

Call Date

21st February, 2023

Hosts

Mr. Ameen Al Shiddi – stc Group, CFO
 Mr. Ali Alharbi - Corporate Finance, VP
 Mr. Turki AL Ashaikh – Investor Relations, VP

(Mr. Ameen Al Shiddi – stc group CFO):

Welcome everyone and thank you for joining full year 2022 earnings call. We will start with a 5-10 minutes recap of the key updates and financial performance, followed by Q&A session.

Financial performance:

Our financial statements will be published in our website and Tadawul website in the next few days with an additional disclosure as part of our disclosure policy improvement. The 2022 financial statements will disclose the revenue, gross profit, assets, liabilities and Capex for most of our subsidiaries.

Moreover, stc was able to improve its financial metrics for the year 2022 compared to 2021 on all financial items;

- stc group achieved the highest Revenues in its history for the year 2022, where it reached **SR 67,432m**, with an increase of **7.02%** over 2021.
- Gross Profit for 2022 reached **SR 37,393m**, with an increase of **10.65%** when compared to 2021.
- 2022 Operating Profit reached **SR 15,088m** with an increase of **14.93%** compared to 2021.
- EBITDA for 2022 reached **SR 25,079m**, with an increase of **9.80%** compared to the 2021.
- Net Profit for 2022 reached **SR 12,171m**, with an increase of **7.60%** compared to 2021.
- Capex for the group is expected to be **14% -15%** "capital intensity ratio" within the next 3 years.

2022 Recap: stc group has undertaken several strategic developments during the year that are aligned with its DARE 2.0 strategy, which are summarized as follows:

- As you may have noticed, 2022 has been a very fruitful and successful year for stc group. During the year, stc's general assembly approved the increase of the company's capital to SAR 50 billion, which is considered one of the largest capital increase in the history of the Saudi stock market. This increase is to support the group in achieving its strategy that aimed at expansion and growth, along with maximizing the return for its shareholders.
- stc group received a non-binding offer from PIF to acquire 51% of the shares of Tawal (one of the Group's subsidiaries), while stc will maintain 49% of the shares of Tawal. Tawal was valued at SAR 21.94 Billion, 100% Enterprise Value on cash free and debt free basis. This offer is still under discussion.
- Moreover, stc Group launched "Center3" company, the digital regional center for the Middle East and North Africa, which considered one of stc group's largest and significant projects. The new company will be the owner of the digital infrastructure assets, including data centers, submarine cables, international points of presence, and internet exchange points.
- In addition, solutions by stc has completed the acquisition of 88.19% stakes of Giza Systems with an enterprise value SAR 593 million. This deal represents an important step towards implementing the ambitious growth strategy set by stc Group to expand into new markets and business lines, and to invest in promising business opportunities.
- solutions by stc also signed a binding offer to acquire 100% of ccc by stc, the Kingdom's business process outsourcing (BPO) market leader, from stc group which represents 49% stakes, and ESM Holdings. LLC representing 51%, at an enterprise value of SAR 450 million. This strategic step comes in line with the ambitious growth strategy of stc group and solutions by stc, and reiterates its role as the ICT market leader in the Kingdom. This deal is expected to be concluded in Q1 2023.

We will now start the Q&A session

Q&A Session: (Mr. Ameen Al Shiddi & Mr. Turki Alashaikh)

Person/ Company	Question	Answer
<p>Rohit Modi Citi</p>	<p>Q1: Regarding the Enterprise unit, there is a decline in growth rate for the year if you compare it with the 9-month period, can you shed some lights on what is driving this decline?</p> <p>Q2: It looks like your margins fell in the 4th quarter, can you explain why? And how should we see the margins going forward?</p>	<p>A1: We need to understand that the business could be impacted by multiple factors including but not limited to the market's spending pattern and requirements. Therefore, we have witnessed some pressure on the EBU's revenue and this pressure might continue this year. However, this will be off-set by the expected revenue generation from different business within the group.</p> <p>A2: Let us keep in mind that we are creating 3 start-ups and some of our subsidiaries are still in the expansion mode. In addition, some of these subsidiaries are not yet EBITDA positive. In another words, it is a balance approach that we are taking, and sometime we have to incur these costs as a part of long-term investment for a long-term return.</p>
<p>Ziad Itani Arqaam</p>	<p>Q1: Can you comment on IFRS 15 implementation, especially when it comes to the principle agent relationship with regards software related revenues?</p> <p>Q2: Can we get any update on the overdue government receivables?</p> <p>Q3: After collecting these receivables, is there a potential of special dividends distributions?</p>	<p>A1: As a group, we always adhere to IFRS's requirements and guidelines including the revenue recognition principles. Therefore, some of stc's subsidiaries need to follow different guidelines based on the business they operate in. However, this does not really have an impact on the bottom-line and EBITDA and the overall impact at group level is minor.</p> <p>A2: We collected a very good amount during Q4 2022, which brings the total to SAR 17 billion for the year 2022. Our outstanding government receivables is around SAR 19 billion at the end of 2022. At the end of 2021, it was around 21.6 billion, which shows that we are improving on YoY.</p> <p>A3: stc is always keen to increase its shareholders' value either by investing into the business or distributing dividends. However, for the year 2022, there is no special dividends and the entire matter will be assessed later.</p>
<p>Henrik Herbst Morgan Stanley</p>	<p>Q1: Should we assume the cost base will remain the same going forward? Or is it upfront one-off investments cost related to the new business created?</p> <p>Q2: With your strong balance sheet and since there is no special dividends for 2022, can you give us an update in terms of how you are thinking about M&A?</p> <p>Q3: Should we assume that there will be a growth in 2023 EBITDA?</p>	<p>A1: As we mentioned earlier the cost was expected. We see it as an investment and we are maintaining a healthy financials while paying attention to efficiency. Let us look at the whole year instead of one quarter; we reached more than SAR 25 billion in EBITDA, bottom-line reached more than SAR 12 billion which considered a great achievement by the group.</p> <p>A2: Our expansion and growth strategy is very clear. stc's focus and interest are in the MENA region, and even beyond (which will be taken case by case). We cannot really comment on any of M&A, as any progress in this space will be announced thru the official channels.</p> <p>A3: We are currently discussing the full year financial results; we cannot discuss future guidance.</p>

<p>Pradyumna Mishra HSBC</p>	<p>Q1: Would stc be interested in Vodafone Africa opportunity?</p>	<p>A1: We have an internal selection process and we scan all the opportunities available to stc to determine which one would be suitable to the company's strategy. We cannot comment on a specific opportunity.</p>
<p>Faisal Alazmeh Goldman Sachs</p>	<p>Q1: When do you expect the new start-up businesses to start to break-even? Is it within 2 to 3 year horizon? And do you think they will contribute positively to EBITDA?</p> <p>Q2: Have you considered moving away from fixed guaranteed quarterly dividends to a pay-out structured that facilitate some form of annual growth?</p> <p>Q3: Where do you stand today in terms of the tower business and how do you vision the business in two years?</p>	<p>A1: Our target has always been to break-even from the first year but it depends on the subsidiary and where it operates. Some of stc's subsidiaries will take one to two year to breakeven and other will breakeven within longer or shorter period. We need to be efficient but also always monitor the long-term returns and market share.</p> <p>A2: All dividends' options are available for the company but currently the dividend policy still have around 2 years to go.</p> <p>A3: We have received a non-binding offer for Tawal and the deal is currently under discussion. The outcome of this deal will determine Tawal's future and its strategic plans. We will announce any updates regarding this matter thru the official channels.</p>
<p>Omar Maher EFG Hermes</p>	<p>Q1: Regarding the government receivables, what can you do to prevent the receivables accumulation?</p>	<p>A1: The government is an important segment and large amount of revenues are generated from it. We work very hard to collect our receivables. We are not only relying on Etimad platform but also making sure to get all approvals on revenues per government organization, one by one. In 2022, we have collected SAR 17 billion and hopefully we will continue collecting more this year.</p>
<p>Waruna Kumarage SICO</p>	<p>Q1: Is there any BGSM one-offs expenses affected your income in Q4?</p> <p>Q2: Are you experiencing any delays in receivables from the private sector?</p>	<p>A1: Nothing with regard to BGSM has been booked in Q4.</p> <p>A2: There is no issue in our collections from the private Sector.</p>

<p>Talha Nazr SNB Capital</p>	<p>Q1: How do you see your Capex changing after the tower deal?</p>	<p>A1: Although the Capex related to TAWAL will be no longer there if the deal with PIF goes thru, yet on the other side we expect to see an increase in Center3's capex that will off-set the decline in TAWAL's Capex. The expectation for the capital intensity will be 14% to 15% at group's level in the next three years.</p>
<p>Abdulaziz Alhebaishi Jadwa Investment</p>	<p>Q1: Regarding receivables, what is the impact of everything going to Etimad Platform, are we expecting faster collection like in 6-month period?</p> <p>Q2: Will be there more disclosure on the financials of 2022?</p>	<p>A1: The process cycle and timing for Etimad platform are improving and we believe the payment approval will be much faster. However, there remain few challenges and we hope it will be addressed soon.</p> <p>A2: You will see more disclosure in the year end financials. All the revenues, gross profit, assets, liabilities and Capex per subsidiaries will be disclosed.</p>
<p>Nishit Lakhota SICO Bank</p>	<p>Q1: What should we assume the run rate of the increase in the operating expenses from 9 month period to year end?</p> <p>Q2: How do you see the pressure in the consumer business and are you optimistic on the population growth in Saudi Arabia?</p>	<p>A1: We advise to look at the whole year not just Q4, there are certain costs related to the new start-up that were incurred in the last four months of the year. In addition, we have the efficiency program and we are refreshing this program with new initiatives that will help the company to be more efficient and have more control on the cost.</p> <p>A2: The consumer segment witnesses a very healthy growth driven by population growth and the new foreigners going the market workforce.</p>

Turki AL Ashaikh (Investor Relations, VP):

Thank you all again for participating in the full year 2022 earnings call. If you need anything, please do not hesitate to email us at IRU@stc.com.sa,

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