residential Services	Vice President, Distribution Services	stc channels
30	Mathad F. Alajmi	Master of Business Administration	Vice President and General Counsel of Legal Affairs	Board Member	Sabec
31	Yazeed A. Alfaris	Master of Computer Science	Vice President, Applications	Director General, Applications Operations	stc
32	Amir A. Algibreen	Master of Advanced Management	Vice President, Regulatory Affairs	Director General, Regulatory and Licensing Affairs	Communications and Information Technology Commission (CITC)
33	Abdullah A. Alkanhl	Master of Business Administration	Senior Vice President, Corporate Affairs	Undersecretary, Communications and Infrastructure	Communications and Information Technology Commission (CITC)
34	Faisal A. Albakri	Bachelor of International Business Management	Vice President, Government Accounts	Director General, Government Accounts	stc

Names of companies in which the board member is currently or was formerly a board member or a director

	No.	Names of companies in which the board member is currently a board member or director	Location		Legal entity (listed joint-stock / non-listed joint-stock / limited liability / ....)	Names of companies in which a board Member was formerly a board member or director	Location		Legal entity (listed joint-stock / non-listed joint-stock / limited liability / ....)
			In the Kingdom	Abroad			In the Kingdom	Abroad	
1 HRH Prince Mohammed bin Khaled Al-Abdullah Al-Faisal Chairman of the Board of Directors Chairman of the Executive Committee Chairman of the Investment Committee		stc	✓		Listed joint-stock	Audi Capital	✓		Closed joint-stock
	2	Al Faisaliah Group	✓		Closed joint-stock	-	-	-	-
	3	Al-Khuzama Company	✓		Closed joint-stock				
	4	JP Morgan Saudi Arabia	✓		Closed joint-stock				
2 Dr. Khaled bin Hussain Biyari Vice-Chairman of the Board Executive Committee Member	1	stc	✓		Listed joint-stock	stc Kuwait		✓	Listed joint-stock
	2	SITE	✓		Closed joint-stock	Turkish Telecom Company		✓	Listed joint-stock
	3	-	-	-	-	Oger Telecom Company		✓	Limited liability
	4					Arab Internet Services Company (stc Solutions)	✓		Limited liability
	5					Sapphire Company Limited	✓		Limited liability
	6					Gulf Digital Media Company		✓	Limited liability
3 Mr. Mohammed bin Talal Al Nahhas Member of the Board of Directors Investment Committee Member	1	stc	✓		Listed joint-stock	Taiba Holding Company	✓		Listed joint-stock
	2	Public Pension Agency (PPA)	✓		N/A	Saudi Tourist Checks Company	✓		Unlisted
	3	Sabic	✓		Listed joint-stock	-	-	-	-
	4	Riyadh Bank	✓		Listed joint-stock				
	5	General Organization for Social Insurance (GOSI)	✓		N/A				
	6	National Center for Privatization	✓		Unlisted				
	7	Acwa Power Projects	✓		Unlisted				
	8	ASMA Capital		✓	Unlisted				
	9	Al Ra'idah Investment Company	✓		Unlisted				
	10	Raza Real Estate Company	✓		Unlisted				
	11	Al Tawuniya Real Estate Investment Co.	✓		Unlisted				
	12	Spimaco Addwaeih	✓		Listed joint-stock				

Member	No.	Names of companies in which the board member is currently a board member or director	Location: In the Kingdom	Location: Abroad	Legal entity (listed joint-stock / non-listed joint-stock / limited liability / ....)	Names of companies in which a board Member was formerly a board member or director	Location: In the Kingdom	Location: Abroad	Legal entity (listed joint-stock / non-listed joint-stock / limited liability / ....)
4 **Mr. Rashid bin Ibrahim Sharif Member of the Board of Directors Investment Committee Member**	1	stc	✓		Listed joint-stock	Rua Almadinah Holding Company (Previously Dar Al-Hijra)	✓		Unlisted
	2	National Commercial Bank	✓		Listed joint-stock	Tahakom Investment Company	✓		Unlisted
	3	Saudi Electricity Company	✓		Listed joint-stock	-	-	-	-
	4	King Abdullah Financial District Management & Development Company	✓		Unlisted				
	5	AccorInvest Group		✓	Private company				
	6	Sabic	✓		Listed joint-stock				
5 **Mr. Sanjay Kapoor Member of the Board of Directors Executive Committee Member**	1	stc	✓		Listed joint-stock	Bennet, Coleman and Company Ltd.		✓	Unlisted
	2	On Mobile Global Ltd.		✓	Listed joint-stock	PVR Ltd.		✓	Listed joint-stock
	3	VLCC Health Care Ltd.		✓	Unlisted	Micromax Informatics Ltd.		✓	Unlisted
	4	iBus Network & Infrastructure Pvt. Ltd. (Advisor)		✓	Unlisted	Indus Towers Ltd.		✓	Unlisted
	5	Tech-Connect Retail Pvt. Ltd.		✓	Unlisted	IFFCO Kisan Sanchar Ltd.		✓	Unlisted
	6	Tanla Solutions Ltd.		✓	Listed joint-stock	Bharti Cellular Ltd.		✓	Unlisted
	7	Z-Axis Management Consultants & Strategic Advisors		✓	Limited liability partnership	GSMA		✓	Unlisted
6 **Mr. Roy Chestnutt Member of the Board of Directors Investment Committee Member**	1	stc	✓		Listed joint-stock	-	-	-	-
	2	Telstar Corporation		✓	Listed joint-stock				
	3	Digital Turbine Inc.		✓	Public company				
	4	Blackstone Group (Independent Advisor)		✓	Public company				
	5	Delta Partners Company (Independent Advisor)		✓	Private company				
	6	LotusFlare (Independent Advisor)		✓	Public company				
	7	VMware (Senior Advisor)		✓	Public company				
	8	Boingo Wireless Inc.		✓	Public company				

	No.	Names of companies in which the board member is currently a board member or director	Location: In the Kingdom	Location: Abroad	Legal entity (listed joint-stock / non-listed joint-stock / limited liability / ....)	Names of companies in which a board Member was formerly a board member or director	Location: In the Kingdom	Location: Abroad	Legal entity (listed joint-stock / non-listed joint-stock / limited liability / ....)
7 **Dr. Ibrahim bin Abdulrahman Kadi** **Member of the Board of Directors** **Audit Committee President** **Executive Committee Member**	1	stc	✓		Listed joint-stock	Maxis Group, Malaysia		✓	Listed joint-stock
	2		-	-	-	Maxis Communications		✓	Unlisted joint-stock
	3					Oger Telecom Company		✓	Unlisted joint-stock
8 **Mr. Osama bin Yassin Al-Khiary** **Member of the Board of Directors** **Chairman of Nominations and Remuneration Committee**	1	stc	✓		Listed joint-stock	Accenture Saudi Arabia Limited	✓		Limited liability
	2	Digital company (Consultant)	✓		Limited liability	Accenture Middle East		✓	Limited liability
	3	Namaa Almunawara	✓		Limited liability	Al Faisaliah Holding Group	✓		Closed joint-stock
	4	Tabadul	✓		Limited liability	-	-	-	-
	5	Arcom	✓		Closed joint-stock				
9 **Mr. Ahmed bin Mohammed Al-Omran** **Member of the Board of Directors** **Member of the Nominations and Remuneration Committee**	1	stc	✓		Listed joint-stock	Saudi Industrial Investment Group	✓		Listed joint-stock
	2	Takamul Holding Company	✓		Limited liability	-	-	-	-
	3	Saudi Cement Company	✓		Listed joint-stock				
	4	Madad Al A'mal for Information System Technology	✓		Limited liability	-			
	5	Masdar for Data Solutions	✓		Limited liability				

Participation of members in board and committee meetings

First: The following tables show the number of meetings held by the Board of Directors and the committees for the seventh session and the members who attended those meetings in 2019.

Meetings of the Board of Directors

The Board of Directors held five meetings. The following table shows the number of meetings during 2019 and the members who attended them.

The seventh session of the board in 2019.

			5	6	7	8	9	
No	Name	Position	March 20	March 21	May 15	September 18	September 18	Total
1	HRH Prince Mohammed bin Khaled Al-Abdullah Al-Faisal	Chairman of the Board of Directors	✓	✓	✓	✓	✓	5
2	Dr. Khaled bin Hussain Biyari	Vice-Chairman of the Board of Directors	✓	✓	✓	✓	✓	5
3	Mr. Mohammed bin Talal Al-Nahhas	Member	✓	✓	✓	✓	✓	5
4	Mr. Rashid bin Ibrahim Sharif	Member	✓	✓	✓	✓	✓	5
5	Mr. Sanjay Kapoor	Member	✓	✓	✓	✓	✓	5
6	Mr. Roy Chestnutt	Member	✓	✓	✓	✓	✓	5
7	Dr. Ibrahim bin Abdulrahman Kadi	Member	✓	✓	x	✓	✓	4
8	Mr. Osama bin Yassin Al-Khiary	Member	✓	✓	✓	✓	✓	5
9	Mr. Ahmed bin Mohammed Al-Omran	Member	✓	✓	✓	✓	✓	5

Some members did not attend some meetings due to health conditions.

Board Committee Meetings

In accordance with stc's Corporate Governance Regulations and the regulations issued by the relevant authorities, the Board of Directors forms the committees necessary to perform its functions in order to achieve the required efficiency and effectiveness. The board determines, documents, and communicates the responsibilities and working procedures of the committees as appropriate. The committees of the board for the current (seventh) session were as follows:

Executive Committee:

The Executive Committee is composed of four board members and two external members, including the CEO. This committee is responsible for reviewing strategies, estimated annual budgets, and the local and international, core and non-core businesses of the Company, and approving them according to the powers assigned to it by the board. The Executive Committee held six meetings in 2019 as shown in the following table:

The seventh session of the board in 2019.

No.	Name	Position	4 January 14	5 February 19	6 May 7	7 September 12	8 November 3	9 December 3	Total
1	HRH Prince Mohammed bin Khaled Al-Abdullah Al-Faisal	Chairman of the Committee	✓	✓	✓	✓	✓	✓	6
2	Dr. Khaled bin Hussain Biyari	Member	✓	✓	✓	✓	✓	✓	6
3	Mr. Sanjay Kapoor	Member	✓	✓	✓	✓	✓	✓	6
4	Dr. Ibrahim bin Abdulrahman Kadi	Member	✓	✓	✓	✓	✓	✓	6
5	Mr. Sultan bin Abdul Malik Al Sheikh	Member	✓	✓	✓	✓	✓	✓	6
6	Eng. Nasser bin Sulaiman Al Nasser	Member	✓	✓	✓	✓	✓	✓	6

Nominations and Remuneration Committee:

This committee is composed of two board members and two external members. It is responsible for reviewing and approving the appropriate operating mechanisms; establishing and reviewing the salary structure in accordance with market standards and developments, and applying them in a fair manner to provide management and employees with the necessary incentives to perform their required roles; reviewing the board's structure and making recommendations to it on possible changes; conducting an annual review to ensure the independence of independent members and the absence of any conflict of interest, especially if the member is on the board of another company; reviewing and approving the board's benefits and compensations policy to submit it to the Board of Directors; and ensuring that stc's business is conducted in accordance with the best governance practices. This Committee held four meetings in 2019 as shown in the following table:

The seventh session of the board in 2019.

No.	Name	Position	5 March 6	6 May 2	7 September 10	8 December 5	Total
1	Mr. Osama bin Yassin Al-Khiary	Chairman of the Committee	✓	✓	✓	✓	4
2	Mr. Ahmed bin Mohammed Al Omran	Member	✓	✓	✓	✓	4
3	Mr. John Brand	Member	✓	✓	✓	✓	4
4	Mrs. Hoda bint Mohammed Al Ghosn	Member	✓	✓	✓	✓	4

Audit Committee:

The General Assembly approved the creation of the Audit Committee for the board's seventh term, starting from 7/6/2018, as well as the committee's tasks, controls, and member remuneration. The Committee is composed of one board member and three external members specialized in financial affairs, accounting, and auditing. Audit Committee member, Dr. Khalid Al-Faddagh resigned from his position as a committee member for personal reasons. The resignation came into force on 6/12/1440 AH (corresponding to 7/8/2019) and was announced on the website of the Saudi Stock Exchange (Tadawul) on 6/8/2019. Therefore, in its eighth meeting on 19/1/1441 AH (corresponding to 18/9/2019), the board decided to appoint Dr. Amr bin Khalid Kurdi and Eng. Tareq bin Abdulaziz Al Rukhaimi as external members in the Audit Committee until the end of the board's seventh term, and to submit a recommendation of approval to the Company's General Assembly in its upcoming meeting. The appointment's announcement was published on Tadawul's website on 19/1/1441 AH (corresponding to 18/9/2019). Consequently, the Audit Committee is now composed of one board member and four external members. The Audit Committee reviews the Company's financial and administrative policies and procedures, and the procedures for preparing financial reports and their outputs; reviews internal audit reports and comments; issues recommendations to the board on the appointment, dismissal, remuneration, and independence of chartered accountants; studies and provides opinions about preliminary and annual financial statements before presenting them to the board; and reviews and provides opinions on the audit plan and other works with the chartered accountant periodically and regularly. By doing so, the committee assesses the efficiency and effectiveness of control activities and risk management, ensures compliance, and fights fraud and corruption. The Committee held seven meetings in 2019 as indicated in the table below:

The seventh session of the board in 2019

			5	6	7	8	9	10	11	
No.	**Name**	**Position**	**January 23**	**February 11**	**March 7**	**April 22**	**July 22**	**October 22**	**November 26**	**Total**
1	Dr. Ibrahim bin Abdulrahman Kadi	Chairman of the Committee	✓	✓	✓	✓	✓	✓	✓	7
2	Dr. Khalid bin Dawood Al-Faddagh	Member	✓	✓	✓	✓	✓			5
3	Mr. Khalid bin Abdullah Al Anqari	Member	✓	✓	✓	✓	✓	✓	✓	7
4	Mr. Medhat Ben Farid Tawfiq	Member	✓	✓	✓	✓	✓	✓	✓	7
5	Dr. Amr bin Khalid Kurdi	Member						✓	✓	2
6	Eng. Tareq bin Abdulaziz Al Rukhaimi	Member						✓	✓	2

Investment Committee:

The Investment Committee consists of four board members and an external member. This committee is responsible for reviewing the investment policy according to stc's strategies, and reviewing and examining strategic investment opportunities and recommending the appropriate ones. The committee held four meetings in 2019 as shown in the following table:

The seventh session of the board in 2019.

No.	Name	Position	4 February 21	5 May 8	6 September 15	7 December 4	Total
1	HRH Prince Mohammed bin Khaled Al-Abdullah Al-Faisal	Chairman of the Committee	✓	✓	✓	✓	4
2	Mr. Mohammed bin Talal Al Nahhas	Member	✓	✓	✓	✓	4
3	Mr. Rashid bin Ibrahim Sharif	Member	✓	✓	✓	✓	4
4	Mr. Roy Chestnutt	Member	✓	✓	✓	✓	4
5	Mr. Mazen bin Ahmed Al Jubair	Member	✓	✓	✓	✓	4

Dates of the shareholders' General Assembly meetings held during the fiscal year 2019, and the names of the present board members:

First: The Extraordinary General Assembly on 24/4/2019:

The Extraordinary General Assembly's meeting was held at stc's headquarters in Riyadh on 19/8/1440 AH (corresponding to 24/4/2019). The meeting's outcomes were published on Tadawul's website on the next day 25/4/2019. Voting results in the General Assembly's agenda were as follows:

1. Approval of the report of the Board of Directors for the fiscal year ended 31/12/2018.
2. Approval of the report of stc's account auditor for the fiscal year ended 31/12/2018.
3. Approval of the Company's consolidated financial statements for the fiscal year ended 31/12/2018.
4. Approval of the appointment of Ernst and Young and Partners (Chartered Accountants) as the Company's external auditor, selected from a pool of candidates based on the recommendation of the Audit Committee. The external auditor will provide zakat and tax services, as well asexamine, review, and audit the Q2, Q3, Q4, and annual financial statements for the fiscal year 2019; the Q1, Q2, Q3, Q4, and annual financial statements for the fiscal year 2020; and the Q1 financial statement for 2021. The meeting also determined the external auditor's fees.
5. Approval of the Company's dividend distribution policy for the next three years starting from Q4 of 2018.
6. Approval of the board's recommendation for additional one-time distributions for the year 2018, for a total amount of SR 4,000 million, with 2 SAR per share. The rights of the shareholders of the shares registered with the Securities Depository Center (Edaa) will be valid by the end of the second trading day following the date of the Company's General Assembly.

The distribution of the eligible 2,000 million shares will be on 11/9/1440 AH corresponding to 16/5/2019, as previously announced.

7. Approval of the amendment to Article 16, Paragraph B, of the Articles of Association of the Company relating to bonds and Sukuk, so that it becomes: "The Company may, by a decision of the Board of Directors, and in accordance with the Capital Market Law and other related rules and regulations, issue any type of negotiable debt instruments, whether in Saudi Riyal or other currency, inside or outside the Kingdom of Saudi Arabia, such as bonds and Sukuk, whether issued at the same time, through a series of issuances or through one or more programs set by the Board of Directors from time to time. All of this in times and amounts and in accordance with the conditions approved by stc's Board of Directors, which has the right to take all the relevant necessary measures".
8. Approval of the amendment to Article 29, Paragraph 2, of the Articles of Association of the Company, relating to the call for the convening of the General Assembly, to be a period of at least 21 days.
9. Approval of the amendment to Article 40 of the Company's Articles of Association relating to the availability to shareholders of sufficient copies of the report on the adequacy of the Company's internal audit system, at the Company's headquarters at least 21 days before the date of the General Assembly.
10. Approval of the amendment to Article 44, paragraph 2, of the Articles of Association of the Company, relating to the availability of copies of the Company's financial statements and a report on its activity and financial position for the previous year, at the Company's headquarters at least 21 days before the date of the General Assembly.
11. Approval of the amendment to the policy relating to the nomination and remuneration of board members, the remuneration of related committees, and the remuneration of executive management.
12. Approval of the amendment to the responsibilities of the Nominations and Remuneration Committee.
13. Approval of the amendment to the responsibilities of the Audit Committee, its functions and procedures, and the remuneration of its members.
14. Approval of the remuneration and compensation paid to the members of the Board of Directors for their membership and included in the report of the Board of Directors for the period from January 1, 2018, to December 31, 2018.
15. Approval of the Company's establishment of an international Sukuk program, and offering Sukuk directly through it or through a Special Purpose Entity that is created and used to issue primary or secondary Sukuk in one or several portions or stages, or through a series of issuances under this Sukuk Program, in US dollars, for an amount not exceeding US $5.000 million for the total value of the Sukuk issuance and the portions of the mentioned Sukuk Program at any time, according to amounts, timing, terms, and other details approved by the Board of Directors from time to time. The board may, for this purpose, take all the necessary actions and procedures for the establishment of the program and the issuance of Sukuk under it. The Board has the right to delegate any or all of such powers to any person or other persons and to grant them the right to delegate to others.

Below are the names of the members who attended the Assembly's meeting.

No.	Name	Attendance
1	HRH Prince Mohammed bin Khaled Al-Abdullah Al-Faisal	✓
2	Dr. Khaled bin Hussain Biyari	✓
3	Mr. Mohammed bin Talal Al-Nahhas	✓
4	Mr. Rashid bin Ibrahim Sharif	✓
5	Mr. Sanjay Kapoor	x
6	Mr. Roy Chestnutt	x
7	Dr. Ibrahim bin Abdulrahman Kadi	✓
8	Mr. Osama bin Yassin Al-Khiary	✓
9	Mr. Ahmed bin Mohammed Al-Omran	✓

* The absence of Mr. Sanjay Kapoor and Mr. Roy Chestnutt was due to prior engagements.
* Minutes of meetings can be found on stc's website: www.stc.com.sa

Annual Assessment of the Board of Directors

The Board of Directors approved the policy related to evaluating the performance of the Board of Directors and its committees during its meeting on 4/7/1439 AH (corresponding to 21/3/2018). This policy aims to define rules and controls related to evaluating the performance of the board and its committees for the purpose of monitoring and improving performance, fulfilling legal requirements, implementing the best governance practices, and enhancing the board's efficiency. In September 2019, stc contracted with a specialized consultant to study and evaluate the board's efficiency and performance in 2019. The final evaluation results will be presented to the board on 17/3/2020. Board members took part in the evaluation process through full cooperation with the independent consultant and by giving their opinions on several matters including the structure and role of the Board of Directors and its committees, interaction between board members as one team, the board and executive management, governance, and challenges and risks and their management.

The Company's Dividend Distribution Policy

Article 45 of the Company's Articles of Association provides for the distribution of the Company's annual net profits as follows:

1. 10% of the net profit should form the statutory reserve of the Company. The Ordinary General Assembly may approve the suspension of such a reserve when the said reserve reaches 30% of the paid-up share capital.
2. The Ordinary General Assembly may, on the proposal of the board, put aside a percentage of the annual profits to form an agreed reserve for a purpose or purposes decided upon by the General Assembly.
3. The Ordinary General Assembly may decide to put aside other reserves, to the extent that serves the interests of the Company or ensures the distribution of fixed profits to the shareholders as much as possible. It can also deduct funds from the net profits to create social institutions for the Company's employees or support existing ones.

4. The remainder, representing 5% of the paid-up capital of the Company, shall be distributed to the shareholders.
5. Subject to the provisions of Article 21 of stc's Articles of Association and Article 76 of the Companies Law, the General Assembly may allocate, after the aforementioned, remuneration to members of the Board of Directors, provided that the remuneration is commensurate with the number of meetings attended by the member.
6. Upon the proposal of the Board of Directors, the Ordinary General Assembly may decide to distribute the remainder (if any) to the shareholders as an additional share of the profits.

The Company may also distribute interim profits to its shareholders semi-annually or quarterly in accordance with the regulations issued by the competent authority, on the basis of a mandate issued by the Ordinary General Assembly of the Board of Directors to distribute interim profits.

Article 46 of stc's Articles of Association stipulates that shareholders shall be entitled to their share of the profits "in accordance with a General Assembly resolution issued in this regard. The resolution shall specify the maturity and distribution dates, for which shareholders registered up until the specified last day will be eligible. The profits to be distributed to the shareholders shall be paid on the place and date, and through the mechanisms determined by the Board of Directors in accordance with the instructions issued by the competent authorities."

The Board of Directors approved in its meeting on 9/4/1440 AH (corresponding to 16/12/2018) the dividend distribution policy. The policy was approved at the General Assembly's meeting held on 19/8/1440 AH (corresponding to 24/4/2019). It is a distribution policy based on maintaining a minimum dividend per share on a quarterly basis, by distributing SR 1 per quarter for the three years following Q4 2018. The Company will consider making further distributions which shall be subject to the Board of Directors' recommendation upon reviewing the Company's financial position, future prospects, and capital requirements. Such further distributions may vary from one quarter to another depending on the Company's performance. The dividend distribution policy may be changed based on the following:

- Any significant changes in the Company's strategy and business (including the business environment in which the Company operates).
- Laws, regulations, legislation, and controls governing the sector and to which the Company is subject.
- Any obligations or undertakings towards banking or finance entities, or needed to meet the requirements of credit rating agencies, which may be binding on the Company from time to time

Description of any interest, contractual papers, and subscription rights belonging to members of the Board of Directors and their relatives in stc shares or debt instruments (seventh session)

No.	Name	Beginning of 2019		End of 2019			
		No. of Shares	Debt Instruments	No. of Shares	Debt Instruments	Net Difference	Percentage
1	HRH Prince Mohammed bin Khaled Al-Abdullah Al-Faisal	14,823	0	1,000	0	(13,823)	(93.25%)
2	Dr. Khaled bin Hussain Biyari	2,000	0	2,000	0	0	0%
3	Mr. Mohammed bin Talal Al-Nahhas	0	0	0	0	0	0%
4	Mr. Rashid bin Ibrahim Sharif	0	0	0	0	0	0%
5	Mr. Sanjay Kapoor	0	0	0	0	0	0%
6	Mr. Roy Chestnutt	0	0	0	0	0	0%
7	Dr. Ibrahim bin Abdulrahman Kadi	2,666	0	2,666	0	0	0%
8	Mr. Osama bin Yassin Al-Khiary	0	0	0	0	0	0%
9	Mr. Ahmed bin Mohammed Al-Omran	0	0	0	0	0	0%

Description of any interest, contractual papers, and subscription rights belonging to members of the Board of Directors and their relatives in shares or debt instruments of subsidiaries (seventh session)

No.	Name	Beginning of 2019			End of 2019			
		Name of Subsidiary	No. of Shares	Debt Instruments	No. of Shares	Debt Instruments	Net Difference	Percentage
1	HRH Prince Mohammed bin Khaled Al-Abdullah Al-Faisal	None	0	0	0	0	0	0%
2	Dr. Khaled bin Hussain Biyari	None	0	0	0	0	0	0%
3	Mr. Mohammed bin Talal Al-Nahhas	None	0	0	0	0	0	0%
4	Mr. Rashid bin Ibrahim Sharif	None	0	0	0	0	0	0%
5	Mr. Sanjay Kapoor	None	0	0	0	0	0	0%
6	Mr. Roy Chestnutt	None	0	0	0	0	0	0%
7	Dr. Ibrahim bin Abdulrahman Kadi	None	0	0	0	0	0	0%
8	Mr. Osama bin Yassin Al-Khiary	None	0	0	0	0	0	0%
9	Mr. Ahmed bin Mohammed Al-Omran	None	0	0	0	0	0	0%

Description of any interest, contractual papers, and subscription rights belonging to senior executives and their relatives in shares or debt instruments of the Company

		Beginning of 2019		End of 2019			
No.	Name	No. of Shares	Debt Instruments	No. of Shares	Debt Instruments	Net Difference	Percentage
1	Eng. Nasser bin Sulaiman Al Nasser	0	0	0	0	0	0%
2	Mr. Ameen bin Fahd Alshiddi	0	0	0	0	0	0%
3	Eng. Emad A. Alaoudah	0	0	0	0	0	0%
4	Jeremy Sell	0	0	0	0	0	0%
5	Eng. Haithem M. Alfaraj	0	0	0	0	0	0%
6	Mr. Abdullah M. Alowini	0	0	0	0	0	0%
7	Mr. Abdulaziz A. Alqatie	4,500	0	4,500	0	0	0%
8	Mr. Riyadh S. Muawad	0	0	0	0	0	0%
9	Mr. Riyadh H. Alonazi	0	0	0	0	0	0%
10	Eng. Ahmad M. Alghamdi	0	0	0	0	0	0%
11	Eng. Mohammed A. Alabbadi	0	0	0	0	0	0%
12	Mr. Sultan H. Binsaeed	0	0	0	0	0	0%
13	Dr. Khalid M. Albarrak	0	0	0	0	0	0%
14	Mr. Markus M. Golder	0	0	0	0	0	0%
15	Mr. Wijnand E. Van Till	0	0	0	0	0	0%
16	Mr. Alan F. Whelan	0	0	0	0	0	0%
17	Mr. Abdullah S. Alanizi	0	0	0	0	0	0%
18	Dimitris Lioulias	0	0	0	0	0	0%
19	Rafat B. Malik	0	0	0	0	0	0%
20	Ali A. Alharbi	0	0	0	0	0	0%
21	Bader A. Allhieb	0	0	0	0	0	0%
22	Yasser Z. Al Otaibi	0	0	0	0	0	0%
23	Khaled I. Aldharrab	0	0	0	0	0	0%
24	Ulaiyan M. Alwetaid	0	0	0	0	0	0%
25	Othman D. Aldahash	0	0	0	0	0	0%
26	Abdulaziz M. Alhaider	0	0	0	0	0	0%
27	Yasser N. Alswailem	0	0	0	0	0	0%
28	Bandar M. Allehyani	0	0	0	0	0	0%
29	Munif Nayef Bin Darwish	0	0	0	0	0	0%
30	Mathad F. Alajmi	0	0	0	0	0	0%
31	Yazeed A. Alfaris	1,200	0	1,200	0	0	0%
32	Amir A. Algibreen	0	0	0	0	0	0%
33	Abdullah A. Alkanhl	0	0	0	0	0	0%
34	Faisal A. Albakri	0	0	0	0	0	0%

Description of any interest, contractual papers, and subscription rights belonging to senior executives and their relatives in shares or debt instruments of subsidiaries

			Beginning of 2019		End of 2019			
No.	Name	Name of Subsidiary	No. of Shares	Debt Instruments	No. of Shares	No. of Shares	Net Difference	Percentage
1	Eng. Nasser bin Sulaiman Al Nasser	None	0	0	0	0	0	0%
2	Mr. Ameen bin Fahd Alshiddi	None	0	0	0	0	0	0%
3	Eng. Emad A. Alaoudah	None	0	0	0	0	0	0%
4	Jeremy Sell	None	0	0	0	0	0	0%
5	Eng. Haithem M. Alfaraj	None	0	0	0	0	0	0%
6	Mr. Abdullah M. Alowini	None	0	0	0	0	0	0%
7	Mr. Abdulaziz A. Alqatie	None	0	0	0	0	0	0%
8	Mr. Riyadh S. Muawad	None	0	0	0	0	0	0%
9	Mr. Riyadh H. Alonazi	None	0	0	0	0	0	0%
10	Eng. Ahmad M. Alghamdi	None	0	0	0	0	0	0%
11	Eng. Mohammed A. Alabbadi	None	0	0	0	0	0	0%
12	Mr. Sultan H. Binsaeed	None	0	0	0	0	0	0%
13	Dr. Khalid M. Albarrak	None	0	0	0	0	0	0%
14	Mr. Markus M. Golder	None	0	0	0	0	0	0%
15	Mr. Wijnand E. Van Till	None	0	0	0	0	0	0%
16	Mr. Alan F. Whelan	None	0	0	0	0	0	0%
17	Mr. Abdullah S. Alanizi	None	0	0	0	0	0	0%
18	Dimitris Lioulias	None	0	0	0	0	0	0%
19	Rafat B. Malik	None	0	0	0	0	0	0%
20	Ali A. Alharbi	None	0	0	0	0	0	0%
21	Bader A. Allhieb	None	0	0	0	0	0	0%
22	Yasser Z. Al Otaibi	None	0	0	0	0	0	0%
23	Khaled I. Aldharrab	None	0	0	0	0	0	0%
24	Ulaiyan M. Alwetaid	None	0	0	0	0	0	0%
25	Othman D. Aldahash	None	0	0	0	0	0	0%
26	Abdulaziz M. Alhaider	None	0	0	0	0	0	0%
27	Yasser N. Alswailem	None	0	0	0	0	0	0%
28	Bandar M. Allehyani	None	0	0	0	0	0	0%
29	Munif Nayef Bin Darwish	None	0	0	0	0	0	0%
30	Mathad F. Alajmi	None	0	0	0	0	0	0%
31	Yazeed A. Alfaris	None	0	0	0	0	0	0%
32	Amir A. Algibreen	None	0	0	0	0	0	0%
33	Abdullah A. Alkanhl	None	0	0	0	0	0	0%
34	Faisal A. Albakri	None	0	0	0	0	0	0%

Corporate Governance

stc's Board of Directors was keen to establish effective governance regulations to be an integral part of the Company's administrative and financial regulations. The governance regulations regulate internal affairs by defining the relationship between the Board of Directors and the General Assembly, on the one hand, and the Board of Directors and the Executive Management, on the other hand. stc's governance regulations also regulate external affairs by managing the Company's relations with government sectors, legislative authorities, suppliers, and contractors to ensure optimal efficiency and effectiveness and eventually achieve stc's strategic goals. stc also ensures that regulations and work rules related to guidance, control, and transparency are inclusive and in line with the Companies Law issued by the Ministry of Commerce and Investment (MCI), the Corporate Governance Regulations issued by the CMA, and other relevant laws. stc also enhances its business governance by building on the best regional and international practices.

stc's governance regulations achieved targeted sustainability, which is a key pillar of stc Group's strategy. The Company's business and activities are based on documentation accredited by the relevant authorities, including, without limitation, stc's Articles of Association approved by the MICI upon their review by the General Assembly, the dividend distribution policy approved by the General Assembly, the working procedures of the Board of Directors and its committees such as the working procedures of the Audit Committee approved by the General Assembly, and stc's governance regulations approved by the Board of Directors. Documenting the strategic and financial authorizations matrix is a key stc internal audit requirement. This matrix defines the strategic and financial responsibilities and authorizations of persons in administrative positions who are authorized to approve decisions and transactions at stc, which could strengthen the control and governance of official decision-making mechanisms and prevent fraud.

Due to the importance of having a governance strategy clearly linked to stc's strategy, the Executive Management has, with the support of the Board's Nominations and Remuneration Committee, developed and approved the governance strategy at the beginning of 2019. This strategy included the main pillars representing the Company's strategic direction in this regard. The adopted strategy also included several strategic initiatives targeted for development. The team concerned with governance at the Company implemented some of these initiatives at the General Assembly's level, such as approving the dividend distribution policy by the General Assembly and approving the Conflict of Interest Policy and the Professional Behavior policy by the Board of Directors. The team concerned with governance also developed work at the Executive Management's level, including developing stc's governance framework and the administrative committees' work framework.

Governance is closely linked to developments in the laws and legislations issued by governmental and semi-governmental sectors. This means that it is crucial to constantly evaluate and update stc's governance documents in accordance with the latest regulations and legislations. The Executive Management adopted an annual initiative aiming to conduct an annual evaluation of all governance documents and activities to seek improvement opportunities and develop them. This initiative reflected positively on the Company's business and achievements. The Company won the Excellence in

Governance Award presented by the Corporate Governance Center supervised by the CMA and the Saudi Arabian General Investment Authority (SAGIA) and managed by Al-Faisal University. stc was honored during the First Annual Corporate Governance Conference that took place in Riyadh in 2019.
All provisions of the Corporate Governance Regulations issued by the CMA were implemented, except for Article 50 (paragraph 4), which stipulates that the number of committee members should not be less than three, nor more than five. The Executive Committee is composed of four Board members and two external members, including the company's CEO, due to the committee's assigned workload.

- **Internal Control**

The Company's Board of Directors declares that the accounting records were prepared correctly, that the internal control system and procedures were prepared properly and effectively, and that there are no substantial observations that may affect the Company's ability to continue its activities. The Audit Committee of the Board of Directors oversees compliance, risk management, and internal control which regularly reviews the adequacy and effectiveness of the internal control system and procedures, so as to provide a continuous assessment of its effectiveness. This is part of the objectives of the Board of Directors to obtain reasonable assurance about the soundness of the design and effectiveness of the Company's internal control system. In this regard, the Audit Committee held seven meetings during the fiscal year 2019, attended by executives and internal audit managers, in which it discussed a number of topics related to the Committee's work, including the review of financial statements, investments, and business units, as well as strategic and organizational affairs, human resources, procurement, and IT systems, among other issues relating to all aspects of business conduct at the Company.

- **Internal Audit**

The Internal Audit department at stc provides independent and objective assurance and advisory services for the purposes of adding value, improving operations, and achieving the Company's higher goals. The department also helps the company achieve its goals by adopting a systematic approach to evaluate and improve the effectiveness of risk management and internal control. The Internal Audit department conducted several periodic and special audits in accordance with the annual audit plan approved by the Audit Committee, with the aim of giving necessary assurance about the effectiveness and efficiency of internal control and risk management in the Company, with emphasis on high-risk activities and functions. The annual audit plan included, for example, a review of policies and procedures related to procurement, strategic affairs, human resources, information technology, business units, and the finance department. The Internal Audit department also provides consulting services to contribute, alongside the executive team, to improving the efficiency and effectiveness of the Company's operations, reducing costs, and limiting revenue loss, in addition to contributing to the review of the initial and annual financial statements and the coordination of the work of external auditors. It should be noted that the mentioned audits did not reveal any substantial remarks that affect the company'sability to continue conducting its business. The Audit Committee also reviewed the results of the independent, external evaluation of the internal audit's maturity level, which concluded that the internal audit department adheres to the standards regulating its work and follows the best professional practices and standards issued in this regard.

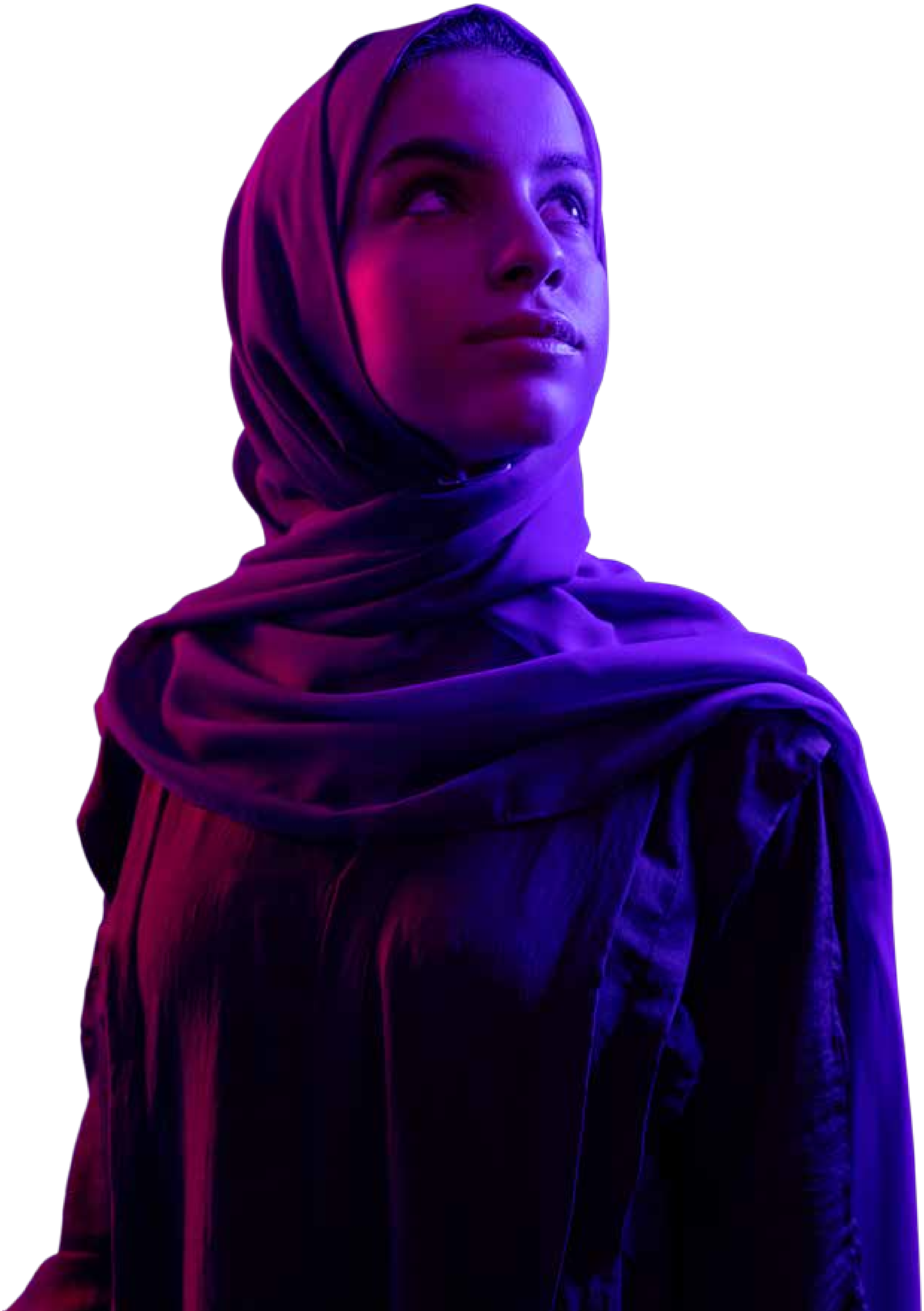
Shareholders Register

Requests for registration were made 13 times to stc shareholders by the Securities Depository Center (Edaa) in 2019 for the following purposes:

- Updating the shareholders register monthly.
- Quarterly Dividend Distribution
- Holding the General Assembly.

No.	Date of request of the shareholders register	Reasons for the request
1	31/1/2019	Updating the shareholders register monthly.
2	28/2/2019	Updating the shareholders register monthly.
3	31/3/2019	Updating the shareholders register monthly.
4	24/4/2019	General Assembly
5	24/4/2019	Quarterly Dividend Distribution for Q4 2018
6	5/5/2019	Quarterly Dividend Distribution for Q1 2019
7	30/6/2019	Updating the shareholders register monthly.
8	29/7/2019	Quarterly Dividend Distribution for Q2 2019
9	3/9/2019	Updating the shareholders register monthly.
10	30/9/2019	Updating the shareholders register monthly.
11	29/10/2019	Quarterly Dividend Distribution for Q3 2019
12	28/11/2019	Updating the shareholders register monthly.
13	31/12/2019	Updating the shareholders register monthly.

third: dividend distribution, bonuses, and board recommendations



Distribution of Dividends:

The Company announced the distribution of cash dividends amounting to SR 2,000 million to shareholders for Q4 2019, with SR 1 per share. The Company also distributed cash dividends amounting to SR 2,000 million to shareholders for Q1, Q2, and Q3 2019, with SR 1 per share. This action was in line with the dividend distribution policy approved by stc's Board of Directors 9 Rabee Al-Thani 1440 AH (corresponding to December 16, 2018) and by the General Assembly held during 2019. (For more information, see the dividend distribution policy section).

Accordingly, the total distributed dividends for the year 2019, after the assembly's approval, amounts to 4 SAR per share (2018: 6 SAR per share). The following is a breakdown of the 2019 distributions:

Statement	Total Distribution (SR Million)	Earnings per share (SR)	Date of announcement	Due date	Payment Date
Cash dividends for Q1 2019	2,000	1	22/4/2019	5/5/2019	27/5/2019
Cash dividends for Q2 2019	2,000	1	22/7/2019	29/7/2019	26/8/2019
Cash dividends for Q3 2019	2,000	1	22/10/2019	29/10/2019	19/11/2019
Cash dividends for Q4 2019	2,000	1	22/1/2019	20/4/2020	11/5/2020
Total Distributions	**8,000**	**4**			

Remuneration and compensation of the members of the Board of Directors and five senior executives

The Extraordinary General Assembly approved on 19 Shaban 1440 AH (corresponding to April 24, 2019) the amendment of the policy related to the nomination and remuneration of the members of the Board of Directors, the remuneration of board committees, and the remuneration of executive management. It also approved the amendment of the Audit Committee's work regulations, tasks, controls, and the remuneration of its members. Each board member receives a bonus of SR 200.000 for membership in the board and a bonus of SR 200.000 for membership in the board committees. Each member of the Audit Committee received a bonus of SR 150.000 for membership in the Audit Committee. As for external members of the other committees, they receive a bonus of SR 100.000 for membership in those committees. Members of the board and of other committees also receive an attendance allowance for the sessions of the board and the committees amounting to SR 5.000 for each session.

Bonuses and allowances of the members of stc's Board of Directors for attending board and committee meetings during the year ended 2019, and bonuses and allowances of external members of committees for attending committee meetings, and the remuneration of stc's top five executives including the CEO and the CFO during the year 2019 were as follows:

Bonuses and compensation of the members of the Board of Directors for the seventh session of 2019

(SR)	Fixed Remunerations						Variable Remunerations								
	Fixed Remunerations	Allowance for attending board meetings.	Inkind benefits	Bonuses for technical, administrative, and consulting work	Bonuses for the Chairman of the Board, the Managing Director, or the Secretary if a member	Total	Percentage of profits	Periodic bonuses	Short-term incentive plans	Long-term incentive plans	Shares granted	Total	End of Service Benefits	Total	Expense Allowance
First: Independent Members															
1. HRH Prince Mohammed bin Khalid Abdullah Al Faisal:	200,000	25,000				225,000						-		225,000	
2. Dr. Ibrahim bin Abdulrahman Kadi	200,000	20,000				220,000						-		220,000	
3. Mr. Osama Yassin Al-Khiary	200,000	25,000				225,000						-		225,000	
Total	600,000	70,000				670,000						-		670,000	
Second: Non-executive members															
1. Dr. Khaled Hussain Biyari*	200,000	25,000				225,000						-		225,000	
2. Mr. Mohammed Talal Al-Nahhas	200,000	25,000				225,000						-		225,000	
3. Mr. Rashid Ibrahim Sharif**	200,000	25,000				225,000						-		225,000	
4. Mr. Sanjay Kapoor*	200,000	25,000				225,000						-		225,000	
5. Mr. Roy Chestnutt*	200,000	25,000				225,000						-		225,000	
6. Mr. Ahmed Mohammed Al-Omran	200,000	25,000				225,000						-		225,000	
Total	1,200,000	150,000				1,350,000						-		1,350,000	
Third: Executive members															
None	-					-						-		-	
Total	-					-						-		-	
Total	1,800,000	220,000				2,020,000						-		2,020,000	

During its meeting held on 14/6/1438 AH (corresponding to 13/3/2017), the Board of Directors approved the amendment of the remuneration of the Chairman of the Board of Directors to be SR 100,000 per month. During its meeting held on 22/8/1439 AH (corresponding to 8/5/2018), the Board of Directors approved the remuneration of the Deputy Chairman of the Board of Directors to be SR 100,000.

* The annual board membership remunerations and attendance allowances for board meetings for the representatives of the Public Investment Fund shall be provided to the Fund.
** All remunerations and attendance allowances for board and committee meetings for the representatives of the Public Investment Fund shall be provided to the Fund.

(Remuneration of committee members in the seventh session of the year 2019)

Name	Committees	Fixed Remunerations (excluding meeting attendance allowances)	Allowance for attending board meetings	Total
HRH Prince Mohammed bin Khaled Al-Abdullah Al-Faisal	Executive Investment	200,000	50,000	250,000
Dr. Khaled bin Hussain Biyari	Executive	200,000	30,000	230,000
Mr. Mohammed bin Talal Al-Nahhas	Investment	200,000	20,000	220,000
Mr. Rashid Ibrahim Sharif*	Investment	200,000	20,000	220,000
Mr. Sanjay Kapoor	Executive	200,000	30,000	230,000
Mr. Roy Chestnutt	Investment	200,000	20,000	220,000
Dr. Ibrahim bin Abdulrahman Kadi	Executive Review	300,000	65,000	365,000
Mr. Osama bin Yassin Al-Khiary	Nominations and Remunerations	200,000	20,000	220,000
Mr. Ahmed bin Mohammed Al Omran	Nominations and Remunerations	200,000	20,000	220,000
Dr. Khalid bin Dawood Al-Faddagh	Audit (External Member) (Resigned)	100.000	25.000	125.000
Mr. Khalid bin Abdullah Al Anqari	Audit (External Member)	100,000	35,000	135,000
Mr. Medhat Ben Farid Tawfiq	Audit (External Member)	100,000	35,000	135,000
Mr. Amr bin Khalid Kurdi	Audit (External Member)	-	10,000	10,000
Mr. Tareq bin Abdulaziz Al Rukhaimi	Audit (External Member)	-	10,000	10,000
Mr. Sultan bin Abdul Malik Al Sheikh*	Executive (External Member)	100,000	30,000	130,000
Eng. Nasser bin Sulaiman Al Nasser	Executive (External Member)	100,000	30,000	130,000
Mr. John Brand	Nominations and Remunerations (External Member)	100,000	20,000	120,000
Mrs. Hoda bint Mohammed Al Ghosn	Nominations and Remunerations (External Member)	100,000	20,000	120,000
Mr. Mazen bin Ahmed Al Jubair	Investment (External Member)	100,000	20,000	120,000
Total		**2,700,000**	**510,000**	**3,210,000**

* All remunerations and attendance allowances for board and committee meetings for the representatives of the Public Investment Fund shall be provided to the Fund.

Remuneration of five senior executives
(Including the CEO and the CFO for the year 2019)

(SR)	Fixed Remunerations				Variable Remunerations								
	Salaries	Allowances	In-kind benefits	Total	Periodic remunerations	Revenues	Short-term incentive plans	Long-term incentive plans	Shares granted (value entered)	Total	End of Service Benefits	Board remunerations for executives if applicable	Total
Total	12,368,440.59	4,713,042.62	-	17,081,483.21	-	-	21,030,972.00	-	-	21,030,972.00	-	1,259,452.05	39,371,907.26

- **Subsequent Events**

1. On January 2, 2020, Uber completed the acquisition of Careem's assets. The effect of this acquisition on the Group's results after selling its direct investment in Careem is expected to be recorded in Q1 2020.

2. On January 29, 2020, a non-binding memorandum of understanding agreement was signed with the Vodafone Global Enterprise Group, according to which the Company will acquire 55% of the shares of Vodafone Egypt, at a value of approximately US $2,392 million (equivalent to about SR 8,970 million). The final equivalent will be determined upon signing the final agreements.

- **Acknowledgements of the Board of Directors**

stc's Board of Directors acknowledges the following:

- The accounting records were prepared correctly.
- The internal audit system is well established and effectively implemented.
- The board has no doubt about the Company's ability to continue its activity.
- The consolidated financial statements for the year ended December 31, 2019, were prepared in accordance with the IFRS adopted in the Kingdom of Saudi Arabia and with other standards and regulations approved by the SOCPA.
- The Company did not report any natural or legal person owning 5% or more of the issued shares of the Company during 2019.
- No debt instruments were convertible into shares or option rights, subscription warrants, or similar rights issued or granted by the Company during 2019.
- The Company made no refund, purchase, or cancellation for any redeemable debt instruments in 2019.
- There was no arrangement or agreement whereby a board member or senior executive waived any salary or compensation.
- There was no arrangement or agreement whereby a shareholder of the Company waived any rights to profits.
- There was no contract to which the Company is a party in which there was a substantial interest by a member of the Board of Directors, CEO, CFO, or any person related to them.

- The Company did not provide cash loans of any kind to the members of its Board of Directors or guarantee any loan that one of them has borrowed from others.
- There were no option rights or subscription rights exercised by board members or senior executives, or their spouses or minor children.
- The Company's External Auditor expressed his opinion without reservation on the 2019 consolidated financial statements.
- There are no Audit Committee recommendations that conflict with any of the Board of Directors' decisions, or that the board refused to adopt in regard to appointing and dismissing the company auditor, determining their fees, assessing their performance, or appointing the internal auditor.

Recommendations

stc's Board of Directors recommends the following to the General Assembly of the Company:

1. Approval of the report of the Board of Directors for the fiscal year ended 31/12/2019.
2. Approval of the auditor's report of the Company for the fiscal year ended 31/12/2019.
3. Approval of the Company's consolidated financial statements for the fiscal year ended 31/12/2019.
4. Approval of the Board of Directors' appointment of Dr. Amr bin Khalid Kurdi and Eng. Tareq bin Abdulaziz Al Rukhaimi (external members) as members of the Audit Committee starting from 18/9/2019 until the end of the current committee's term on 27/4/2021, to replace the former committee member, Dr. Khalid bin Dawood Al-Faddagh (external member). The appointment shall take effect as of the date of the recommendation issued on 19/1/1441 AH (corresponding to 18/9/2019) and is in accordance with the regulations of the Audit Committee.
5. Approval of the Company's purchase of its shares with a maximum of 5.5 million shares, and an amount not exceeding SR 300 million, in order to allocate them to the employee incentive shares program, provided that the purchase of the shares is financed from the Company's revenues; and delegating the board or whoever it authorizes to complete the purchase over a single or multiple stages during a period not exceeding 8 months from the date of the Extraordinary General Assembly's decision, and specifying the terms of the program, and implementing or amending it whenever needed.
6. Approval of the remuneration and compensation paid to the members of the Board of Directors for their membership and included in the report of the Board of Directors for the period from January 1, 2019, to December 31, 2019.

Conclusion:

After thanking Allah, the Board of Directors would like to thank the Custodian of the Two Holy Mosques, King Salman bin Abdulaziz Al Saud, and HRH Prince Mohammed bin Salman bin Abdulaziz Al Saud, and our wise government for their support and encouragement for the Company to improve its performance and enhance its services. The Board of Directors also expresses its appreciation for the Company's valued clients and esteemed shareholders for their trust; and its gratitude for the employees for their dedication and diligence at work. The board confirms the Company's commitment to develop its business to meet the needs of its customers, realize the aspirations of its shareholders, serve social objectives, and maintain its leadership in the telecommunications sector in the Kingdom of Saudi Arabia.

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Saudi Telecom Company
(A Saudi Joint Stock Company)

Opinion

We have audited the accompanying consolidated financial statements of Saudi Telecom Company (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise of the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to these consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flowsfor the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters listed below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Saudi Telecom Company (continued)
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KEY AUDIT MATTERS (CONTINUED)

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
REVENUE RECOGNITION	
The Group's revenue consists primarily of subscription fees for telecommunication, data packages and use of the network totalling SR 54 billion for the year ended 31 December 2019. We considered this a key audit matter as the application of accounting standard for revenue recognition in the telecommunication sector includes number of key judgments and estimates. Additionally, there are inherent risks about the accuracy of revenues recorded due to the complexity associated with the network environment, dependency on IT applications, large volumes of data, changes caused by price updates and promotional offers affecting the various products and services offered during the accounting period, as well as the materiality of the amounts involved. Refer to note 4.3 for the accounting policy related to revenue recognition and note 34 for the related disclosures.	**Our audit procedures included, among others, the following:** • Involved our IT specialists in testing the design, implementation and operating effectiveness of system internal controls related to revenue recognition. • Evaluated the appropriateness of revenue recognition policies. • Reviewed a sample of revenue reconciliations prepared by management between the primary billing system and the general ledger. • Tested the accuracy of customer invoice generation on a sample basis and tested a sample of the credits and discounts applied to customer invoice. • Tested cash receipts for a sample of customers back to the invoice. • Performed analytical procedures by comparing expectations of revenue with actual revenue and analysing variances. • Assessed the relevant disclosures in the consolidated financial statement.
ALLOWANCE FOR IMPAIRMENT OF TRADE RECEIVABLE	

As at 31 December 2019, the Group's trade receivables amounted to SR 22.4 billion against which an impairment allowance of SR 2.8 billion is maintained.
 	
The Group uses the expected credit loss model (ECL) as required by International Financial Reporting Standard 9 (Financial Instrument) (IFRS 9) to calculate allowance for impairment in trade receivable.
 	
We considered this as a key audit matter as ECL model involves complex calculations and use of assumptions by management in addition to the materiality of the amounts involved.
 	
Refer to notes 4.15.3 and 5.2.5 for the accounting and critical judgements policies related to allowance for impairment of trade receivable and note 11 for the related disclosures.
	Our audit procedures performed included, among others, the following:
	• Assessed the design, implementation, and operating effectiveness of the key controls over the following:
	  - Recording of trade receivables and settlements.
	  - Trade receivables aging reports.
	• Tested a sample of trade receivables to assess whether ECL has been recorded on a timely manner.
	• Assessed significant assumptions, including collection rates, recovery rates, impairment ratios and those relating to future economic events that are used to calculate the expected credit loss.
	• Tested the mathematical accuracy of the ECL model.
	• Assessed the disclosures included in the consolidated financial statements of the Group.

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INDEPENDENT AUDITOR'S REPORT
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KEY AUDIT MATTERS (CONTINUED)

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
ACCOUNTING FOR ZAKAT AND WITHHOLDING TAX CLAIMS FROM THE GENERAL AUTHORITY OF ZAKAT AND TAX (GAZT)	
As at 31 December 2019, the Group received following claims from GAZT, relating to Zakat and withholding tax: **Zakat:** The Group received zakat assessments for the years ended 31 December 2008, 2009 and 2018 with additional zakat claimed by GAZT which was challenged by the Group. **Withholding Tax:** The Group received withholding tax assessments from GAZT for the service of renting international operators' networks outside the Kingdom of Saudi Arabia for the years from 2004 to 2015. The Group's management believes that this service should not be subject to withholding tax and has objected against such assessments which are still underway before the relevant committee. We considered this as a key audit matter as accounting for zakat and withholding tax involves management estimates in addition to the materiality of the additional amounts claimed. Refer to note 4.8 for the accounting policy related to zakat and withholding taxes and notes 33 and 44-E for the related disclosures.	**Our audit procedures performed included, among others, the following:** • Reviewed correspondences between the Group and GAZT to determine the amount of the additional assessments made by GAZT. • Attended meetings with those charged with governance and the Group's management to obtain an update on the zakat and withholding tax matters and the results of their interactions with the relevant committees. • Involved our specialist to assess the appropriateness of the exposures disclosed for both zakat and withholding tax for the years assessed by GAZT and judgements made by management in this matter. • Reviewed prior year's decisions from the relevant committee on zakat assessment. • Assessed the related disclosures included in the consolidated financial statements of the Group.

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KEY AUDIT MATTERS (CONTINUED)

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
CAPITALIZATION AND USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT (PPE)	
The Group has a substantial capital expenditure plan and therefore incurs significant annual expenditure in relation to the development and maintenance of both infrastructure assets and assets in relation to network and related equipment. Costs related to upgrading or enhancing networks are treated as capital expenditures. Expenses spent to maintain the network's operating capacity are recognized as expenses in the same year in which they are incurred. Capital projects often contain a combination of enhancement and maintenance activities that are difficult to separate, and therefore the distribution of costs between capital and operation depends heavily on management assumptions. Further, there are a number of areas where management, judgments impacts the carrying values and depreciation of PPE which include: - Decision to capitalize or expense costs; - Review of the useful lives of PPE including the impact of changes in the Group's strategy; and - The timing of commencement of depreciation based on when they are ready for their intended use. We considered this as a key audit matter since it involves management's assumptions and estimates as well as the materiality of the amounts involved. Refer to note 4.9 for the accounting policy related to property, plant and equipment and note 7 for the related disclosures.	**Our audit procedures performed included, among others, the following:** • Tested the effectiveness of the key controls in place over the capitalization and depreciation of PPE and assessed the Group's policies. • Performed analytical procedures on depreciation of PPE by comparing actual depreciation rates with expected rates and analysed variances. • Tested, on a sample basis, the reasonableness of useful lives estimation performed by the management. In addition to the above, we also performed the following procedures on the capitalized cost: • Assessed the Group's capitalisation policy for compliance with relevant accounting standards; • Tested, on a sample basis, the implementation of expenditure policy during the year, including the review of minutes of meetings where capital expenditure plan was approved. • Tested, on a sample basis, capitalisation of project expenses in compliance with the Group's capitalisation policy including instances where actual costs differed from the expenditure plan. • Assessed the disclosures included in the consolidated financial statements of the Group.

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KEY AUDIT MATTERS (CONTINUED)

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
VALUATION OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	
As at 31 December 2019, the Group's consolidated financial position included property, plant and equipment amounting to SR 45.1 billion and intangible assets amounting to SR 9.9 billion. At each reporting date, the Group perform an assessment of the recoverable value of these assets, or relevant cash- generating units ('CGUs') for any indication of impairment. This involves significant judgment in respect of factors such as technological changes, challenging economic conditions, changing regulatory environment and restrictions, operating or capital costs and other economic assumptions used by the Group. We considered this as a key audit matter as it involves management's assumptions and estimates as well as the materiality of the amounts involved. Refer to notes 4.11 and 5.1.2 for the accounting and critical judgements policies related to valuation of property, plant and equipment and intangible assets.	**Our audit procedures performed included, among others, the following:** • Reviewed management's impairment indicator testing. • Assessed management's assumptions and estimates used to determine the recoverable value of the assets based on our knowledge of the Group and the industry it operates in. • Assessed management's methods of identifying individual CGUs. • Assessed mathematical accuracy of cash flow models. • Assessed the disclosures included in the consolidated financial statements of the Group.

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KEY AUDIT MATTERS (CONTINUED)

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARD 16 (LEASES) (IFRS 16)	
As at 1 January 2019, the Group's adopted IFRS 16 which supersedes the requirement of IAS 17 (Leases). The Group adopted IFRS 16 "Leases" during the year using the modified retrospective approach; hence, the comparative information was not restated. The Group recorded right of use assets amounting to SR 2,556 million, with corresponding lease liability amounting to SR 2,367, adjusted for any prepaid or accrued lease payments as of 1 January 2019. We considered this as a key audit matter due to the nature and the significance on the Group's consolidated financial statement. In addition to the judgments required by management in the adoption of the standard and the materiality of the amounts involved. Refer to note 4.4 for the accounting policy related to lease contracts, note 3-1 for the impact of adopting IFRS 16 and notes 9 and 29 for the related disclosures.	**Our audit procedures performed included, among others, the following:** • Assessed management's procedures in adopting IFRS 16 as endorsed in the Kingdom of Saudi Arabia. • Assessed management's estimates used to calculate the impact of adoption of IFRS 16 as at 1 January 2019 (e.g., discount rate and lease terms used to determine the ROU assets and lease liability for lease contracts). • Analysed the completeness of the population of lease contracts by reviewing the reconciliation of the Group's operating lease commitments as of 31 December 2018 to lease liability recognized as at 1 January 2019 and assessed, on sample basis, the contracts for the appropriateness of inclusion or exclusion from the calculation of ROU assets and lease liabilities. • Tested, on a sample basis, the accuracy of the lease data by agreeing them with the signed contract and checked mathematical accuracy of the calculation of the ROU assets and lease liabilities. • Assessed the disclosures included in the consolidated financial statements of the Group.

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Other Information Included in the Group's 2019 Annual Report
Other information consists of the information included in the Group's 2019 annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2019 annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.
When we read the Group's 2019 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants and the provisions of Companies' Law and Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.
Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.
As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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(A Saudi Joint Stock Company)

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group' s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion.

  Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

for Ernst & Young

Certified Public Accountant
License No. 366

Riyadh: 24 Rajab 1441H
(19 March 2020)

consolidated statement of financial position as at 31 december 2019
(all amounts in saudi riyals thousands unless otherwise stated)

	Notes	31 December 2019	31 December 2018
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	7	**45.085.342**	41.920.409
Intangible assets and goodwill	8	**9.906.688**	9.560.119
Right of use assets	9	**2.887.933**	-
Investments in associates and joint ventures	21	**6.618.526**	6.581.733
Contract assets	16	**648.069**	504.042
Contract costs	15	**922.922**	1.030.129
Other financial assets	17	**7.323.433**	3.373.016
Other non-current assets	13	**91.851**	371.621
TOTAL NON-CURRENT ASSETS		**73.484.764**	63.341.069
CURRENT ASSETS			
Inventories	10	**1.721.530**	787.456
Trade and other receivables	11	**21.372.368**	14.493.149
Short term murabahas	12	**2.181.416**	9.685.491
Contract assets	16	**6.793.755**	5.468.441
Other financial assets	17	**376.589**	5.488.245
Other current assets	13	**4.097.096**	1.952.878
Cash and cash equivalents	19	**8.031.010**	8.153.865
Assets held for sale		**44.573.764**	46.029.525
TOTAL CURRENT ASSETS	14	**267.728**	-
TOTAL ASSETS		**44.841.492**	46.029.525
EQUITY AND LIABILITIES		**118.326.256**	109.370.594

Chief Financial Officer | Chief Executive Officer | Authorized Board Member | Chairman

The accompanying notes from 1 to 48 form an integral part of these consolidated financial statements

consolidated statement of financial position as at 31 december 2019
(all amounts in saudi riyals thousands unless otherwise stated)

	Notes	31 December 2019	31 December 2018
EQUITY			
Issued capital			
Statutory reserves	22	**20.000.000**	20.000.000
Other reserves	23	**10.000.000**	10.000.000
Retained earnings	24	**(2.745.608)**	(1.903.878)
Equity attributable to the equity holders of the Parent Company		**34.508.202**	37.417.562
Non-controlling interests		**61.762.594**	65.513.684
TOTAL EQUITY	18	**1.292.452**	1.147.914
LIABILITIES		**63.055.046**	66.661.598
NON-CURRENT LIABILITIES			
Long term borrowings	25	**8.923.476**	3.965.479
End of service benefits provision	27	**4.812.805**	3.919.362
Lease liabilities	29	**1.580.935**	-
Provisions	26	**891.210**	891.910
Contract liabilities	28	**771.915**	771.915
Other financial liabilities	30	**1.591.911**	1.526.259
Other non-current liabilities	31	**3.508.706**	2.177.016
TOTAL NON-CURRENT LIABILITIES		**22.080.958**	13.251.941
CURRENT LIABILITIES			
Trade and other payables	32	**18.694.412**	14.092.907
Provisions	26	**5.157.110**	6.829.451
Contract liabilities	28	**2.465.735**	2.538.940
Zakat and income tax	33	**1.482.278**	1.465.775
Lease liabilities	29	**1.300.242**	-
Short term borrowings	25	**389.339**	320.533
Other financial liabilities	30	**2.145.276**	90.731
Other current liabilities	31	**1.555.860**	4.118.718
TOTAL CURRENT LIABILITIES		**33.190.252**	29.457.055
TOTAL LIABILITIES		**55.271.210**	42.708.996
TOTAL EQUITY AND LIABILITIES		**118.326.256**	109.370.594

Chief Financial Officer **Chief Executive Officer** **Authorized Board Member** **Chairman**

The accompanying notes from 1 to 48 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENET OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2019

(All Amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	2019	2018
Revenues	34	**54.367.531**	51.963.243
Cost of revenues	35	**(21.976.306)**	(21.490.161)
GROSS PROFIT		**32.391.225**	30.473.082
OPERATING EXPENSES			
Selling and marketing	36	**(5.581.969)**	(5.480.288)
General and administration	37	**(5.544.276)**	(5.157.039)
Depreciation and amortisation	9,8,7	**(8.784.587)**	(7.590.530)
		(19.910.832)	(18.227.857)
TOTAL OPERATING EXPENSES			
OPERATING PROFIT		**12.480.393**	12.245.225
OTHER INCOME AND EXPENSES			
Cost of early retirement program		**(600.000)**	(450.000)
Finance income	38	**639.161**	551.535
Finance cost	39	**(765.154)**	(395.440)
Net other (expenses) income		**(76.062)**	102.943
Net share in results of investments in associates and joint ventures	21	**49.597**	(10.605)
Net other losses	40	**(40.960)**	(215.493)
TOTAL OTHER INCOME (EXPENSES)		**(793.418)**	(417.060)
NET PROFIT BEFORE ZAKAT AND INCOME TAX		**11.686.975**	11.828.165
Zakat and income tax	33	**(762.144)**	(747.667)
NET PROFIT		**10.924.831**	11.080.498
Net profit attributable to:			
Equity holders of the Parent Company		**10.664.666**	10.779.771
Non-controlling interests		**260.165**	300.727
		10.924.831	11.080.498
Basic and diluted earnings per share			
(In Saudi Riyals)	41	**5.33**	5.39

Chief Financial Officer | Chief Executive Officer | Authorized Board Member | Chairman

 The accompanying notes from 1 to 48 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

(All Amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	2019	2018
NET PROFIT		**10.924.831**	11.080.498
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	27	**(710.054)**	13.414
Fair value changes on equity instruments measured at fair value through other comprehensive income (FVOCI)		-	113.543
Total items that will not be reclassified subsequently to consolidated statement of profit or loss		**(710.054)**	126.957
Items that may be reclassified subsequently to consolidated statement of profit or loss: Foreign currency translation differences		**(1.479)**	(10.739)
Fair value changes from cash flow hedges		**(484)**	736
Share of other comprehensive income/(loss) of associates and joint ventures, net		**214.013**	(247.317)
Total items that may be reclassified subsequently to consolidated statement of profit or loss		**212.050**	(257.320)
TOTAL OTHER COMPREHENSIVE LOSS		**(498.004)**	(130.363)
TOTAL COMPREHENSIVE INCOME		**10.426.827**	10.950.135
Total comprehensive income attributable to: Equity holders of the Parent Company		**10.163.477**	10.651.283
Non-controlling interests		**263.350**	298.852
		10.426.827	10.950.135

Chief Financial Officer | **Chief Executive Officer** | **Authorized Board Member** | **Chairman**

The accompanying notes from 1 to 48 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

(All Amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit before zakat and income tax		**11.686.975**	11.828.165
Adjustments :			
Depreciation and amortisation	9.8.7	**8.784.587**	7.590.530
Impairment loss and amortisation of contract costs and contract assets		**506.951**	657.784
Impairment loss on trade receivables	11	**662.043**	706.935
Allowance for slow moving inventories	10	**57.086**	31.863
Finance income	38	**(639.161)**	(551.535)
Finance cost	39	**765.154**	395.440
Provision for end of service benefits and other provisions		**935.304**	1.293.581
Share in results of investments in associates and joint ventures, net		**(49.597)**	10.605
Net other losses	40	**40.960**	215.493
Movements in :			
Trade receivables and others		**(7.574.857)**	5.239.857
Inventories		**(988.430)**	(337.038)
Contract costs		**(296.936)**	(477.758)
Contract assets		**(1.573.106)**	(727.257)
Other assets		**(2.317.470)**	(1.210.921)
Trade payables and others		**4.714.301**	729.809
Contract liabilities		**(130.160)**	(724.005)
Other liabilities		**(3.469.086)**	(4.326.337)
Cash generated from operations		**11.114.558**	20.345.211
Less: Zakat and income tax paid	33	**(742.882)**	(690.934)
Less: Provision for end of service benefits paid	27	**(451.050)**	(521.861)
Net cash generated from operating activities		**9.920.626**	19.132.416
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment		**(9.426.711)**	(8.406.935)
Additions to intangible assets		**(1.941.453)**	(1.350.151)
Proceeds from sale of property and equipment		**140.307**	5.094
Dividends from associates		**37.931**	-
Acquisition of a new subsidiary	18	**(232.669)**	-
Proceeds from finance income		**642.431**	595.731
Proceeds related to financial assets		**23.731.986**	26.988.671
Payments related to financial assets		**(14.928.948)**	(22.859.438)
Net cash used in investing activities		**(1.977.126)**	(5.027.028)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		**(12.105.714)**	(8.054.671)
Repayment of lease liabilities		**(712.467)**	-
Repayment of borrowings	25	**(350.948)**	(635.710)
Proceeds from borrowings	25	**5.381.417**	303.936
Finance cost paid		**(279.933)**	(130.517)
Net cash used in financing activities		**(8.067.645)**	(8.516.962)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(124.145)**	5.588.426
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**8.153.865**	2.567.044
Net foreign exchange difference		**1.290**	(1.605)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	19	**8.031.010**	8.153.865

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

(All Amounts in Saudi Riyals thousands unless otherwise stated)

		Total equity attributable to the equity holders of the Parent Company						
	Notes	Issued capital	Statutory reserves	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance as at 1 January 2018 (as restated)		20.000.000	10.000.000	(1.775.390)	34.637.791	62.862.401	939.180	63.801.581
Net profit		-	-	-	10.779.771	10.779.771	300.727	11.080.498
Other comprehensive loss		-	-	(128.488)	-	(128.488)	(1.875)	(130.363)
Total comprehensive income		-	-	(128.488)	10.779.771	10.651.283	298.852	10.950.135
Dividends to the equity holders of the Parent Company	46	-	-	-	(8.000.000)	(8.000.000)	-	(8.000.000)
Dividends paid to non-controlling interests		-	-	-	-	-	(90.118)	(90.118)
Balance as at 31 December 2018		20.000.000	10.000.000	(1.903.878)	37.417.562	65.513.684	1.147.914	66.661.598
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		**-**	**-**	**-**	**10.664.666**	**10.664.666**	**260.165**	**10.924.831**
Other comprehensive loss		**-**	**-**	**(501.189)**	**-**	**(501.189)**	**3.185**	**(498.004)**
Total comprehensive income		**-**	**-**	**(501.189)**	**10.664.666**	**10.163.477**	**263.350**	**10.426.827**
Dividends to the equity holders of the Parent Company	46	**-**	**-**	**-**	**(14.000.000)**	**(14.000.000)**	**-**	**(14.000.000)**
Dividends to non-controlling interests		**-**	**-**	**-**	**-**	**-**	**(118.812)**	**(118.812)**
Share of changes in other reserves of a joint venture equity	21-2	**-**	**-**	**85.433**	**-**	**85.433**	**-**	**85.433**
Transfers	17	**-**	**-**	**(425.974)**	**425.974**	**-**	**-**	**-**
Balance as at 31 December 2019		**20.000.000**	**10.000.000**	**(2.745.608)**	**34.508.202**	**61.762.594**	**1.292.452**	**63.055.046**

Chief Financial Officer | Chief Executive Officer | Authorized Board Member | Chairman

The accompanying notes from 1 to 48 form an integral part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019
(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. Also, computer programs and the other intellectual properties, in addition to providing services and executing contracting works that are related to different telecom networks.
8. Real estate investment and the resulting activities, such as selling, buying, leasing, managing, developing and maintenance.
9. Acquire loans and own fixed and movable assets for intended use.
10. Provide financial and managerial support and other services to subsidiaries.
11. Provide development, training, assets management and other related services.
12. Provide solutions for decision support, business intelligence and data investment.
13. Provide supply chain and other related services.
14. Provide digital payment services.
15. Construction, maintenance and repair of telecommunication and radar stations and towers.

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

2. basis of preparation and consolidation

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA") ("IFRS endorsed by SOCPA").

The consolidated financial statements have been prepared on a historical cost basis, unless stated otherwise, in the below accounting policies.
The consolidated financial statements are presented in Saudi Riyals ("SR"), which is the functional currency for the Group, and all values are rounded to the nearest thousand Saudi Riyals, except when otherwise indicated.
The preparation of the consolidated financial statements in accordance with IFRS as endorsed by SOCPA requires the use of certain significant accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

2. BASIS OF PREPARATION AND CONSOLIDATION *(continued)*

2.1 Basis of preparation *(continued)*

The significant accounting policies (See Note 4) applied in preparing these consolidated financial statements are consistent with those applied in comparative periods presented, with the exception of IFRS 16 (Leases) that was applied for the first time (See Note 3.1)

2.2 Basis of consolidation

The consolidated financial statements of the Group comprises the financial information of the Company and its subsidiaries (refer to Note 18).

Subsidiaries are companies controlled by the Group, control is achieved when the Group has:

- Power over the investee (i.e. existing rights that give the Group the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

In general, there is a presumption that a majority of voting rights result in control. In support of this assumption, when the Group has less than a majority of the voting rights or similar rights in the investee, the Group takes into consideration all relevant facts and circumstances when determining whether it exercises control over the investee, including:

- Arrangement(s) with other voting rights holders in the investee company.
- Rights arising from other contractual arrangements.
- Group's voting rights and potential voting rights

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control mentioned above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired (or disposed) of during the year are included (or derecognised) in the consolidated financial statements from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the equity holders of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

2. BASIS OF PREPARATION AND CONSOLIDATION *(continued)*

2.2 Basis of consolidation *(continued)*

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in the consolidated statement of profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets and liabilities of the subsidiary (i.e. reclassified to the consolidated statement of profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3. new standards, interpretations and amendments adopted by the group

3.1 IFRS 16 "LEASES"

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

IFRS 16 supersedes the following Standards and Interpretations:

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

The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all major leases; which represents a significant change from IAS 17. Lessor accounting under IFRS 16 is substantially unchanged from previous accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

Impact of transition to IFRS 16

The Group has adopted IFRS 16 using the modified retrospective approach with the cumulative effect of applying this standard recognised at the date of initial application (1 January 2019) and accordingly the information presented for 2018 has not been restated. It remains as previously reported under IAS 17 and related interpretations.
On initial application, the Group has elected to record right-of-use assets (amounting to SR 2,556 million) based on the corresponding lease liability (amounting to SR 2,367 million) adjusted for any prepaid or accrued lease payments as of 1 January 2019, with no impact on retained earnings.
Lease liabilities are recognized on the date of initial application of the lease contracts previously classified as operating leases (in accordance with IAS 17). Lease liabilities were measured at the present value of the remaining lease payments discounted using the Group's incremental borrowing rate as of 1 January 2019. The weighted average rate of incremental borrowing rate at the initial implementation date was 3.9%.

2. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP *(continued)*

3.1 IFRS 16 "LEASES" *(continued)*

The following is the reconciliation of lease liabilities on 1 January 2019 with operating lease commitments on 31 December 2018:

Operating lease commitments as at 31 December 2018	**2.501.822**
Weighted average incremental borrowing rate as at 1 January 2019	**3.9%**
Discounted operating lease commitments as at 1 January 2019	**2.216.484**
Less:	
Commitments relating to short-term leases	**(1.192)**
Commitments relating to leases of low-value assets	**(7.358)**
Add:	
Extension and termination options not recognized at 31 December 2018	**159.414**
Lease liabilities as at 1 January 2019	**2.367.348**

The Group has elected to apply the following:

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

As a practical expedient, the Group has elected not to reassess whether a contract is, or contains, a lease at the date of initial application, and continue as previously assessed under IAS 17 and IFRIC 4. The Group applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after 1 January 2019.

3.2 NEW IFRS STANDARDS, ISSUED AND ADOPTED

Few other amendments to IFRS and IFRIC that were applied by the Group with effective date on 1 January 2019 and had no material impact:

2. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP *(continued)*

3.2 NEW IFRS STANDARDS, ISSUED AND ADOPTED *(continued)*

Amendments and interpretations
Amendments to IFRS 9 'Financial Instruments' - Prepayments features with negative compensation
Amendments to IAS 19 'Employee Benefits' - Plan Amendment, Curtailment or Settlement
Amendments to IAS 28 'Investments in Associates and Joint Ventures' – Long-term interests in Associates and Joint Ventures
IFRIC 23 'Uncertainty over Income Tax Treatments'
Annual Improvements to IFRS Standards 2015 – 2017 Cycle

3.3 OTHER AMENDMENTS OF RELEVENANT IFRS'S ISSUED BUT NOT YET EFFECTIVE

Amendments and interpretations
Amendments to the Conceptual Framework for Financial Reporting
Definition of a Business - Amendments to IFRS (3)
Definition of Material- Amendments to IAS (1) and IAS (8)

4. summary of significant accounting policies

4.1 BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method upon transfer of control to the Group. The consideration transferred is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in the consolidated statement of profit or loss as incurred.

When the Group acquires a business, it assesses the identifiable assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquirer.

At the acquisition date, the identifiable assets acquired, and the liabilities assumed are recognised at their fair value with limited exceptions.

Goodwill is initially measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value at the acquisition-date of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date fair values of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts recognised at the acquisition date.

If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then a gain on bargain purchase at a differential price is recognised in the consolidated statement of profit or loss.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing for goodwill acquired from the business combination and from the date of acquisition, it will be allocated to cash-generating units (CGU) that are expected to benefit from the consolidation regardless of whether the other assets or liabilities acquired have been allocated to those units.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.1 BUSINESS COMBINATIONS *(continued)*

If goodwill is not allocated to designated cash-generating units because of an incomplete initial calculation, the initial impairment loss will not be tested unless impairment indicators are available to enable the Group to distribute the carrying amount of the goodwill on the cash generating units or the group of cash generating units expected to benefit of the benefits of business combination. Where goodwill is allocated to the cash generating unit and part of the operations of that unit is disposed of, goodwill associated with the discontinued operation will be included in the carrying amount when determining the gain or loss on disposal of the operation. The goodwill in such circumstances is measured on the basis of a value of similar disposed operation and the remaining portion of the cash-generating unit.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

Any contingent consideration to be paid (if any) will be recognised at fair value at the acquisition date and classified as equity or financial liability. Contingent consideration classified as financial liability is subsequently remeasured at fair value with the changes in fair value recognised in the consolidated statement of profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in the consolidated statement of profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to the consolidated statement of profit or loss where such treatment would be appropriate if that interest were disposed off.

If the initial accounting for the business combination is not completed by the end of the reporting period which constitutes the period in which the combination occurred, the Group present the items whose value calculation has not been completed in a temporary manner in the consolidated financial statements. During the measurement period, which is not more than one year from the acquisition date, the temporary value recognized on the acquisition date is retroactively adjusted to reflect the information obtained about the facts and circumstances that existed at the date of acquisition and if it is determined that this will affect the measurement of amounts recognized as of that date. The Group recognizes

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.1 BUSINESS COMBINATIONS *(continued)*

additional assets or liabilities during the measurement period if new information about facts or circumstances existed at the date of the acquisition and if it will result in recognition of assets or liabilities from that dat. The measurement period ends once the group obtains those information existed at the acquisition date or as soon as it becomes sure of the lack of access to more information.

4.2 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

An associate is an entity over which the Group has significant influence but does not have control or joint control over it. Significant influence is the Group ability to participate in the financial and operating policies decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the Group has joint control of the arrangement and has rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The considerations made in determining significant influence are holding– directly or indirectly – voting rights in the investee, representation on the board of directors or equivalent governing body of the investee, participation in policy-making, including participation in decisions about dividends or other distributions; material transactions between the Group and its investee; interchange of managerial personnel; or provision of essential technical information.

The investment in associates or joint ventures are accounted for in the consolidated financial statement of the Group using the equity method of accounting. The investment in associates or joint ventures in the consolidated statement of financial position is initially recognized at cost and adjusted thereafter to recognise the Group's share of the profit and loss and other comprehensive income of the associate or joint venture adjusted for any impairment in the value of net investment. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses.

Additional losses are recognised and recorded as liabilities only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Unrealised gain or losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.
An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture.
On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment.
Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in the consolidated statement of profit or loss in the acquisition year.

The requirements of IFRSs are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. The carrying amount of the investment in an associate or a joint venture is tested for impairment in accordance with the policy described in Note (5.1.2).

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale.
When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to the consolidated statement of profit or loss the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss includes the disposal of the related assets or liabilities.

When any entity within the Group transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.3 REVENUE RECOGNITION

Revenue is recognized based on the consideration specified in a contract with a customer and excludes amount collected on behalf of third parties. The Group recognizes revenue when it transfers control over a product or services to a customer.
The timing of revenues recognition is either at a point in time or over time depending upon the satisfaction of the performance obligation by transferring control of goods or services to the customer.

When there is a high degree of uncertainty about the possibility of collection from certain customers, the Group recognizes revenue only upon collection.

The Group principally earns revenue from airtime usage, messaging, data services, interconnect fees, connection fees and device sales. Products and services may be sold separately or in bundled packages.

Product and services	Nature and timing of satisfaction of performance obligation
Telecommunication services	Telecommunication services include voice, data and text services. The Group recognizes revenues as and when these services are provided (i.e. actual usage by the customer).
Bundled packages	Arrangements involving multiple products and services are separated into individual items and revenues is recognized on the basis of fair value (standalone selling prices) of the individual items by allocating the total arrangement consideration to the individual items on the basis of the relative value of the selling prices of the individual items. Items are separable if they are of separate value to the customer.
Devices	The Group recognizes revenues when the control of the device is transferred to the customer. This usually occurs at the contract inception when the customer takes the possession of the device.

Dividend income from investments in equity instruments is recognized when the Group's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.4 LEASE CONTRACTS (POLICY APPLIED FROM 1 JANUARY 2019) (SEE NOTE 3.1)

The Group as a lessee

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

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

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

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

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

(a) increasing the carrying value to reflect interest on the lease liability.

(b) reducing the carrying value to reflect the lease payments made.

(c) remeasuring the carrying value to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

The amount of the remeasurement of the lease liability is recorded as an adjustment to the right of use asset. However, if the carrying amount of the right of use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, then any remaining amount of the remeasurement is recognized in the consolidated statement of profit or loss.

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

The Group as a lessor

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. The group as a Lessor will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 does not have an impact for leases where the Group is the lessor. Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Operating lease income is recognized in the consolidated statement of profit or loss on a straight-line basis over the lease term. Any benefits granted as an incentive to enter into an operating lease, are distributed in a straight-line basis over the lease term . Total benefits from incentives are recognized as a reduction in rental income on a straight-line basis, unless there is another basis that better represents the period of time in which the economic benefits of the leased asset are exhausted.

The amounts due from the finance leases are recorded as lease receivables at an amount equal to the net investment of the Group in the lease. The lease payments to be received are distributed into two components: (1) a reimbursement of the original amount (2) a financing income to compensate the Group for its investment and services. The additional costs directly attributable to negotiating the lease contract are included in the amounts due, which in return, will reduce the finance income portion from the contract.

4.5 FOREIGN CURRENCIES

The information and disclosures are presented in Saudi Riyals (the functional currency of Saudi Telecom Company – the Parent Company). For each subsidiary, the Group determines the functional currency, which is defined as the currency of the primary economic environment in which the entity operates, and items included in the financial statements of each subsidiary are measured using that functional currency.

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity›s functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item to which it relates.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.5 FOREIGN CURRENCIES *(continued)*

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for limited circumstances.

For the purposes of presenting the consolidated financial statement, the assets and liabilities of the Group›s foreign operations are translated into Saudi Riyals using exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the reporting period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group›s entire interest in a foreign operation, a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint venture or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the Company's shareholders are reclassified to the consolidated statement of profit or loss.

For all partial disposals of associates or joint ventures that do not result in the Group losing significant influence or joint control, the proportionate share of the accumulated exchange differences is reclassified to the consolidated statement of profit or loss.

4.6 GOVERNMENT GRANTS

Government grants are not recognised until there is reasonable assurance that the Group will comply with the attached conditions and that the grants will be received.

Government grants are recognised in the consolidated statement of profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to the consolidated statement of profit or loss on a systematic and rational basis over the useful lives of the related assets.

When the Group receives government grants as compensation for expenses or losses already incurred or immediate financial support with no future related costs are recognised in the profit or loss in the period in which they become receivable.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.7 EMPLOYEE BENEFITS

4.7.1 Retirement benefit costs and end of service benefits

Payments to defined contribution schemes are charged as an expense as they fall due. Payments made to state-managed pension schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution scheme.
Employee's end of service benefits provision is calculated annually by actuaries in accordance with the projected unit credit method as per (IAS 19) Employee Benefits, taking into consideration the labour law of the respective country in which the subsidiary operates. The provision is recognised based on the present value of the defined benefit obligations.

The present value of the defined benefit obligations is calculated using assumptions on the average salary incremental rate, average emolyees years of service and an appropriate discount rate. The assumptions used are calculated on a consistent basis for each period and reflect management's best estimate.
Due to the fact that the Kingdom does not have a deep market in high quality corporate bonds, the discount rate is deterimined based on available information of Saudi Arabia sovereign bond yields with a term consisentent with the estimated term of the defined benefit obligation as at the reporting date.
Re-measurement of net liabilities that includes actuarial gains and losses arising from the changes in assumptions used in the calculation, is recognized directly in other comprehensive income. Re-measurements are not reclassified to the consolidated statement of profit and loss in subsequent periods.

The cost of past services (if any) is recognized in the consolidated statement of profit or loss before:

- Date of modification of the program or labour downsizing; and
- The date on which the Group recognizes the related restructuring costs.

Net interest cost is calculated using the discount rate to net defined benefit assets or liabilities. The Group recognizes the following changes in the net benefit obligation identified under "cost of revenue", "general and administrative expenses" and "selling and marketing expenses" in the consolidated statement of profit or loss (by function):

- Service costs that include the current service costs, past service costs, profits and losses resulting from labour downsizing and non-routine payments.
- Net interest cost or income.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.7 EMPLOYEE BENEFITS *(continued)*

4.7.2 Other short and long -term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period in which the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service. Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

4.8 Zakat and Taxation

4.8.1 Zakat

The Group calculates and records the zakat provision based on the zakat base in its consolidated financial statements in accordance with Zakat rules and principles in the Kingdom of Saudi Arabia. Adjustments arising from final zakat assessment are recorded in the reporting period in which such assessment is approved by the General Authority of Zakat and Tax ("GAZT").

4.8.2 Current and deferred taxes

Tax related to subsidiaries located outside the Kingdom is calculated in accordance with tax laws applicable in those countries.
Deferred income tax provision for foreign entities is calculated using the liability method, and it is used for the temporary differences at the end of the financial year between the tax base of assets and liabilities and their carrying values for financial reporting purposes.

Deferred tax liabilities and deferred tax assets are measured at the tax rates expected to be applied in the reporting period in which the obligation is settled, or the assets is realized.
Deferred tax assets of foreign entities are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized. This involves a judgement relating to the future financial performance of the foreign entity in which the deferred tax assets have been recognised. Deferred tax liabilities are generally recognized for all temporary differences that are taxable. The current income tax is recognized in the consolidated statement of profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.9 PROPERTY AND EQUIPMENT

Property and equipment are stated in the consolidated statement of financial position at their cost, less any accumulated depreciation and accumulated impairment losses.

Cost of telecommunication network and equipment comprises all expenditures incurred up to the customer connection point, including contractors' charges, direct materials and labour costs till the date the relevant assets are placed into service.

Assets under construction are carried at cost, less any recognised impairment loss. Depreciation of these assets commences when the assets are ready for their intended use.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items.
When significant parts of property and equipment are to be replaced (except land), the Group recognises such parts as individual assets with specific useful life. All other repairs and maintenance costs are charged to the consolidated statement of profit or loss during the reporting period in which they are incurred, except to the extent that they increase productivity or extend the useful life of an asset, in which cases they are capitalized. Depreciation is charged and reduces the cost of assets, other than land, using the straight-line method, over their estimated useful lives. An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of profit or loss within other operating income or expenses.

The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.10 INTANGIBLE ASSETS OTHER THAN GOODWILL

Intangible assets are presented in the consolidated financial position at cost less accumulated amortisation and accumulated impairment losses. The cost of intangible assets acquired in a business combination represents their fair value as at the date of acquisition. The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and the estimated useful life and amortisation method are reviewed at the end of each financial year end, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets with indefinite lives are not amortized, but are tested for impairment annually. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

4.10.1 Software

Computer software licenses are capitalised based on the cost incurred to acquire the specific software and bring it into use. Amortisation is charged to the consolidated statement of profit or loss on a straight line basis over the estimated useful life from the date the software is available for use.

4.10.2 Licence and frequency spectrum fees

Amortisation periods for licence and frequency spectrum fees are determined primarily by reference to the unexpired licence period, the conditions for licence renewal and whether licences are dependent on specific technologies. Amortisation is charged to the consolidated statement of profit or loss on a straight-line basis over the estimated useful lives when the related network services are available for use.

4.10.3 Indefeasible Rights of Use ("IRU")

IRUs correspond to the right to use a portion of the capacity of a terrestrial or submarine transmission cable granted for a fixed period. IRUs are recognised at cost as an asset when the Group has the specific indefeasible right to use an identified portion of the underlying asset, generally optical fibres or dedicated wavelength bandwidth, and the duration of the right is for the major part of the underlying asset's economic life. They are amortised on a straight line basis over the shorter of the expected period of use and the life of the contract which ranges between 10 to 20 years.

4.10.4 Derecognition of intangible assets

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

4.11 Impairment of tangible and intangible assets other than goodwill

At the end of each finical year, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of other assets (cash-generating unit).

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement profit or loss.

Tangible and intangible assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each financial year.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.12 Inventories

Inventories are stated at the lower of cost or net realisable value. Costs of inventories are determined using the weighted average method of costing. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

4.13 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and the obligation can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the financial year, after taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material). When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost in the consolidated statement of profit or loss.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

4.14 ASSETS' DECOMMISSIONING LIABILITIES

The Group recognizes obligations on decommissioning of assets when there is a legal or constructive obligation arising from past events and is likely to result in an outflow of resources to settle the obligation and if the obligation can be reliably measured.

The Group calculates a provision with the value of future costs related to the removal and decommissioning of the network and other assets. Upon initial recognition of the obligation, the present value of the expected costs (using a discount rate for future cash flows) is added to the value of the concerned network and other assets. Changes in the discount rate, timing and cost of removing and decommissioning assets are accounted prospectively by adjusting the carrying amount of the provision and the carrying amount of the network and other assets.

4.15 FINANCIAL INSTRUMENTS

4.15.1 Classification, recognition, and presentation

Financial instruments are recognised in the consolidated financial position when and only when the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial instruments at initial recognition.

The Group classifies its financial assets within the following categories:

a) at fair value (either through other comprehensive income, or through profit or loss)
b) at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. The Group has classified all non-derivative financial liabilities at amortised cost.
Derivatives embedded in host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in the consolidated statement of profit or loss.

4.15.2 Measurement

4.15.2.1 Initial measurement

Financial assets and financial liabilities are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of financial assets and issue of financial liabilities or, where appropriate, deducted from them. (Except for financial assets and financial liabilities classified at fair value where transaction costs directly attributable to the acquisition of financial assets or financial liabilities are recognized directly in the consolidated statement of profit or loss).

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.15 FINANCIAL INSTRUMENTS *(continued)*

4.15.2.2 Subsequent measurement of financial assets

The subsequent measurement of the non-derivative financial assets depends on their classification as follows:

a. Financial assets measured at amortised cost:

Assets that are held to collect contractual cash flows are measured at amortised cost using the effective interest rate ('EIR') method where those cash flows represent solely payments of principal and interest. Interest income from these financial assets is included in finance income.

b. Financial assets measured at fair value through profit or loss

The financial assets measured at fair value through profit or loss ("FVTPL") are measured at each reporting date at fair value without the deduction of transaction costs that the Group may incur on sale or disposal of the financial asset in the future.

c. Financial assets measured at fair value through other comprehensive income

The financial assets measured at fair value through other comprehensive income ("FVOCI") are measured at each reporting date at fair value without the deduction of transaction costs that the Group may incur on sale or disposal of the financial asset in the future.

When the financial asset is derecognised, the accumulated gain or loss recognised previously in the consolidated statement of comprehensive income are reclassified to the consolidated statement of profit and loss. However, there is no subsequent reclassification of fair value gains and losses to consolidated statement of profit and loss in case of equity instruments.

The recognition and presentation of gains and losses for each measurement category are as follows:

Measurement category	Recognition and presentation of gains and losses
At amortised cost	The following items are recognised in the consolidated statement of profit or loss: • finance income using the effective interest method • expected credit losses (or reversals of such losses) • foreign exchange gains and losses. When the financial asset is derecognised, the gain or loss is recognised in consolidated statement of profit or loss.
At FVOCI	Gains and losses are recognised in the consolidated statement of comprehensive income, except for the following items, which are recognised in consolidated statement of profit or loss in the same manner as for financial assets measured at amortised cost: • finance income using the average effective interest method • expected credit losses (or reversals of such losses) • foreign exchange gains and losses.
Equity instruments – gain or loss – presented in consolidated statement of comprehensive income	Gains and losses are recognised in the consolidated statement of comprehensive income. Dividends are recognised in consolidated statement of profit or loss unless they clearly represent a repayment of part of the cost of the investment. The amounts recognised in the consolidated statement of comprehensive income are not reclassified to consolidated statement of profit or loss under any circumstances.
At FVTPL	Gains and losses, both on subsequent measurement and derecognition, are recognised in consolidated statement of profit or loss.

4.15.2.3 Subsequent measurement of financial liabilities

a. Amortised cost

The Group should classify all financial liabilities at amortised cost and remeasured subsequently as such, except for:

1. financial liabilities at FVTPL
2. financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or is accounted for using the continuing involvement approach
3. commitments to provide a loan at a below-market interest rate and not measured at fair value though profit or loss
4. financial guarantee contracts
5. contingent consideration recognised at fair value by the Group in a business combination to which IFRS 3 applies (shall subsequently be measured at fair value with changes recognised in the consolidated statement of profit or loss).

Financial liabilities classified at amortized cost are measured using the effective interest rate method. When the financial liabilities are derecognised, the gain or loss is recognised in consolidated statement of profit or loss.

b. Liabilities at fair value through profit or loss
Financial liabilities falling under this category include:
1. liabilities held for trading
2. derivative liabilities not designated as hedging instruments
3. those designated as at FVTPL

After initial recognition, the Group measures financial liabilities at fair value with changes recognised in the consolidated statement of profit or loss.

Gains or losses on a financial liability designated as at FVTPL are generally split and presented as follows:
1. the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that financial liability is presented in the consolidated statement of comprehensive income
2. the remaining amount of change in the fair value of the financial liability is presented in the consolidated statement of profit or loss

4.15.3 Impairment of financial instruments

With respect to impairment of financial assets, IFRS 9 requires the use of the expected credit loss (ECL) model instead of the incurred credit loss model under IAS 39, whereby, the Group assesses the expected credit losses associated with its assets carried at amortised cost and debt instrument carried at FVOCI. The impairment methodology applied depends on whether there has been a significant increase in the credit risk of the financial instrument since initial recognition. Accordingly, the provision for impairment of financial instruments is measured by the amount of the expected credit losses over the life of the financial instrument. If credit risk of the financial instrument has not increased significantly since initial recognition, then 12 month ECL is used to provide for impairment loss. For trade receivables and contact assets, the Group applies a simplified approach to measure the provision for impairment loss in an amount equal to the expected credit loss over the life of the financial instrument.

4.15.4 Derecognition of financial assets

The financial assets are derecognised from the consolidated statement of financial position when the rights to receive cash flows from the financial assets have expired, or when the financial assets or all its risks and rewards of ownership have been transferred to another party. The difference between the financial asset's book value and its transferred proceeds will be recorded in the consolidated statement of profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.15 FINANCIAL INSTRUMENTS *(continued)*

4.15.5 Derecognition of financial liabilities

The financial liabilities are derecognised when and only when the underlying obligations are extinguished, cancelled or expires.

4.15.6 Offsetting between financial assets and financial liabilities

A financial asset and a financial liability are offsetted and presented as a net amount in the consolidated statement of financial position when, and only when, both of the following conditions are satisfied:

1. The Group currently has a legal enforceable right to offset the recognised amounts of the asset and liability; and
2. The Group intends to settle on a net basis exists, or to realise the asset and settle the liability simultaneously.

4.16 CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and short term Murabahas with a maturity of three months period or less, which are subject to an insignificant risk of changes in value.

4.17 FAIR VALUES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.
In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure in the consolidated financial statements purposes is determined on such a basis, except for leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.
The Group uses valuation techniques appropriate to current circumstances that provide sufficient data to measure fair value, providing the maximum limit for the use of relevant inputs that are observable and the minimum use of inputs that can be not observable. In addition, for 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:

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.17 FAIR VALUES *(continued)*

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 for valuing the asset or liability, either directly or indirectly.

4.18 NON CURRENT ASSET HELD FOR SALE

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification. When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale. When the Group is committed to a sale plan involving disposal of an investment in an associate or, a portion of an investment in an associate, the investment, or the portion of the investment in the associate, that will be disposed of is classified as held for sale when the criteria described above are met. The Group then ceases to apply the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate that has not been classified as held for sale continues to be accounted for using the equity method.

4.19 SEGMENTAL INFORMATION

The specific operating segments of the Group are identified based on internal reports, which are regularly reviewed by the Group's main decision makers (chief operating decision maker) for the purpose of resource allocation among segments and performance assessment.

5. significant accounting estimates and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 4, the management of the Group are required to make judgements about the carrying amounts of assets and liabilities and the accompanying disclosures that are not readily apparent from other sources. The estimates and assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods.

5.1 SIGNIFICANT ESTIMATES IN APPLYING ACCOUNTING POLICIES

The following are the significant estimates, apart from those involving uncertain estimations (See Note 5.2 below), that the management have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statement.

5.1.1 Revenue recognition

Gross versus net presentation

When the Group sells goods or services as a principal, revenue and payments to suppliers are reported on a gross basis in revenue and operating costs. If the Group sells goods or services as an agent, revenue and payments to suppliers are recorded in revenue on a net basis, representing the margin earned.

Whether the Group is considered to be the principal or an agent in the transaction depends on analysis by management of both the legal form and substance of the agreement between the Group and its business partners; such judgements impact the amount of reported revenue and operating expenses but do not impact reported assets, liabilities or cash flows.

5. SIGNIFICANT ACCOUNTING ESTIMATES AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

5.1 SIGNIFICANT ESTIMATES IN APPLYING ACCOUNTING POLICIES *(continued)*

5.1.2 Impairment of non-financial assets

An impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow (DCF) model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

5.2 KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

5.2.1 Arrangements with multiple deliverables

In revenue arrangements where more than one good or service is provided to the customer, customer consideration is allocated between the goods and services using relative fair value principles. The Group generally determines the fair value of individual elements based on prices at which the deliverable is regularly sold on a stand-alone basis. Revision to the estimates of these fair values may significantly affect the allocation of total arrangement consideration among the individual elements.

5.2.2 Customer activation service fees

Customer activation service fees are deferred and recognised over the average of customer retention period (period of contract or anticipated contract). The estimation of the expected average duration of the relationship is based on historical turnover. If the Group's estimates are revised, material differences may result in the amount of revenue and timing of revenue for any period.

5.2.3 Provisions

In respect of provisions including decommissioning provision, the Group provides for anticipated outflows of resources considered probable. Estimates are used in assessing the likely amount of the settlement. The ultimate liability may vary from the amounts provided and would be dependent on the eventual outcome. See Note 26 for details.

5.2.4 Useful lives for property and equipment, software and other intangible assets

The annual depreciation and amortisation charge is sensitive to the estimated lives allocated to each type of asset. Assets lives are assessed annually and changed where necessary to reflect current circumstances in light of technological change, network investment plans and physical conditions of the assets concerned.

5.2.5 Provision for impairment losses on trade receivables and contract assets

The Group uses a provision matrix to calculate expected credit loss on trade receivables and contract assets. The provision matrix is initially based on Group's historical observed defaults rates. The Group calibrates the matrix to adjust the historical loss experience with forward looking information. At the end of each reporting date, the Group updates its historical default rates and reflects that on future estimates.

The Group recognizes an allowance for impairment loss of 100% against all trade receivables that are aged over 365 days, except for balances with related parties and balances of which credit quality did not deteriorate based on historical experience of the Group.

6. 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".

The following is an analysis of the Group's revenues and results based on segments for the year ended 31 December:

6. SEGMENT INFORMATION *(continued)*

	2019	2018
Revenues[1]		
Saudi Telecom Company	**40.259.106**	39.356.283
Channels by stc	**17.409.802**	16.882.726
Other operating segments (2)	**12.628.185**	9.502.560
Eliminations / adjustments	**(15.929.562)**	(13.778.326)
Total revenues	**54.367.531**	51.963.243
Cost of operations (excluding depreciation and amortisation)	**(33.102.551)**	(32.127.488)
Depreciation and amortisation	**(8.784.587)**	(7.590.530)
Cost of early retirement	**(600.000)**	(450.000)
Finance income	**639.161**	551.535
Finance cost	**(765.154)**	(395.440)
Net other (expenses) income	**(76.062)**	102.943
Net share in results of investments in associates and joint ventures	**49.597**	(10.605)
Net other losses	**(40.960)**	(215.493)
Zakat and income tax	**(762.144)**	(747.667)
Net profit	**10.924.831**	11.080.498
Net profit attributable to:		
Equity holders	**10.664.666**	10.779.771
Non-controlling interests	**260.165**	300.727
	10.924.831	11.080.498

Following is the gross profit analysis on a segment basis for the year ended 31 December:

	2019	2018
Saudi Telecom Company	**26.299.935**	25.408.542
Channels by stc	**1.418.463**	1.314.706
Other operating segments (2)	**4.910.725**	3.795.174
Eliminations / adjustments	**(237.898)**	(45.340)
Gross profit	**32.391.225**	30.473.082

6. SEGMENT INFORMATION *(continued)*

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

	31 December 2019	31 December 2018
Assets		
Saudi Telecom Company	**125.104.941**	116.882.397
Channels by stc	**4.560.238**	3.333.662
Other operating segments (2)	**34.355.695**	19.539.165
Eliminations / Adjustments	**(45.694.618)**	(30.384.630)
Total Assets	**118.326.256**	109.370.594
Liabilities		
Saudi Telecom Company	**49.484.795**	38.998.013
Channels by stc	**3.122.999**	2.068.819
Other operating segments (2)	**22.438.203**	10.512.261
Eliminations / Adjustments	**(19.774.787)**	(8.870.097)
Total Liabilities	**55.271.210**	42.708.996

Following are the additions to non-current assets (See Notes 7 and 8) based on the segments for the year ended 31 December:

	2019	2018
Additions to non-current assets	**9.109.544**	11.373.307
Saudi Telecom Company	**116.352**	56.427
Channels by stc	**2.535.992**	1.118.474
Other operating segments[2]	**11.761.888**	12.548.208

1. Segment revenue reported above represents revenue generated from external and internal customers. There were SR 15,930 million for the year ended 31 December 2019 (2018: SR 13,778 million,) inter-segment sales and adjustments (between the Group's Companies) 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 (See Note 18).

For the purpose of monitoring the performance of segments, assets/liabilities are allocated to segments and no assets and liabilities are used mutually between segments.

6. SEGMENT INFORMATION *(continued)*

Information about major customers

Included in revenues arising from sales are revenues of approximately SR 6,873 million for the year ended 31 December 2019 (31 December 2018: SR 6,335 million) that arose from sales to the Government and Government entities (See Note 20.2). No other single customers contributed 10% or more to the Group's revenue.

Information about geographical segmentation

Geographical segmentation of revenues and non-current assets are as follows:

	Revenues for the year ended		Non-current assets as at	
	31 December 2019	31 December 2018	**31 December 2019**	31 December 2018
Kingdom of Saudi Arabia	**49.970.303**	47.323.610	**62.160.408**	53.862.288
Others	**4.397.228**	4.639.633	**11.324.356**	9.478.781
	54.367.531	51.963.243	**73.484.764**	63.341.069

7. property and equipment

	Land and buildings	Telecommu-nication network and equipment	Other assets	Capital work in progress	Total
Cost					
As at 1 January 2019	**14.892.365**	**83.769.469**	**8.461.774**	**3.672.535**	**110.796.143**
Additions	**82.187**	**192.850**	**72.192**	**8.921.089**	**9.268.318**
Additions related to the acquisition of a new subsidiary (See Note 18)	**-**	**127.979**	**17.593**	**7.589**	**153.161**
Disposals / transfers	**349.868**	**6.385.512**	**342.993**	**(7.811.160)**	**(732.787)**
Effect of foreign currency exchange differences	**(366)**	**4.685**	**(28)**	**439**	**4.730**
As at 31 December 2019	**15.324.054**	**90.480.495**	**8.894.524**	**4.790.492**	**119.489.565**
Accumulated depreciation					
As at 1 January 2019	**8.524.319**	**54.880.178**	**5.471.237**	**-**	**68.875.734**
Additions related to the acquisition of a new subsidiary (See Note 18)	**-**	**119.262**	**3.739**	**-**	**123.001**
Depreciation for the year	**373.337**	**5.363.373**	**340.838**	**-**	**6.077.548**
Disposals / transfers	**(84.075)**	**(449.106)**	**(141.437)**	**-**	**(674.618)**
Effect of foreign currency exchange differences	**(60)**	**2.624**	**(6)**	**-**	**2.558**
As at 31 December 2019	**8.813.521**	**59.916.331**	**5.674.371**	**-**	**74.404.223**
Net book value as at 31 December 2019	**6.510.533**	**30.564.164**	**3.220.153**	**4.790.492**	**45.085.342**

	Land and buildings	Telecommu-nication network and equipment	Other assets	Capital work in progress	Total
Cost					
As at 1 January 2018	14.681.829	77.627.211	7.873.489	3.667.103	103.849.632
Additions	23.258	29.749	62.020	8.205.042	8.320.069
Additions related to the acquisition of a new subsidiary	-	90.830	2.531	1.480	94.841
Disposals / transfers	187.278	6.035.287	523.934	(8.200.628)	(1.454.129)
Effect of foreign currency exchange differences	-	(13.608)	(200)	(462)	(14.270)
As at 31 December 2018	14.892.365	83.769.469	8.461.774	3.672.535	110.796.143
Accumulated depreciation					
As at 1 January 2018	8.381.477	50.315.490	5.212.049	-	63.909.016
Depreciation for the year	367.828	5.154.889	382.275	-	5.904.992
Disposals / transfers	(224.986)	(597.738)	(123.272)	-	(945.996)
Effect of foreign currency exchange differences	-	7.537	185	-	7.722
As at 31 December 2018	8.524.319	54.880.178	5.471.237	-	68.875.734
Net book value as at 31 December 2018	6.368.046	28.889.291	2.990.537	3.672.535	41.920.409

7. PROPERTY AND EQUIPMENT *(continued)*

Property and equipment are depreciated using the following estimated useful lives:

Buildings	10 - 50 years
Telecommunication network and equipment	3 - 30 years
Other assets	3 - 20 years

a. Land and buildings include land of SR 2,203 million as at 31 December 2019 (31 December 2018: SR 2,200 million). Including lands with ongoing ownership transfer to the Company with a value of SR 200 million (2018: SR 200 million).

b. Pursuant to Royal Decree No. M/35 Dated 24 Dhu al-Hijjah 1418 (corresponding to 21 April 1998), referred to in Note 1-A, the ownership of the Assets was transferred to the Company on 2 May 1998, but the transfer of legal title for some lands are still ongoing. The value of lands with legal titles transferred to the Company up to 31 December 2019 amounted to SR 1,879 million (2018: SR 1,879 million). Ownership transfer of the remaining lands with total value of SR 144 million (2018: SR 144 million) is ongoing, which constitutes part of the amount referred to in paragraph (a) above.

c. Other assets include furniture, fixtures, motor vehicles, computers and tools.

d. During the year, the Group disposed of assets with a net book value of SR 465 million (31 December 2018: SR 414 million) resulting in a loss amounting to SR 325 million (31 December 2018: SR 291 million) (See Note 40).

e. The following table shows the breakdown of depreciation expense if allocated to operating costs items for the year ended 31 December:

	2019	2018
Cost of revenues	**4.931.664**	4.859.647
Selling and marketing expenses	**16.239**	31.472
General and administrative expenses	**1.129.645**	1.013.873
	6.077.548	5.904.992

f. Property and equipment include land and building owned by a subsidiary that are pledged against murabaha borrowings amounting to SR 54 million (31 December 2018: SR 108 million).

8. intangible assets and goodwill

	Computer software	Telecom-munication Licenses	Goodwill[1]	Others[2]	Total
Cost					
As at 1 January 2019	**10.410.881**	**7.695.620**	**75.613**	**1.994.841**	**20.176.955**
Additions	**103.182**	**43.705**	**-**	**1.859.295**	**2.006.182**
Additions related to the acquisition of a new subsidiary (1)	**-**	**238.141**	**67.425**	**28.661**	**334.227**
Disposals/Transfers	**1.134.674**	**-**	**-**	**(1.109.051)**	**25.623**
Effect of foreign currency exchange differences	**-**	**(1.892)**	**-**	**37**	**(1.855)**
As at 31 December 2019	**11.648.737**	**7.975.574**	**143.038**	**2.773.783**	**22.541.132**
Accumulated amortisation and impairment					
As at 1 January 2019	**7.497.478**	**2.277.146**	**-**	**842.212**	**10.616.836**
Amortisation for the year	**1.309.535**	**392.398**	**-**	**249.138**	**1.951.071**
Disposals/Transfers	**25.137**	**-**	**-**	**42.021**	**67.158**
Effect of foreign currency exchange differences	**-**	**(690)**	**-**	**69**	**(621)**
As at 31 December 2019	**8.832.150**	**2.668.854**	**-**	**1.133.440**	**12.634.444**
Net book value as at 31 December 2019	**2.816.587**	**5.306.720**	**143.038**	**1.640.343**	**9.906.688**

	Computer software	Telecom-munication Licenses	Goodwill[1]	Others[2]	Total
Cost					
As at 1 January 2018	9.492.799	4.971.203	75,613	1,860,645	16.400.260
Additions	1.052.228	2.646.280	-	346.917	4.045.425
Additions related to the acquisition of a new subsidiary	-	78.137	-	9.736	87.873
Disposals/Transfers	(134.146)	-	-	(222,266)	(356.412)
Effect of foreign currency exchange differences	-	-	-	(191)	(191)
As at 31 December 2018	10.410.881	7.695.620	75,613	1,994,841	20.176.955
Accumulated amortisation and impairment					
As at 1 January 2018	6.460.526	1.899.032	-	866.127	9.225.685
Amortisation for the year	1.166.098	378.114	-	141.326	1.685.538
Disposals/Transfers	(129.146)	-	-	(164.476)	(293.622)
Effect of foreign currency exchange differences	-	-	-	(765)	(765)
As at 31 December 2018	7.497.478	2.277.146	-	842.212	10.616.836
Net book value as at 31 December 2018	2.913.403	5.418.474	75,613	1,152,629	9.560.119

8. INTANGIBLE ASSETS AND GOODWILL *(continued)*

1. During the year 2019, one of the subsidiaries (Kuwait Telecommunications Company (stc Kuwait)) completed the acquisition of Qualitynet General Trading and Contracting Company W.L.L. (QualityNet), resulting into a goodwill of KD 5.45 million (equivalent to SR 67.5 million) (See Note 18).

2. Others includes contract intangible assets such as under-sea cable network, franchise agreements and computer software under development.

Intangible assets are amortized using the following estimated useful lives:

Computer software	5 – 7 years
Telecommunication licenses	15 – 25 years
Others	3-5 years

The following is the net book value and expiry dates of the mobile operating licenses and frequency spectrum as at:

Country	End of amortisation period	31 December 2019	31 December 2018
Kuwait	2021/2031/2039	**2.033.350**	1.933.493
Bahrain	2038	**732.780**	730.375
Kingdom of Saudi Arabia	2026/2032/2033	**2.540.590**	2.754.606
		5.306.720	5.418.474

The following table shows the breakdown of amortisation expense if allocated to operating costs items for the year ended 31 December:

	2019	2018
Cost of revenues	**641.036**	550.947
Selling and marketing expenses	**3.493**	23.282
General and administrative expenses	**1.306.542**	1.111.309
	1.951.071	1.685.538

9. right of use assets

	Land and Buildings	Motor Vehicles	Others*	Total
At 1 January 2019	2.375.639	8.281	171.604	2.555.524
Additions	1.012.209	212.075	-	1.224.284
Depreciation	(700.786)	(17.409)	(37.773)	(755.968)
Disposal and others	(135.907)	-	-	(135.907)
At 31 December 2019	2.551.155	202.947	133.831	2.887.933

** Other rental includes rental sites*

Right of use assets are depreciated using the following estimated useful lives:

Buildings	2 – 31 years
Motor Vehicles	2 – 4 years
Others	2 – 10 years

The following table shows the breakdown of depreciation expense if allocated to operating costs items for the year ended 31 December:

	2019
Cost of revenues	562.514
Selling and marketing expenses	7.539
General and administrative expenses	185.915
	755.968

10. inventories

	31 December 2019	31 December 2018
Goods held for resale	**2.113.405**	1.128.454
Less: Allowance for slow moving inventories	**(391.875)**	(340.998)
	1.721.530	787.456

The following is an analysis of the allowance for slow moving inventories for the year ended 31 December:

	2019	2018
Balance at beginning of the year	**340.998**	423.312
Reversal/adjustment during the year	**(6.209)**	(114.177)
Charged during the year	**57.086**	31.863
Balance at end of the year	**391.875**	340.998

11. trade and other receivables

11.1 TRADE RECEIVABLES

	31 December 2019	31 December 2018
Trade receivables	**22.375.635**	15.516.973
Less: allowance for impairment loss	**(2.818.056)**	(2.475.741)
	19.557.579	13.041.232
- Non trade receivables	**1.814.789**	1.451.917
	21.372.368	14.493.149

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the financial year. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated. The requirement for impairment in relation to key customers and related parties are analysed on an individual basis. Retail customers and other minor receivables are assessed for impairment on a collective basis.

Ageing analysis of trade receivables as follows:

11. TRADE AND OTHER RECEIVABLES *(continued)*

	31 December 2019	31 December 2018
Not past due	**3.249.052**	2.045.083
Past due:		
1 – 30 days	**1.437.935**	458.259
31 – 90 days	**1.473.426**	1.268.921
91 – 150 days	**1.194.900**	1.563.952
151 – 270 days	**3.129.379**	2.761.160
271 – 365 days	**1.102.958**	731.356
>365 days	**10.787.985**	6.688.242
	22.375.635	15.516.973

Movement of trade receivables' allowance for impairment loss for the year ended 31 December as follows:

	2019	2018
Balance at beginning of the year	**2.475.741**	2.473.211
Charged for the year (Note 36)	**662.043**	706.935
Amounts written off during the year	**(319.728)**	(704.405)
Balance at end of the year	**2.818.056**	2.475.741

11.2 GOVERNMENT AND GOVERNMENT RELATED ENTITIES

Trade receivables balance from Government and Government related entities amounted to SR 18,508 million as at 31 December 2019 (31 December 2018: SR 12,343 million) (See Note 20.2). No other clients represent more than 10% of the total balance of trade receivables.

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

11. TRADE AND OTHER RECEIVABLES *(continued)*

11.2 GOVERNMENT AND GOVERNMENT RELATED ENTITIES *(continued)*

	31 December 2019	31 December 2018
Less than a year	**7.903.051**	6.936.884
More than one year to two years	**6.393.629**	5.367.424
More than two years	**4.211.395**	38.416
	18.508.075	12.342.724

12. short term murabahas

The Group invests part of its excess cash in Murabahas that have maturity of 91 days or more with several local banks, with an annual profit rate ranging from 2% to 5% (31 December 2018: 2% to 5%).

13. other assets

	31 December 2019	31 December 2018
Advances	**3.062.320**	1.425.088
Prepaid expenses	**508.362**	628.119
Deferred expenses	**95.494**	99.355
Others	**522.771**	171.937
	4.188.947	2.324.499
Current	**4.097.096**	1.952.878
Non-current	**91.851**	371.621
	4.188.947	2.324.499

14. assets held for sale

On 26 March 2019 Uber Technologies (Uber) signed an assets purchase agreement with Careem (the Group holds a direct shares of 8.88%) to acquire the net assets of Careem for about USD 3.1 billion (equivalent up to SR 11.6 billion) subject to modifications.The total financial return of the agreement consists of the following:

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

14. ASSETS HELD FOR SALE *(continued)*

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 retention of the equivalent of 25% of the deal value for a period of two years (See Note 45 - subsequent events).

15. contract costs

Contract costs consist of the following:

	31 December 2019	31 December 2018
Costs to obtain the contracts[1]	**299.118**	174.357
Costs to fulfil the contracts[2]	**623.804**	855.772
	922.922	1.030.129

1. Costs to obtain contracts relate to incremental commission fees and additional incentives paid to intermediaries, dealers and employees as a result of obtaining contracts with customers. These costs are amortised on a straight line basis over the period of contract/anticipated contract.

2. Costs to fulfil contracts are installation costs and are amortised on a straight line basis over the period of contract/anticipated contact.

   The following table shows the allocation of contract costs amortization and impairment losses among operating costs items for the year ended 31 December::

	2019	2018
Cost of revenues (See Note 35)	**315.797**	373.644
Selling and marketing expenses (See Note 36)	**88.346**	42.989
	404.143	416,633

16. contract assets

	31 December 2019	31 December 2018
Unbilled revenue	**7.596.729**	6.060.202
Less: Allowance for impairment losses	**(154.905)**	(87.719)
	7.441.824	5.972.483
Current	**6.793.755**	5.468.441
Non-current	**648.069**	504.042
	7.441.824	5.972.483

Contract assets are initially recognized for revenue earned from rendering of telecom services, sale of devices, and construction contracts unbilled yet. Upon completion of billing cycle, the amounts recognized as contract assets are reclassified to trade receivables.

17. financial assets

	31 December 2019	31 December 2018
Financial assets measured at FVTPL (1)	**1.550.869**	3.115.185
Financial assets at amortised cost		
Sukuk (2) (3)	**5.600.543**	1.490.137
Murabahas (4)	-	2.250.746
Loans to employees (5)	**438.481**	524.417
Others (6)	**110.129**	86.174
	6.149.153	4.351.474
Financial assets designated at FVTOCI (1)	-	1.394.602
	7.700.022	8.861.261
Current	**376.589**	5.488.245
Non-current	**7.323.433**	3.373.016
	7.700.022	8.861.261

17. FINANCIAL ASSETS *(continued)*

1. During 2019, the Group reclassified its investment in the units of stc Ventures Fund and STV LP fund from financial assets measured at fair value through OCI (FVOCI) to financial assets measured at fair value through profit or loss (FVTPL).
   - stc ventures fund is a fund investing in emerging ,small and medium-sized companies operating in the field of Communications and Information Technology in Saudi and other global markets. Investment units were valued at SR 724 million as at 31 December 2019 (31 December 2018: SR 614 million).
   - STV LP Fund is a fund investing in internationally in high-growth pioneer private technology companies with total value of USD 500 million (equivalent to SR 1,875 million) financed in five equal instalments of USD 100 million each (equivalent to SR 375 million).

     During 2018, the first and second instalments were paid by the Company in total of USD 200 million (equivalent to SR 750 million). Investment units were valued at SR 846 million as at 31 December 2019 (31 December 2018: SR 781 million).

2. The Group invested in Sukuk that issued by the Ministry of Finance during the first quarter of 2019 as the following:

	Tranche I	Tranche II
Nominal Investment value	**1,762,000**	**2,140,000**
Investment duration	**5 years**	**10 years**
Yield	**3.17%**	**3.9%**
Investment amount at maturity	**1,771,755**	**2,227,188**

3. On 31 December 2007, stc Asia Holding Company Limited (a subsidiary) invested in Sukuk issued by Binariang GSM Holding ("BGSM") in the amount of RM 1,508 million (equivalent to SR 1,383 million) for a period of 50 years (callable after 10 years) with an annual profit margin of 10.75% upto 28 December 2017 and then a profit margin of 9.25% for subsequent periods. These sukuk are not past due or low in value with a book value of SR 1,587 million as of 31 December 2019 (31 December 2018: SR 1,490 million).

4. During 2019, most of the company's investments in the diversified investment portfolio and murabaha investments were liquidated mainly and reinvested in the Ministry of Finance Sukuk (See Note 17.2).

5. The Company has provided its employees interest-free loans to acquire residential housing and motor vehicles for a period of 25 years and 4 years, respectively. The repayment is made in equal instalments over the term of the loan duration while the employee remains in service, otherwise, they are required to be repaid in full upon the employee leaving the Company. Any new housing loans provided to an employee after June 2016 are being funded through a local commercial bank and are guaranteed by the Company. The Company bears loans' finance cost.

6. Mainly represent a Group subsidiary suppliers retentions amounting to SR 80 million as at 31 December 2019 (31 December 2018: SR 80 million).

18. subsidiaries

Subsidiaries owned directly by the Company are as follows:

Name of subsidiary		Country of incorporation	Effective shareholding percentage 31 December 2019	Effective shareholding percentage 31 December 2018
Arabian Internet and Communications Services Company Limited ("Solutions by stc")	1	Kingdom of Saudi Arabia	**100%**	100%
Telecom Commercial Investment Company Limited ("TCIC")	2	Kingdom of Saudi Arabia	**100%**	100%
stc Bahrain BSC (C) ("stc Bahrain) (formerly: "VIVA Bahrain")	3	Kingdom of Bahrain	**100%**	100%
Aqalat Company Limited ("Aqalat")	4	Kingdom of Saudi Arabia	**100%**	100%
Saudi Telecom Specialized Company ("Specialized by stc")	5	Kingdom of Saudi Arabia	**100%**	100%
Sapphire Company Limited ("Sapphire")	6	Kingdom of Saudi Arabia	**100%**	100%
stc Turkey Holdings Ltd ("stc Turkey")	7	British Virgin Islands	**100%**	100%
stc Asia Telecom Holdings Ltd ("stc Asia")	8	British Virgin Islands	**100%**	100%
stc Gulf Investment Holding S.P.C. ("stc Gulf")	9	Kingdom of Bahrain	**100%**	100%
Saudi Telecom Channels Company (Channels by stc)	10	Kingdom of Saudi Arabia	**100%**	100%
Kuwait Telecommunications Company ("stc Kuwait") (formerly: "VIVA Kuwait")	11	Kuwait	**51.8%**	51.8%
Telecommunications Towers Company Ltd. ("TAWAL")	12	Kingdom of Saudi Arabia	**100%**	100%
Saudi Digital Payments Company ("stc Pay")	13	Kingdom of Saudi Arabia	**100%**	-
Smart Zone Real Estate Company	14	Kingdom of Saudi Arabia	**100%**	-

1. Arabian Internet and Communications Services Company Limited ("Solutions by stc") was established in the Kingdom in April 2002 and is engaged in providing internet services, operation of communications projects and transmission and processing of information in the Saudi market. In December 2007, the Group acquired 100% of share capital of the Arabian Internet and Communications Services Company Limited, amounting to SR 100 million.

18. **SUBSIDIARIES** *(continued)*

2. Telecom Commercial Investment Company (TCIC) was established in the Kingdom in October 2007 with a capital of SR 1 million with the purpose of operating and maintaining of telecommunication networks, organizing computer systems' networks and internet networks, maintenance, operation and installation of telecommunication and information technology systems and programs in the Saudi market.

3. stc Bahrain was established in the Kingdom of Bahrain in February 2009 with a capital of BD 75 million equivalent to about SR 746 million at the exchange rate as of that date. stc Bahrain provides all mobile telecommunication services, international telecommunications, broadband and other related services in the Bahraini market, and commenced its commercial operation on 3 March 2010. During the first quarter of 2018, stc Bahrain has fully acquired "MENA Telecom Company Limited" in the Kingdom of Bahrain (as a subsidiary). The main activity is to provide Internet services.

4. Aqalat was established in the Kingdom in March 2013 with a capital of SR 70 million fully owned by the Company with the purpose of establishing, owning, investing, managing of real estate and contracting, and providing consulting services, and importing and exporting services to the benefit of the Company.

5. Saudi Telecom Specialized Company (Specialized by stc) was established in February 2002 in the Kingdom. The Company acquired 100% of the SR 252 million share capital in January 2014. Specialized by stc operates in the electrical business and communication networks, wholesale and retail trade in fixed telecommunications equipment, electrical appliances, import, marketing, installation and maintenance of fixed and mobile telecommunications and information technology licensed devices.

6. Sapphire was established in the Kingdom in June 2014 with a capital of SR 100 million fully owned by the Company to operate in the retail and wholesale trade of computer systems and devices, fixed and mobile telecommunication, internet equipment, advertising and publicity material, spare parts, electrical equipment, advance payment devices, points-of-sale devices, telecom operator services, establish telecom sales and service centres. In November 2017, the Group's Board of Directors has decided to wind up Sapphire and integrating its business with Saudi Telecom Company starting from 1 January 2018. The legal procedures for the liquidation of the company is expected to be completed during 2020.

7. stc Turkey is a limited liability company which was established under the Commercial Companies Law in the British Virgin Islands on 8 April 2007. It is a special purpose vehicle established to provide services and support required in respect of investment activities of the Group.

18. SUBSIDIARIES *(continued)*

In April 2008, stc Turkey acquired 35% of Oger Telecom Limited's ("OTL") USD 3.6 billion share capital, equivalent to approximately SR 13.5 billion, at the exchange rate as at that date. During 2016, and due to the continuing losses and the depletion of the Group's entire investment balance in OTL, the Group has stopped recognizing its share in OTL additional losses. (See Note 21.1)

8. stc Asia is a limited liability company which was established under the Commercial Companies Law in the British Virgin Islands on 24 July 2007 and is a special purpose vehicle that invests in companies operating primarily in the Malaysia. It holds an investment in stc Malaysia Holdings Ltd ("stc Malaysia"), (a wholly owned subsidiary by stc Asia), which was incorporated under the Commercial Companies Law in the British Virgin Islands.

   stc Malaysia Holdings Ltd in turn holds the Group's 25% stake in Binariang GSM Holdings ("BGSM") (See Note 21.2). The principal activity of both stc Asia and its subsidiary is to provide services and support required in respect of investment activities of the Group.

9. stc Gulf was incorporated in the Kingdom of Bahrain on 12 March 2008 and has wholly-owned subsidiaries in the Kingdom of Bahrain, as listed below. The primary objective of this company and its following subsidiaries is to provide services and support required in respect of investment activities of the Group:

   1. stc Gulf Investment Holding 1 S.P.C.
   2. stc Gulf Investment Holding 2 S.P.C.
   3. stc Gulf Investment Holding 3 S.P.C.

stc Gulf Investment Holding 3 S.P.C. and stc Gulf Investment Holding 2 S.P.C. holds 100% (2018: 100%) in Intigral Holding BSC (C) ("Intigral Holding"). Intigral Holding was established in the Kingdom of Bahrain in June 2009 with a share capital amounting to BD 28 million which is equivalent to approximately SR 281 million at the exchange rate as at that date. Intigral Holding is a holding company which owns shares in companies operating in the field of content services and digital media in Gulf countries. During 2018, the company increased its capital to reach BD 101 million equivalent to SR 1.008 million at the exchange rate as at 31 December 2018.

10. Saudi Telecom Channels Company ("Channels by stc") was established in the Kingdom in January 2008 and operates in the wholesale and retail trade of recharge card services, telecommunication equipment and devices, computer services, sale and re-sale of all fixed and mobile telecommunication services, and commercial centres' maintenance and operation. The Company operates in Saudi Market with subsidiaries in Bahrain and Oman whom are

18. SUBSIDIARIES *(continued)*

working in the same field. Saudi Telecom Company acquired 60% of Channels SR 100 million share capital in December 2011. On January 2017, the Company acquired the remaining shares in Channels by stc by SR 400 million. Accordingly, Channels by stc became a wholly-owned subsidiary of Saudi Telecom Company.

11. In December 2007, the Company acquired 26% share capital of Kuwait Telecommunication Company (stc Kuwait) for an amount of Kuwaiti Dinar ("KD") 50 million, equivalent to approximately SR 687 million at the exchange rate as at that date. Kuwait Telecommunication Company operates in the field of mobile services in the Kuwaiti market and commenced its commercial operation on 4 December 2008 and was listed as a joint stock company on the Kuwait Stock Exchange on 14 December 2014.
    On November 2015, the Company has submitted a voluntary offer to acquire the issued shares of stc Kuwait not already owned by the Company, which represented 74% of stc Kuwait issued shares. The offer presented by the Company to stc Kuwait's shareholders amounted to KD 1 per share (equivalent to SR 12.37 at the exchange rate as at that date).
    The offer ended on 31 January 2016 and the number of shares accepted under the offer amounted to 128,860,518 shares which representing 25.8% of total issued shares to stc Kuwait. Saudi Telecom Company has thus become owning 51.8% of the total issued shares of stc Kuwait.
    During 2018, stc Kuwait entered into a binding contract to acquire 100% of the total issued shares of Qualitynet General Trading and Contracting Company W.L.L. (QualityNet), which operates in Kuwait in the field of providing internet services. On 6 May 2019, stc Kuwait completed the acquisition procedures and acquired QualityNet's net assets amounting to KD 23.96 million (equivalent to SR 296.6 million) with a purchase consideration amounting to KD 29.41 million (equivalent to SR 364.1 million) resulting into a goodwill of KD 5.45 million (equivalent to SR 67.5 million) based on the most updated price purchase allocation reports on acquired net assets. Cash and cash equivalent in the purchased Company amounted to KD 10.61 million (equivalent to SR 131.35 million) and therefore the net cash flows resulting from the business combination amounted to KD 18.79 million (equivalent to SR 232.66 million).

18. SUBSIDIARIES *(continued)*

12. During the first quarter of 2018, the Company established Telecommunications Towers Company Ltd. (TAWAL), a limited liability company and 100% owned by stc, with a share capital of SR 200 million. TAWAL is responsible for owning, constructing, operating, leasing and commercializing telecom towers in the Kingdom. During the first quarter of 2019, TAWAL obtained the nessacery operating license from the Communications and Information Technology Commission (CITC). During the fourth quarter of 2019, the Company increased the capital of TAWAL with an amount of SR 2,300 million, for a total capital to reach SR 2,500 million.

13. During the fourth quarter of 2017, Solutions by stc established Saudi Digital Payments Company (stc Pay) in the Kingdom with a capital of SR 100 million and its main activity is to provide digital payments services. During the third quarter of 2019, stc Pay ownership was transferred from stc Solutions to the Company with no financial impact at the group level. During the fourth quarter of 2019, the Company increased the capital of the stc Pay with an amount of SR 300 million, stc Pay for a total capital to reach SR 400 million. In January 2020, the Saudi Arabian Monetary Authority (SAMA) licensed stc Pay as an electronic wallet company.

14. During the fourth quarter of 2019, the Company established a special purpose vehicle subsidiary (Smart Zone Real Estate Company) in the kingdom with a share capital of approximately SR 107 million and its main activity is the development, financing and management of real estate projects, the establishment of facilities, complexes, commercial, office and residential buildings.

Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests as at:

Name of Subsidiary	Proportion of ownership and voting rights acquired by non-controlling interests		Profit allocated to non-controlling interests	Accumulated non-controlling interests	
	2019	2018	For the year ended 31 December 2019	31 December 2019	31 December 2018
Kuwait Telecommunications Company (stc Kuwait)	**48.2%**	48.2%	**259.545**	**1.285.155**	1.143.582
			620	**7.297**	4.332
Individually immaterial subsidiaries			**260.165**	**1.292.452**	1.147.914

18. SUBSIDIARIES *(continued)*

The following is a summary of the financial statements of Kuwait Telecom Company (stc Kuwait) which is non- wholly owned by the Group and have material non-controlling interests:

	31 December 2019	31 December 2018
Statement of financial position		
Current assets	**2.345.244**	1.907.726
Non-current assets	**2.749.547**	1.867.401
Current liabilities	**(2.114.100)**	(1.337.219)
Non-current liabilities	**(314.393)**	(65.331)
Net assets	**2.666.298**	2.372.577
Group's share of net assets	**1.381.143**	1.228.995
Non-controlling interests	**1.285.155**	1.143.582

	For the year ended in 31 December	
	2019	2018
Statement of income and other comprehensive income		
Revenues	**3.629.941**	3.554.372
Profit for the year	**538.898**	622.630
Other comprehensive loss for the year	**(3.053)**	(3.893)
Total comprehensive income for the year	**535.845**	618.737
Group's share of comprehensive income	**277.567**	320.506
Non-controlling interests of comprehensive income	**258.278**	298.231

	For the year ended in 31 December	
	2019	2018
Statement of cash flows		
Operating activities	**1.168.667**	1.069.548
Investing activities	**(1.254.811)**	(385.062)
Financing activities	**(74.581)**	(269.674)
Net (decrease) increase in cash and cash equivalents	**(160.725)**	414.812

19. cash and cash equivalents

	31 December 2019	31 December 2018
Short term murabaha (with 3 months maturity or less)	**6.476.407**	6.316.162
Cash at banks	**1.494.694**	1.640.738
Cash on hand	**12.365**	5.848
Cheques under collection	**47.544**	191.117
	8.031.010	8.153.865

The Company invests a part of its surplus cash in murabahas three months or less with several local banks with a profit rate ranging between 1% -3.7% (2018: 1%-3.7%)

20. related party transactions

20.1 TRADING TRANSACTIONS AND BALANCES WITH RELATED PARTIES (ASSOCIATES AND JOINT VENTURES – SEE NOTE 21)

The Group trading transactions with related parties during the year ended 31 December were as the following:

	2019	2018
Telecommunication services provided	**430.682**	503.008
Telecommunication services received	**29.050**	17.188

The sale and purchase transactions are carried out by the relevant parties in accordance with the normal terms of dealing. 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 were outstanding as at the end of the financial year:

20. RELATED PARTY TRANSACTIONS *(continued)*

20.1 TRADING TRANSACTIONS AND BALANCES WITH RELATED PARTIES (ASSOCIATES AND JOINT VENTURES – SEE NOTE 21) *(continued)*

	Amounts due from related parties		Amounts due to related parties	
	31 December 2019	31 December 2018	**31 December 2019**	31 December 2018
Associates	**292.020**	338.652	**38.910**	23.184
Joint ventures	**12.215**	5.444	**168.173**	112.801
	304.235	344.096	**207.083**	135.985

20.2 TRADE TRANSACTIONS AND RELATED PARTIES' BALANCES (GOVERNMENT AND GOVERNMENT RELATED ENTITIES)

Revenues related to transactions with governmental entities for the year ended 31 December 2019 amounted to SR 6,873 million (31 December 2018: SR 6,335 million) and expenses related to transactions with governmental entities for the year ended 31 December 2019 (including government charges) amounted to SR 2,748 million (31 December 2018: SR 3,214 million).
It is worth mentioning that based on the Council of Ministers' resolution No. (196) dated 4 Rabi Thani 1440H (corresponding to 11 December 2018), the percentages of government charges collected by the government for providing telecommunications services commercially has been amended to become a uniform annual fee of 10% of net telecommunications revenues effective 1 January 2018 instead of the previous percentages which were 15% of net mobile service revenues, 10% of net fixed line revenues and 8% of net revenues from data services. Furthermore, the Company's services licenses have been combined into a unified license.
As at 31 December 2019, accounts receivable from Government entities totalled SR 18,508 million (31 December 2018: SR 12,343 million) (See Note 11.2) and as at 31 December 2019, accounts payable to government entities totalled SR 953 million (31 December 2018: SR 3,706 million). Among the commercial transactions with government entities, the Group invested to SR 3,902 million in the Sukuk issued by the Ministry of Finance during the first quarter of 2019. (See Note 17.2).

20.3 LOANS TO RELATED PARTIES

	31 December 2019	31 December 2018
Loans to senior executives	**5,358**	2,360

20. RELATED PARTY TRANSACTIONS *(continued)*

20.4 BENEFITS, REMUNERATION AND COMPENSATION OF BOARD MEMBERS AND SENIOR EXECUTIVES

The remuneration and compensation of board members and senior executives during the year ended 31 December were as follows:

	2019	2018
Short-term benefits and remunerations	**280.381**	206.224
Provision for leave and end of service benefits	**60.061**	55.368

21. investments in associates and joint ventures

21.1 INVESTMENTS IN ASSOCIATES

Investments in all associates are accounted below in the Group's consolidated financial statements in accordance with the equity method.

21.1.1 Details of associates

Details of each of the Group's associates at the end of the year are as follows:

Name of Associates		Country of incorporation	Proportion of ownership interest / voting rights	
			31 December 2019	31 December 2018
Arab Satellite Communications Organisation ("Arabsat")	1	Kingdom of Saudi Arabia	**36.66%**	36.66%
Virgin Mobile Saudi Consortium ("VMSC")	2	Kingdom of Saudi Arabia	**10%**	10%
Oger Telecom Limited ("OTL")	3	United Arab Emirates	**35%**	35%

21. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES *(continued)*

21.1 Investments in associates *(continued)*

1. Arab Satellite Communications Organisation ("Arabsat") was established on April 1976 by the members of the League of Arab States. Arabsat offers a number of services to these member states, as well as to all public and private sectors within its coverage area, and principally in the Middle East. Current services offered include: Regional telephony (voice, data, fax and telex), television broadcasting, regional radio broadcasting, restoration services and leasing of capacity on an annual or monthly basis. In April 1999, Saudi Telecom Company acquired 36.66% of Arabsat's USD 500 million share capital (equivalent to approximately SR 1,875 million at the exchange rate as of that date).

2. Virgin Mobile Saudi Consortium ("VMSC") was established during 2013 as a mobile virtual network operator and started its operations during the year of 2014. The Company owns 10% of VMSC's share capital. The Group's ability to exercise significant influence is evidenced by the material transactions between VMSC and the Company through the reliance of VMSC's on the Comapny's technical network.
   At its meeting held on 4 Jumada Al-Awal 1440H (corresponding to 10 January 2019), the Board of Directors approved to buy an additional 39% stake in Virgin Mobile Saudi Arabia for SR 151 million. Due to the non-completion of the legal and regulatory procedures during 2019, the Company decided not to complete the acquisition procedures of the additional stake. Therefore, the Company's shareholding in Virgin Mobile Saudi Arabia remains at (10%) as of 31 December 2019.

3. Oger Telecom Limited ("OTL") is a holding company registered in Dubai, the United Arab Emirates. In April 2008, Saudi Telecom Company through one of its subsidiaries (stc Turkey Holding Ltd) acquired 35% of OTL's share capital amounting to approximately USD 3.6 billion, equivalent to approximately SR 13.5 billion at the exchange rate as at that date. On 1 January 2016, the Group's investment in OTL was completely extinguished and the Group discontinued recognising its share of further losses. OTL was facing financial difficulties to settle its borrowings dues and its ability to comply with the financial covenants agreed with lenders. During 2018, OTL has completed necessary procedures to liquidate its main subsidiaries and restructure it's investments in Turkey and South Africa in order to meet the financial obligations of the lenders. Liquidation of OTAS (subsidiary of OTL in Turkey) commenced in 2019. In addition, after the liquidation of OTAS is completed, OTL is expected to commence its liquidation process in the foreseeable future.

21. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES *(continued)*

21.1 INVESTMENTS IN ASSOCIATES *(continued)*

21.1.2 Details of material associates

Summarised financial information of the Group's material associate is set out below:

Arabsat	31 December 2019	31 December 2018
Statement of financial position		
Current assets	**1.605.861**	1.110.572
Non-current assets	**5.665.128**	6.096.520
Current liabilities	**(441.864)**	(490.799)
Non-current liabilities	**(1.833.238)**	(1.633.181)

	For the year ended 31 December	
	2019	2018
Statement of income and other comprehensive income		
Revenue	**945.228**	997.308
Profit for the year	**182.622**	316.028
Other comprehensive (loss) for the year	**(28.294)**	(55.358)
Total comprehensive income for the year	**154.328**	260.670

The following is the reconciliation of the above-summarised financial information to the carrying amount of the Group's interest in Arabsat:

	31 December 2019	31 December 2018
Net assets of the associate	**4.995.887**	5.083.112
Proportion of the Group's ownership interest in Arabsat	**36.66%**	36.66%
Carrying amount of the Group's interest in Arabsat	**1.831.492**	1.863.469

The Following is the aggregate information of associates that are not individually material for the year ended:

	2019	2018
The Group's share of gain from continued operations	**1.301**	61.988
Aggregate carrying amount of the Group's interests in these associates (*)	**3.382**	269.809
Total carrying amount of the Group's interest in associates	**1.834.874**	2.133.278

(*) the comparative figures include the investment in Careem which was reclassified as held for sale as at 31 December 2019 (See Note 14)

21. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES *(continued)*

21.2 INVESTMENTS IN ASSOCIATES

Investments in all joint ventures mentioned below are accounted for in the Group's consolidated financial statements in accordance with the equity method

21.2.1 Details of joint ventures

Below is the detail of joint ventures as at:

Name of joint venture		Country of incorporation	Proportion of ownership interest/ voting rights	
			31 December 2019	31 December 2018
Arab Submarine Cables Company Limited	1	Kingdom of Saudi Arabia	**50%**	50%
Contact Centres Company ("CCC")	2	Kingdom of Saudi Arabia	**49%**	49%
Binariang GSM Holding ("BGSM")	3	Malaysia	**25%**	25%

1. Arab Submarine Cables Company Limited was established on September 2002 for the purpose of constructing, leasing, managing and operating a submarine cable connecting the Kingdom and the Republic of Sudan for the telecommunications between them and any other country. The operations of the Company started in June 2003 and Saudi Telecom Company acquired 50% of its SR 75 million share capital in September 2002. In November 2016, the company's capital was reduced to SR 25 million.

2. Contact Centres Company was established to provide call centre services and answer directory queries with Aegis Company at the end of December 2010 in the Kingdom, with a share capital of SR 4.5 million. The Company acquired 50% of its share capital. During the fourth quarter of 2015, the Company sold 1% of its stake in CCC to the other partners according to the terms of the partners' agreement. Thus making the Company's share 49%.

3. Binariang group GSM is an investment holding group registered in Malaysia which owns 62% of Maxis Malaysian Holding Group ("Maxis"), a major telecom operator in Malaysia. BGSM also had indirect investments in India, Aircel Limited ("Aircel") which were eliminated in 2018.

21. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES *(continued)*

21.2 INVESTMENTS IN ASSOCIATES *(continued)*

In September 2007, the Company acquired (through its subsidiaries stc Asia holding and stc Malaysia holding) 25% of Binariang group GSM MYR 20.7 billion share capital, equivalent to approximately SR 23 billion at the exchange rate as at that date.
During 2013, the Company conducted a review of its foreign investment in Binariang group holding GSM (joint venture), including the manner in which this investment is being managed and how joint control has been effectively exercised. As a result, the Company signed an amendment to the shareholders' agreement with other shareholders of Binariang group GSM with respect to certain operational matters of Aircel (one of Binariang group subsidiaries). Consequently, the group ceased to account for its investment in Aircel using the equity method effective from the second quarter 2013.

21.2.2 Details of material joint ventures

Summarised financial information in respect of the Group's material joint venture is set out below:

	31 December 2019	31 December 2018
Binariang group Holding GSM		
Statement of financial position		
Current assets	**3.794.720**	3.273.483
Non-current assets	**27.175.812**	25.851.745
Current liabilities	**(5.769.520)**	(4.547.699)
Non-current liabilities	**(13.671.417)**	(12.946.453)

The above amounts of assets and liabilities include the following:

	31 December 2019	31 December 2018
Cash and cash equivalents	**1.342.939**	1.374.852
Current financial liabilities (excluding trade and other payables and provisions)	**(1.057.839)**	(1.164.892)
Non-current financial liabilities (excluding trade and other payables and provisions)	**(13.067.091)**	(12.339.736)

21. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES *(continued)*

21.2 INVESTMENTS IN ASSOCIATES *(continued)*

	2019	2018
Statement of income and other comprehensive income		
Revenues	**8.338.076**	8.087.147
Profit from continuing operations	**426.750**	1.192.434
Profit from discontinued operations	**-**	600.723
Profit for the year	**426.750**	1.793.157
Other comprehensive (loss) / income for the year	**(5.306)**	167.949
Total comprehensive income for the year	**421.444**	1.961.106
Depreciation and amortisation	**(1.292.642)**	(1.032.504)
Finance income	**85.337**	48.264
Finance cost	**(945.861)**	(884.317)
Income tax expense	**(451.076)**	(556.003)

The above is the reconciliation of the above summarised financial information to the carrying amount of the Group's interest in Binariang group GSM Holding ("BGSM"):

	31 December 2019	31 December 2018
Net assets of BGSM (excluding non-controlling interest share and share of other shareholders in Aircel)	**364.400**	(5.192)
Proportion of the Group's ownership interest in the joint venture	**91.100**	(1.298)
Goodwill and fair value adjustments, net	**1.184.070**	1.184.070
Adjustments: the carve-out of Aircel Group and others	**3.443.422**	3.208.024
Carrying amount of the Group's interest in the joint venture	**4.718.592**	4.390.796

The Following is the aggregate information of joint ventures that are not individually material for the year ended 31 December:

	2019	2018
The Group's share of profit from operations	**6.060**	8.806
The Group's share of other comprehensive income	**1.341**	-
The Group's share of total comprehensive income	**7.401**	8.806
Aggregate carrying amount of the Group's interests in these joint ventures	**65.060**	57.659
Total carrying amount of the Group's share in the joint ventures	**4.783.652**	4.448.455

22. issued capital

	31 December 2019	31 December 2018
Issued and fully paid capital comprises		
2 billion fully paid ordinary shares	**20.000.000**	20.000.000

23. statutory reserve

In accordance with the companies law in the Kingdom of Saudi Arabia and the Company's By-law, 10% of the net income was taken as statutory reserve until it reached 50% of the share capital. Based on the approval of the Ordinary General Assembly of Shareholders at its meeting on 23 Rabi Thani 1432H corresponding to 28 March 2011 it was resolved to cease the transfer to statutory since it reached half of the capital. Although the recent change in the companies law, include the cease of transfer to statuory reserve when it reaches 30% as minimum instead of 50% of the share capital, the Company maintained the accumulated reserve at 50%. This reserve is not available for distribution to the Company's shareholders.

24. other reserves

	Foreign currency translation reserve	Cash flow hedge reserve	Investments at FVOCI reserve	Other reserves	Total
As at 1 January 2019	**(52.321)**	**(140.129)**	**425.974**	**(2.137.402)**	**(1.903.878)**
Assets measured at FVOCI	**-**	**-**	**(425.974)**	**-**	**(425.974)**
Re-measurement of the end of service benefit provision (See Note 27)	**-**	**-**	**-**	**(710.054)**	**(710.054)**
Exchange difference on translation of foreign operations	**(1.479)**	**-**	**-**	**-**	**(1.479)**
Net loss on cash flow hedges	**-**	**(484)**	**-**	**-**	**(484)**
Share from associates and joint ventures	**-**	**-**	**-**	**296.261**	**296.261**
As at 31 December 2019	**(53.800)**	**(140.613)**	**-**	**(2.551.195)**	**(2.745.608)**
As at 1 January 2018	(41.582)	(140.865)	312.431	(1.905.374)	(1.775.390)
Assets measured at FVOCI	-	-	113.543	-	113.543
Re-measurement of the end of service benefit provision (See Note 27)	-	-	-	13.414	13.414
Exchange difference on translation of foreign operations	(10.739)	-	-	-	(10.739)
Net gain on cash flow hedges	-	736	-	-	736
Share from associates and joint ventures	-	-	-	(245.442)	(245.442)
As at 31 December 2018	(52.321)	(140.129)	425.974	(2.137.402)	(1.903.878)

25. borrowings

Total loans paid during the year ended 31 December 2019 amounted to SR 351 million (31 December 2018: SR 636 million). Total loans received during the year ended 31 December 2019 amounted to SR 5,381 million (31 December 2018: SR 304 million). A list of the loans are as follows:

Nature of borrowing	Date of borrowing	Date of final instalment	Currency	Profit rate	Current portion		Non-current portion	
					Balance as at 31 December 2019	Balance as at 31 December 2018	**Balance as at 31 December 2019**	Balance as at 31 December 2018
Sukuk (1)	January 2014	June 2024	SAR	3 months SAIBOR + 0.7%	-	-	**2.000.000**	2.000.000
Sukuk (2)	May 2019	May 2029	USD	3.89%	-	-	**4.670.038**	-
Murabaha	February 2019	February 2022	SAR	SAIBOR + 0.65%	-	-	**180.673**	-
Murabaha	December 2018	January 2019	SAR	LIBOR + 0.55%	-	232.499	-	-
Murabaha (3)	May 2009	December 2021	BHD	1 month BIBOR + 0.25%	**26.828**	26.891	**26.829**	53.781
Murabaha (4)	July 2017	May 2022	BHD	1 month BIBOR + 1.60%	**251.137**	58.280	**504.623**	521.281
Murabaha	December 2018	November 2025	BHD	2.10%	**3.062**	2.863	**18.673**	21.786
Murabaha (5)	December 2017	December 2022	MYR	6 months KLIBOR + 0.65%	-	-	**1.383.358**	1.368.631
Murabaha	May 2019	April 2023	KWD	3.75%	**46.427**	-	**139.282**	-
Tawaruq	May 2019	February 2020	KWD	3.5%	**61.885**	-	-	-
Total					**389.339**	320.533	**8.923.476**	3.965.479

1. The company issued a sukuk program with a maximum of SR 5 billion. Sukuk certificates have a nominal value of SR 1 million each, and they were issued with a nominal value for a period of 10 years.

2. At the General Assembly meeting on 19 Shaaban of 1440 H (corresponding to April 24, 2019), the Company approved the establishment of an international sukuk program and the issuance of sukuk in accordance with directly or by establishing a special purpose vehicles that is established and used to issue primary or secondary Sukuk in one or several parts Or one or several stages, or through a series of issues in US dollars, not exceeding the amount of USD 5,000 million for the total value of the sukuk issues and parts of Sukuk program referred to above at any time.
   Based on the above, the Saudi Telecom Sukuk Company Limited during the second quarter of 2019 (a company established for the purpose of issuing sukuk under the sukuk program referred to above in US dollar) launched the first issue of the Sukuk Program in the amount of USD 1,250 million (equivalent to SR 4,688 million) For 10 years. This program is an international Sukuk in US dollar, with a total number of Sukuk 6,250 Sukuk with a nominal value of USD 200 thousand for the Sukuk with an annual return of 3.89% and a maturity of ten years.

25. BORROWINGS *(continued)*

3. stc Bahrain has murabaha facilities secured by a land and a building. The risk of return has been hedged for a large portion of the Murabaha facility

4. stc Bahrain has an unsecured Murabaha facility of BD 84.8 million (SR 844 million). The Company has entered into cash flow hedging arrangements to hedge the profit rate risk. The book value of murabaha facilities is not materially different from their fair value because the effect of discount, credit risk and other market risks are not considered material.

5. These facilities are secured by a letter of guarantee provided by the Company.

26. provisions

	31 December 2019	31 December 2018
Legal and regulatory provisions (1)	**5.806.117**	7.336.057
Decommissioning and other provisions (2)	**242.203**	385.304
	6.048.320	7.721.361
Current	**5.157.110**	6.829.451
Non-current	**891.210**	891.910
	6.048.320	7.721.361

	2019	2018
Legal and regulatory provision (1)		
Balance as at 1 January	**7.336.057**	8.392.198
Additions during the year	**507.825**	1.298.823
Payment / settlements during the year	**(2.037.765)**	(2.354.964)
Balance as at 31 December	**5.806.117**	7.336.057
Decommissioning and other provisions (2)		
Balance as at 1 January	**385.304**	444.234
Additions during the year	**172.226**	7.079
Reductions / adjustment resulting from re-measurement and others	**(315.327)**	(66.009)
Balance as at 31 December	**242.203**	385.304

26. PROVISIONS *(continued)*

1. The Company is considered a party of number of legal and regulatory claims. The Group, after taking independent legal advice, has established provisions after taking into account the facts for each case. The timing of the cash outflows associated with the majority of the legal claims are typically more than one year, however, for some legal claims the timing of cash flows may be less than one year.

2. In the course of Company's normal activities, a number of sites and other assets are utilised which are expected to have costs associated with restoration of the assets to how it was upon removing the assets. The associated cash outflows are expected to occur primarily in years up to ten years from the date when the assets are brought in use.

27. retirement benefites plans

End of service benefit provision

The Group provides end of service benefits to its employees. The entitlement is based upon the employees' final salary and length of service, subject to the completion of a minimum service years, calculated under the provisions of the Labour Law of the respective country and is payable upon resignation or termination of the employee. The expected costs of these benefits are accrued over the years of employment.

The Group's plan is exposed to actuarial risks such as discount rate and salary risk.

Discount rate risk	A decrease in the discount rate will increase the end of service benefits plan liability.
Change in Salaries risk	The present value of the end of service benefit plan liability is calculated by reference to the estimated future salaries of plan participants. As such, an increase in the salaries of the plan participants will increase the plan's liability.

Calculation of end of service benefit provision was done using the most recent actuarial valuation as at 31 December 2019. During the financial year, Actuarial assumptions relating to the discount rate have been updated, resulting in an increase in the present value of the defined benefit obligations.

The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.
The significant actuarial assumptions, during 2019, used in determining the end of service benefit obligation represent the discount rate of (3.2%-4.3%) and the expected increase in salary (2.7%-5.7%) (2018: discount rate of (4.3%-5%) and the expected increase in salary (3.3%-5%).
The net expenses recognized in the consolidated statement of profit or loss are as follows for the year ended

27. RETIREMENT BENEFITES PLANS *(continued)*

	2019	2018
Services cost	**367.423**	354.101
Interest cost	**193.490**	176.477
	560.913	530.578

Movements of End of service benefit provision for the year ended 31 December is as follow:

	2019	2018
Balance at beginning of the year	**3.919.362**	3.922.065
Expenses recognized in the consolidated statement of profit or loss	**560.913**	530.578
Actuarial losses recognised in the consolidated statement of comprehensive income	**710.054**	(13.414)
paid during the year	**(451.050)**	(521.861)
Exchange differences and others	**73.526**	1.994
Balance at end of the year	**4.812.805**	3.919.362

The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the financial year, with other assumptions being constant.

- If the discount rate increases (decreases) by 25 basis points, the end of service benefit provision would (decrease) or increase by SR 127 million (31 December 2018: (decrease) or increase by SR 111 million).
- If the expected salary growth increases (decreases) by 0.25%, the end of service benefit provision would increase or (decrease) by SR 126 million (31 December 2018: increase by or (decrease) by SR 112 million).

The sensitivity analysis presented above may not be representative of the actual change in the end of service benefit provision as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Defined contribution plans

The Group is participating in a pension schemes for its employees which are managed by government institutions in the countries concerned. The amount recognised as an expense for defined contribution plans for the year ended 31 December 2019 is SR 443 million (31 December 2018: SR 401 million).

28. contract liabilities

	31 December 2019	31 December 2018
Deferred revenue from services	**2.632.582**	3.192.688
Customer loyalty programme	**605.068**	118.167
	3.237.650	3.310.855
Current	**2.465.735**	2.538.940
Non-current	**771.915**	771.915
	3.237.650	3.310.855

29. lease liabilities

Following is the movement on lease liabilities during 2019:

Balance as at 1 January 2019	**2.367.348**
Additions during the year	**1.174.990**
Payments during the year	**(712.467)**
Annual interest costs	**137.576**
Other adjustments	**(86.270)**
Balance as at 31 December 2019	**2.881.177**
Current	**1.300.242**
Non-current	**1.580.935**
	2.881.177

30. other financial liabilities

	31 December 2019	31 December 2018
Financial liabilities related to frequency spectrum licenses	**1.618.653**	1.528.923
Dividends payable	**2.111.161**	81.927
Derivative liabilities	**7.373**	6.140
	3.737.187	1.616.990
Current	**2.145.276**	90.731
Non-current	**1.591.911**	1.526.259
	3.737.187	1.616.990

31. other liabilities

	31 December 2019	31 December 2018
Government charges	**956.478**	3.699.077
Deferred income (*)	**3.341.943**	2.185.431
Statutory dues and Other	**766.145**	411.226
	5.064.566	6.295.734
Current	**1.555.860**	4.118.718
Non-current	**3.508.706**	2.177.016
	5.064.566	6.295.734

(*) The details of deferred income are as follows:

	31 December 2019	31 December 2018
Government grants (*)	**3.320.684**	2.138.098
Others	**21.259**	47.333
	3.341.943	2.185.431
Current	**21.259**	41.141
Non-current	**3.320.684**	2.144.290
	3.341.943	2.185.431

(*) The government grants represent grants provided by Communication and Information Technology Commission ("CITC") to the Company to build telecommunication network in remote areas (See Note 4.6).

32. trade and other payables

	31 December 2019	31 December 2018
Accrued expenses	**8.364.626**	8.323.129
Trade payables	**6.550.812**	3.050.348
Employee accruals	**1.382.581**	1.424.912
Other trade payables	**1.445.780**	1.031.981
Capital supplier dues and retentions	**880.864**	234.630
Customer refundable deposits	**69.749**	27.907
	18.694.412	14.092.907

(*) No interest is charged on the trade payables. The Group has financial risk management policy in place to ensure that all payables are paid within the pre-agreed credit terms

33. zakat and income tax

	31 December 2019	31 December 2018
	1.452.645	1.443.224
Zakat (a)	**29.633**	22.551
Income taxes (b)	**1.482.278**	1.465.775

a. Zakat

The Group calculates and records the zakat provision based on the zakat base in accordance with the zakat rules and principles in the Kingdom:

33. ZAKAT AND INCOME TAX *(continued)*

	2019	2018
Share capital – beginning of the year	**20.000.000**	20.000.000
Additions:		
Retained earnings, reserves and provisions – beginning of the year	**63.151.587**	60.377.908
Borrowings and payables	**15.318.831**	4.589.524
Adjusted net profit	**10.129.061**	10.097.775
Adjusted total shareholders' equity	**108.599.479**	95.065.207
Deductions:		
Net property (adjusted) and investments	**58.227.066**	58.050.032
Dividends paid	**12.000.000**	8.000.000
Deferred expenses and other balances	**1.962.266**	326.064
Total adjusted deductions	**72.189.332**	66.376.096
Zakat base	**36.410.147**	28.689.111
Zakat on wholly owned companies for the year	**938.538**	717.228
Zakat adjustments during the year	**(203.893)**	-
Add: zakat on partially owned companies for the year	**6.463**	6.718
Total zakat provision charged during the year	**741.108**	723.946

Zakat provision	2019	2018
Balance at beginning of the year	**1.443.224**	1.488.001
Charge during the year	**741.108**	723.946
Settlements during the year	**(3.907)**	(99.535)
Amounts paid during the year	**(727.780)**	(669.188)
Balance at end of the year	**1.452.645**	1.443.224

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

During year 2019, the Group reached a settlement with the GAZT regarding 2008 and 2009 objections,in addition to a final settlement for the years 2010 and 2011 objections resulted in payment of SR 57 million.

33. ZAKAT AND INCOME TAX *(continued)*

In February 2020, the Group received a notification from the GAZT stating that the settlement procedures related to 2008 and 2009 was not accepted and thus these objections are still being considered by the General Secretariat of Tax Committees (formerly the Appeal Committee) until the date of preparing these 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 results of these above-mentioned objections will be in its favor.

In January 2020, the group received a zakat assessment that includes differences related to zakat declaration for the year 2018 amounted to SR 226 million, and the Group has objected to it within the statutory deadline. The Group sees the merit of its legal position and it will not result in any material additional provisions.

b. Income tax

The Group's share of income tax payable by subsidiaries is in accordance with the prevailing tax regulations in their countries. Income tax expense for the year ended 31 December 2019 amounts to SR 21 million (2018: SR 23 million).

34. revenues

	For the year ended 31 December	
	2019	2018
Rendering of services	**45.642.945**	43.142.069
Sale of goods	**8.556.090**	8.372.850
Others	**168.496**	448.324
	54.367.531	51.963.243

35. cost of revenues

	For the year ended 31 December	
	2019	2018
Network access charges	**4.515.488**	4.998.609
Government charges (*)	**3.108.508**	3.565.553
Cost of devices sold	**6.049.028**	4.386.167
Employees' costs	**3.059.466**	2.969.178
Repair and maintenance	**2.730.892**	2.346.994
Cards recharge and printing cost	**1.302.581**	1.532.359
Amortisation and impairment of contract costs (See Note 15)	**315.797**	373.644
Others	**894.546**	1.317.657
	21.976.306	21.490.161

"Others" mainly comprise various expenses mainly related to rent of property, equipment and vehicles, telecommunication services, postage, courier, security and safety expenses, premises expenses, and consultancy.

(*) The details of government charges are as follows:

	For the year ended 31 December	
	2019	2018
Commercial service provisioning fees	**2.237.983**	2.800.149
License fees	**373.237**	398.250
Frequency spectrum fees	**360.039**	350.136
Others	**137.249**	17.018
	3.108.508	3.565.553

36. selling and marketing expenses

	For the year ended 31 December	
	2019	2018
Employees' costs	**2.152.253**	2.314.684
Impairment loss on trade receivables (See Note 11.1)	**662.043**	706.935
Advertising and publicity	**769.601**	560.114
Sales commissions	**786.809**	505.623
Call centre expenses	**260.898**	268.534
Amortisation and impairment on contract assets	**102.807**	241.151
Repairs and maintenance	**320.765**	195.201
Sport activities sponsorship cost	**83.245**	142.414
Amortisation and impairment of contract costs (See Note 15)	**88.346**	42.989
Others	**355.202**	502.643
	5.581.969	5.480.288

"Others" comprises various items, the main ones are: security and safety, telephone and utility expenses.

37. general and administrative expenses

	For the year ended 31 December	
	2019	2018
Employees' costs	**3.303.365**	2.617.257
Repair and maintenance	**880.471**	914.609
Consultancy, legal and professional fees	**404.776**	247.202
Security and safety expenses	**141.181**	140.311
Sadad service fees	**120.211**	107.097
Utilities expenses	**99.025**	179.683
Operating lease costs	**88.605**	359.351
Others	**506.642**	591.529
	5.544.276	5.157.039

"Others" comprises various items, the main ones are: insurance premiums, office equipment, freight, handling, postage and courier expenses.

38. finance income

	For the year ended 31 December	
	2019	2018
Income from murabaha	**360.136**	378.042
Income from sukuk	**279.025**	173.493
	639.161	551.535

39. finance cost

	For the year ended 31 December	
	2019	2018
Financing costs relating to murabaha	**144.429**	67.836
Financing costs relating to sukuk	**193.635**	59.104
Financing cost relating to lease liabilities	**137.576**	-
Unwinding of discounts on provisions and financial obligations	**289.514**	268.500
	765.154	395.440

40. net other losses

	For the year ended 31 December	
	2019	2018
Net gain arising on financial assets measured at FVTPL	**287.480**	7.465
Loss on sale/disposal of property and equipment	**(324.546)**	(291.431)
Net foreign exchange (loss) gain and others	**(3.894)**	68.473
	(40.960)	(215.493)

41. earnings per share

Basic earnings per share is calculated by dividing the net income attributable to equity holders of the Company by the weighted average number of shares for the year ended 31 December as follows:

	2019	2018
Profit for the year attributable to owners of the Company	**10.664.666**	10.779.771
Weighted average number of ordinary shares for the purposes of basic earnings per share	**2.000.000**	2.000.000
Basic and Diluted earnings per share (in Saudi Riyal)	**5.33**	5.39

The Group does not have potentially dilutive shares and accordingly, dilutive earnings per share equals basic earnings per share.

42. financial instruments

42.1 Capital management

The Group manages its capital to ensure that:

- It will be able to operate as a going concern
- It efficiently finances its working capital and strategic investment requirements at optimal terms
- It provides a long-term dividend policy and maintains a stable dividend pay-out
- It maximises the total return to its shareholders
- It maintains an appropriate mix of debt and equity capital

The Group reviews its capital structure in light of strategic investment decisions, changing economic environment, and assesses the impact of these changes on cost of capital and risk associated to capital.
The Group is not subject to any externally imposed capital requirements. The Group did not introduce any amendments to the capital management objectives and procedures during the year ended 31 December 2019.
The Group reviews the capital structure on annual basis to evaluate the cost of capital and the risks associated with capital. The Group has the following target ratios:

1. Debt to EBITDA level of 200% or below
2. Debt to (Debt + Equity) level of 50% or below

The ratio as at the year ended 31 December was as follows:

42. FINANCIAL INSTRUMENTS *(continued)*

	2019	2018
Debt (a)	**9.312.815**	4.286.012
EBITDA (b)	**21.264.980**	19.835.755
Debt to EBITDA	**44%**	22%
Debt	**9.312.815**	4.286.012
Debt + Equity (c)	**72.367.861**	70.947.610
Debt to (Debt + Equity)	**13%**	6%

(a) Debt is defined as current and non-current borrowings as described in Note 25.
(b) EBITDA is defined as operating profit for the year adjusted for depreciation and amortization expenses.
(c) Equity is defined as total equity including issued capital, reserves, retained earnings and non-controlling interest.

42.2 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group uses valuation techniques appropriate to current circumstances that provide sufficient data to measure fair value. For 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 (See Note 4-17).

The following table shows the fair values of the Group's financial assets and liabilities:

42. FINANCIAL INSTRUMENTS *(continued)*

42.2 FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

	31 December 2019		
financial instruments Categories	Carrying amount	Fair value	Fair value measurement using
Financial assets			
Trade and other receivables (See Note 11)	21.372.368	21.372.368	Level 3
Short term murabahas (See Note 12)	2.181.416	2.181.416	Level 2
At fair value through profit or loss (See Note 17)	1.550.869	1.550.869	Level 3
At amortised cost:			
Sukuk	5.600.543	5.600.543	Level 2
Loans to employees	438.481	438.481	Level 2
Others	110.129	110.129	Level 2
	31.253.806	31.253.806	
Financial liabilities			
At amortised cost:			
Borrowings (See Note 25) :			
Murabahas and Tawaruq – unsecured	1.232.554	1.232.554	Level 2
Sukuk – unsecured	6.670.038	6.670.038	Level 2
Murabahas – secured	1.410.223	1.410.223	Level 2
Other financial liabilities (See Note 30)	1.618.653	1.618.653	Level 2
Dividends payable (See Note 30)	2.111.161	2.111.161	Level 2
At fair value through profit or loss			
Derivative liabilities (See Note 30)	7.373	7.373	Level 2
	13.050.002	13.050.002	

42. FINANCIAL INSTRUMENTS *(continued)*

42.2FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

	31 December 2018		
financial instruments Categories	Carrying amount	Fair value	Fair value measurement using
Financial assets			
Trade and other receivables (See Note 11)	14.493.149	14.493.149	Level 3
Short term murabahas (See Note 12)	9.685.491	9.685.491	Level 2
At fair value through profit or loss (See Note 17)	3.115.185	3.115.185	Level 2
At amortised cost:			
Sukuk	1.490.137	1.490.137	Level 2
Murabahas	2.250.746	2.250.746	Level 2
Loans to employees	524.417	524.417	Level 2
Others	86.174	86.174	Level 2
At fair value through other comprehensive income (See Note 17)	1.394.602	1.394.602	Level 3
	33.039.901	33.039.901	
Financial liabilities			
At amortised cost:			
Borrowings (See Note 25) :	605.052	605.052	Level 2
Murabahas – unsecured	2.000.000	2.000.000	Level 2
Sukuk – unsecured	1.680.960	1.680.960	Level 2
Murabahas – secured	1.528.923	1.528.923	Level 2
Other financial liabilities (See Note 30)	81.927	81.927	Level 2
Dividends payable (See Note 30)			
At fair value through profit or loss			
Derivative liabilities (See Note 30)	6.140	6.140	Level 2
	5.903.002	5.903.002	

42.3Profit rate risk

The Group's main profit rate risk arises from borrowings and financial assets with variable profit margin rates. some Group`s companies through the use of profit swap contracts manages the profit rate risk.

There has been no change to the Group's exposure to profit risks or the manner in which these risks are managed and measured.

42. FINANCIAL INSTRUMENTS *(continued)*

42.3 PROFIT RATE RISK *(continued)*

The sensitivity analyses below have been determined based on the exposure to profit rates for non-derivative instruments at the end of the financial year. These show the effects of changes in market profit rates on profit and loss. For floating rate asset and liabilities, the analysis is prepared assuming the amounts outstanding at the end of the year were outstanding for the whole year. A 20-basis point increase or (decrease) represents management's assessment of the reasonably possible change in profit rates. If profit rates had been 20 basis points higher (lower) and all other variables were held constant, the impact on profit of the Group would have been lower (higher) by SR 18 million (2018: SR 4.5 million). This hypothetical effect on profit of the Group primarily arises from potential effect of variable profit financial liabilities.

42.4 FOREIGN CURRENCY RISK MANAGEMENT

Saudi Riyal currency is considered as the functional currency of the Group which is pegged against the United States Dollar. Therefore, the Group is only exposed to exchange rate fluctuations from transactions denominated in foreign currencies other than United States Dollar. Thus, the impact of foreign currency risk is minimal on the Group.

42.5 CREDIT RISK MANAGEMENT

The Group has approved guidelines and policies that allows it to only deal with creditworthy counter parties and limits counter party exposure. The guidelines and policies allow the Group to invest only with those counterparties that have high investment grade credit rating issued by international credit rating agencies and limits the exposure to a single counter party by stipulation that the exposure should not exceed 30% of the counterparty's shareholders' equity. Further. The Group's credit risk is monitored on a quarterly basis.

Other than the concentration of credit risk disclosed in Note 11, concentration of credit risk with respect to trade receivables are limited given that the Group's customer consists of a large number of unrelated customers. Payment terms and credit limits are set in accordance with industry norms. On-going evaluation is performed on the financial condition of trade receivable and management believes there is no further credit risk provision required in excess of the normal provision for impairment loss (See Note 11).

In addition, the Group is exposed to credit risk in relation to financial guarantees given to some subsidiaries with regard to financing arrangements. The Group's maximum exposure in this respect is the maximum amount the Group may have to pay if the guarantee is called on. There is no indication and instance that the Group will incur any loss with respect to its financial guarantees as the date of the preparation of this consolidated financial statement.

42. FINANCIAL INSTRUMENTS *(continued)*

42.6 LIQUIDITY RISK MANAGEMENT

The Group has established a comprehensive liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity requirements under the guidelines approved.

The Group ensures its liquidity by maintaining cash reserves, short-term investments and committed undrawn credit facilities with high credit rated local and international banks. The Group determines its liquidity requirements by continuously monitoring short and long term cash forecasts in comparison to actual cash flows.

Liquidity is reviewed periodically for the Group and stress tested using various assumptions relating to capital expenditure, dividends, trade receivable collections and repayment of loans without refinancing.

The following table detail the Group's remaining contractual maturity for financial liabilities with agreed repayment periods. The table have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

		Undiscounted Cash Flows		
	Carrying amount	1 year or less	Above 1 – 5 years	Above 5 years
31 December 2019				
Trade and other payables (Note 32)	**9.007.687**	**9.007.687**	-	-
Borrowings (Note 25)	**9.312.815**	**401.967**	**2.918.857**	**6.053.423**
Dividends payable (Note 30)	**2.111.161**	**2.111.161**	-	-
Lease liabilities (Note 29)	**2.881.177**	**1.532.798**	**1.689.324**	**483.919**
Other financial liabilities (Note 30)	**1.618.653**	**221.347**	**885.386**	**1.068.815**
Derivative liabilities (Note 30)	**7.373**	**5.523**	**1.243**	**607**
	24.938.866	**13.280.483**	**5.494.810**	**7.606.764**
31 December 2018				
Trade and other payables (Note 32)	4.082.329	4.082.329	-	-
Borrowings (Note 25)	4.286.012	323.196	2.020.001	2.000.000
Dividends payable (Note 30)	81.927	81.927	-	-
Other financial liabilities (Note 30)	1.528.923	221.347	885.386	1.290.161
Derivative liabilities (Note 30)	6.140	4.451	1.689	-
	9.985.331	4.713.250	2.907.076	3.290.161

42. FINANCIAL INSTRUMENTS *(continued)*
42.6 Liquidity risk management *(continued)*

The Group has unused financing facilities amounting to SR 4,611 million as at 31 December 2019 (2018: SR 1,072 million). The Group expects to meet its obligations from operating cash flows, cash and cash equivalents and proceeds of maturing financial assets.
In accordance with the terms of the agreements with the operators, commercial debtors and creditors are settled in connection to call routing and roaming fees and only the net amounts are settled or collected. Accordingly, the net amounts are presented in the consolidated statement of financial position.

The following table presents the recognised financial instruments that are offset or are subject to enforceable master netting agreements and other similar agreements as at:

	Gross amounts	Amounts set off	Net amounts
31 December 2019			
Financial assets			
Trade and other receivables	**26.131.053**	**(4.758.685)**	**21.372.368**
Financial liabilities			
Trade and other payables	**23.453.097**	**(4.758.685)**	**18.694.412**
31 December 2018			
Financial assets			
Trade and other receivables	17.052.530	(2.559.381)	14.493.149
Financial liabilities			
Trade and other payables	16.652.288	(2.559.381)	14.092.907

42.7 CHANGES IN LIABILITIES ARISING FROM FINANCIAL ACTIVITIES

Changes in liabilities arising from financial activities are as follows:

	1 January 2019	Cash flows	Non-monetary changes	31 December 2019
Short-term borrowings	**320.533**	**(242.147)**	**310.953**[(1)]	**389.339**
Lease liabilities - current	**1.471.935**	**(712.467)**	**540.774**[(2)]	**1.300.242**
Long-term borrowings	**3.965.479**	**5.272.616**	**(314.619)**	**8.923.476**
	5.757.947	**4.318.002**	**537.108**	**10.613.057**

42. FINANCIAL INSTRUMENTS *(continued)*
42.6 LIQUIDITY RISK MANAGEMENT *(continued)*

	1 January 2018	Cash flows	Non-monetary changes	31 December 2018
Short-term borrowings	647.763	(460.840)	133.610[1]	320.533
Long-term borrowings	4.005.980	-	(40.501)[1]	3.965.479
	4.653.743	(460.840)	93.109	4.286.012

1. Mainly includes reclassification from non-current to current portion.
2. Mainly includes new lease liabilities.

43. 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 subsidiaries 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 31 December 2019 (31 December 2018: USD 300 million (equivalent to SR 1,125 million).

44. contingent liabilities

(a) The Group has outstanding letters of guarantee amounting to SR 4,514 million as at 31 December 2019 (31 December 2018: SR 6,597 million).

(b) The Group has outstanding letters of credit as at December 31 2019 amounting to SR 961 million (31 December 2018: SR 655 million).

(c) On 21 March 2016, the Company received a letter from a key customer requesting a refund for paid balances amounted to SR 742 million related to construction of a fibre optic network.

Based on the independent legal opinions obtained, the management believes that the customer's 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 consolidated financial statements.

(e) The Company has submitted an objection to the appeal committee with respect to GAZT withholding tax assessment on international operators' networks rentals outside Saudi Arabia for the years from 2004 to 2015 for an amount of SR 2.9 billion. The management believes that Saudi tax regulations do not impose withholding tax on the rental of international operators' networks since the source of income did not occure 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 Company's management believes that this assessment will not result into any additional provisions.

(f) 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.

45. subsequent events

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

2. On 29 January 2020, The Company signed a non-binding memorandum of understanding 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 about SR 8,970 million). The final purchase consideration will be determined upon signing the final agreement.

46. 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 recommendiation 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 year ended 31 December 2019:
- SR 2,000 million at a rate of SR 1 per share for the fourth quarter of 2018.
- SR 4,000 million at a rate of SR 2 per share as an additional one-time special dividends for the year 2018.
- SR 2,000 million at a rate of SR 1 per share for the first quarter of 2019.
- SR 2,000 million at a rate of SR 1 per share for the second quarter of 2019.
- SR 2,000 million at a rate of SR 1 per share for the third quarter of 2019.

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

47. approval of the consolidated financial statements

At its meeting held on 22 Rajab 1441 H (corresponding to 17 March 2020), the Board of Directors approved the consolidated financial statements for the year 2019.

48. comparative figures

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