

Annual Report 2018

PUSHING THE
BOUNDARIES TOWARD
THE **FUTURE**



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



King Abdulaziz Bin Abdulrahman Al Saud
(May Allah's mercy be upon him)
Founder of the Kingdom of Saudi Arabia



King Salman Bin Abdulaziz Al Saud
Custodian of the Two Holy Mosques



HRH Mohammed Bin Salman Al Saud
Deputy Crown Prince

TABLE OF CONTENTS

01

A. Operational Performance	22
1. STC	22
2. Local Subsidiaries	23
3. International Subsidiaries	24
4. Investments	25
a. Investments Accounted for Under the Equity Method	25
• Investments in Associate Companies	26

B. Financial Performance of the Group	27
C. Strategy of the Company	38
D. Human Resources	38
E. Sports Sponsorships	40
F. Corporate Social Responsibility	40
G. Serving Pilgrims	42

03

Board of Directors	46
Distribution of dividends, Board Remunerations and recommendations	64

04

Consolidated Financial Statements for the Year Ended 31 December 2018	70
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LEADING THE DIGITAL TRANSFORMATION OF THE **REGION**



CHAIRMAN'S MESSAGE

THIS REMARKABLE PERFORMANCE IS UNDOUBTEDLY THE RESULT OF A STRONG AND INTEGRATED EFFORT FOR SAUDI TELECOM, AND THE FINANCIAL FIGURES OF THE COMPANY WERE THE BEST WITNESS TO THIS PERFORMANCE.



Total profits SR
30,546
Million



Revenues increased by 2.6%
in 2018 to reach SR

51,963
Million

Total profit
increased by
6.9%

Dear Shareholders,

I am pleased to offer you my congratulations on your company's continued achievement of its financial and strategic goals during 2018. This remarkable performance is undoubtedly the result of the dedicated efforts of STC. The Company's financial figures are the best testimony to its performance, as revenues increased by 2.6% during 2018 to reach SR 51,963 million. Gross profit amounted to SR 30,546 million, an increase of 6.9%, while the operating profit amounted to SR 12,245 million, an increase of 11.5%. The net profit increased by 7.6% to reach SR 10,780 million compared to last year. The Company also continued to grow its market share, as fiber optic customers increased by 18% compared to the previous year.

These figures show that the Company is on track to achieving its ambitious DARE strategy and growing in new areas such as digital payments, big data, cloud computing, cybersecurity, the Internet of Things (IoT), and artificial intelligence. In keeping with the rapid changes in the telecommunications and information technology industry, we launched the digital payment service STC PAY during the year and opened a large data center in line with international standards. In addition, we launched the STC Academy to create leaders with strong digital skills and opened the first digital store to operate around the clock.

Brothers and sisters,

Today, your Company plays a pivotal role in enabling digital transformation, which is one of the main objectives of Saudi Arabia's Vision 2030. We provide the highest quality services associated with modern technologies, especially since launching the region's first live network for 5G last May. The Company also announced an ambitious plan to deploy this new generation network, considered the largest in the Middle East and North Africa. In addition, the Company expanded the size and scope of its business to achieve growth in services, applications, platforms, and infrastructure, taking into account that innovation and investment play major roles in accelerating digital transformation.

Affirming the Company's robust financial position and commitment to paying dividends, STC's Board of Directors approved a dividend distribution policy starting from Q4 2018. The Company is committed to distributing SR1 per quarter for the next three years with the possibility of paying additional cash dividends, subject to approval by the Board of Directors after assessing the financial position, future expectations, and capital requirements of the Company. In addition, the Board of Directors recommended the distribution of additional profits of SR2 per share for the year 2018.

On behalf of the Board of Directors, I would like to take this opportunity to extend my sincere thanks and appreciation to the Custodian of the Two Holy Mosques, Salman bin Abdul-Aziz and the Crown Prince HRH Prince Mohammed bin Salman for their support of the Kingdom's ICT sector in general and STC in particular. The Company represents an important stepping stone in the ongoing process of privatization and plays a pivotal role in achieving Saudi's Vision 2030 digital transformation goals.

I would also be remiss not to thank you for your confidence in the Board and your continued support in ensuring that the preservation and development of shareholders' rights remains at the top of our priorities, as always. In addition, I would like to thank the Company's valued customers and those who are behind these successes, the employees working for this prestigious entity.

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

FINANCIAL HIGHLIGHTS



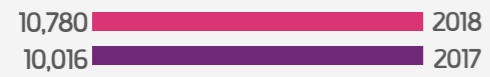
Revenues increased by 2.6% in 2018 to reach SR

51,963

Million

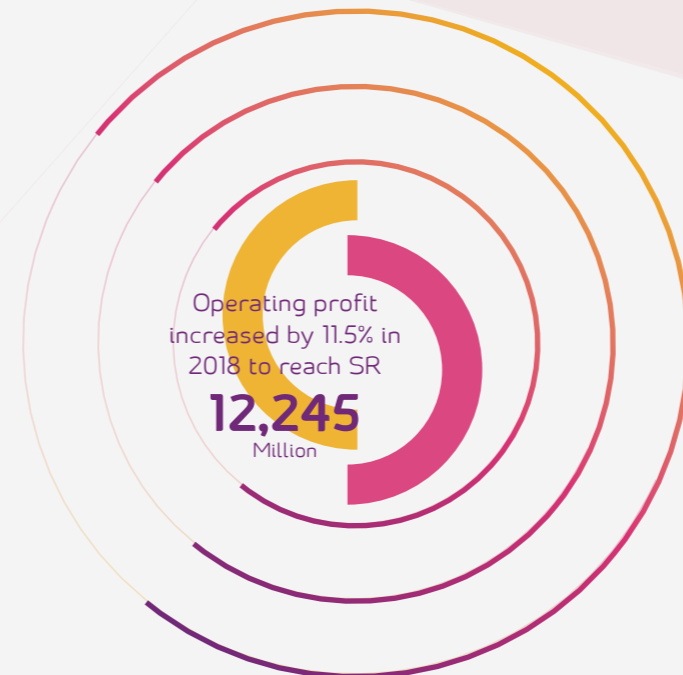


Net Profit - SR Million



Net profit increased by **7.6%**

Net profit for 2018 reached SR 10,780 million compared to SR 10,016 million in 2017, an increase of 7.6%. Earnings per share in 2018 reached SR 5.39 compared to SR 5.01 in 2017. Net profit for 2018 reached SR 30,546 million compared to SR 28,555 million in 2017



Investments in future technologie (million)



\$500

Percentage of digital channel users



93%

Total profit reached **SR 30,546 million** with an increase of **6.9%**, while operational profit reached **SR 12,245 million** at an increase of **11.5%**, Net profit increased by **7.6%**.

STC crowned by winning the King Abdulaziz Award for Quality

Dear Shareholders,
Peace, mercy, and the blessings of Allah be upon you.

The year 2018 was filled with successes in many areas, as the company presented a number of qualitative national initiatives to build the skills of young nationals, promoted innovation in technology, and launched new investments. This is in addition to the remarkable growth in our financial results compared to last year. A sustainability strategy was also created and designed to be consistent with Saudi Vision 2030, and to support national programs, local content, and to integrate within them strategic agreements with King Khalid Foundation with the aim of maximizing the impact of the company's corporate social responsibility programs.

STC Academy, which was launched during the year, enabled skills development for more than 3,000 young men and women in disciplines that support the ICT industry, such as cybersecurity, data analysis, modern digital technologies, and driving. This was in cooperation with prestigious academic institutions from the United States and the United Kingdom, thereby enriching the human element in the environment of the Company and society.

In parallel, we launched the largest data center in Riyadh, which was ranked as a Tier 4 data center, the highest category according to the classification of the Uptime Institute. Our center is among the top 10 global data centers to receive this classification, with STC having the largest capacity among data centers in the Middle East and hosting the largest cloud services in the region.

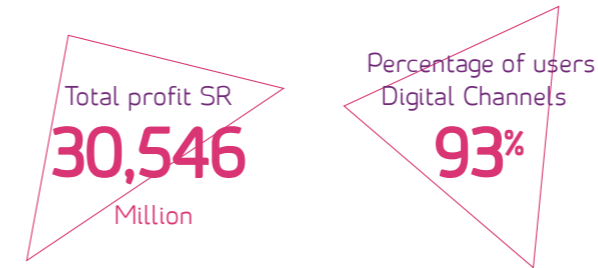
The Company also boosted its local and regional leadership with the launch of its first live 5G network following the completion of testing. This network, a first for the Middle East and North Africa, is currently in its preliminary phase which will be followed by equipment installations at several locations throughout the Kingdom. Work is underway to complete the next stages of the deployment on a wider scale to ensure being in line with the latest international standards, and to enhance customer experience in different cities in the Kingdom.

The company has demonstrated the goals of its DARE strategy in several ways. STC Pay was launched as an investment arm specializing in digital payments to provide financial services to individuals and companies in line with the directions of Saudi Arabian Monetary Agency (SAMA) and the rapid shifts in the telecommunications industry and the digital information revolution.

As part of the digitization of our businesses and services, we announced December 19 as an annual "Digital Day". During 2018, all branches were closed in the Kingdom for one day, with all services available through MySTC, self-service machines, and the interactive messaging service 900. The aim was to promote the use of digital channels, enhance performance, and improve customer experience. This was after noticing the high customer satisfaction rates in relation to services provided through digital channels, and affirms the company's commitment to playing an important role in enabling digital transformation in accordance with Saudi Vision 2030.

On another note, the first innovative digital store of its kind in the Kingdom was launched during the year. It is based on best international practices in enriching customer experience as per the Company's new identity. STC also extended MySTC to cover more than 95% of the Company's services, and launched self-service machines in key locations throughout the Kingdom with the aim of enhancing customer experience and digitizing services in accordance with the digital age and current lifestyles.

During the Hajj pilgrimage season, we had an active presence in servicing pilgrims, with the directives of the wise leadership, and the participation of all the Kingdom's sectors. This had a remarkable impact in achieving several records for our network, as the company recorded the highest peak hours in the history of the holy sites, as well as achieving exceptional data transfer figures. Traffic at the Holy Sites this year exceeded 7.2 terabytes during the peak hour on Yawm Al-Tarwyia, a growth of 34% over the same period as last year, and the



highest peak hour for data in the history of the holy sites.

In addition to that, during 2018, the International Mobile Telecommunications Organization (GSMA), the world's largest organization for mobile operators and manufacturers, announced the election of STC to the GSMA Board of Directors. This came after the Company became the first Saudi company to succeed in its Board elections, alongside the top 25 telecommunications companies in the world. The GSMA's membership includes more than 1100 of the world's mobile communications and IT operators and manufacturers. STC crowned by winning the King Abdulaziz Award for Quality in its fourth session (1439 – 2018) under the category of large service facilities at the Gold level. This was our second win since the award was launched, reflecting our interest in quality, institutional business, and our commitment to one of its key values: putting the customer first.

In conclusion, we thank you for your confidence and support, and assure you that your Company today is taking firm steps to strengthen its local and regional leadership and global reputation, and to play a pivotal role as a major digital transformer in the Kingdom, in line with the objectives of Saudi Vision 2030. I would also like to thank my colleagues for their outstanding efforts during the year, and for all their achievements, which we are very proud of.

Eng. Nasser Al-Nasser
STC Group CEO



BOARD OF DIRECTORS

Total profits reached SR 30,546 million at an increase of 6.9%, while operational profit reached SR 12,245 million at an increase of 11.5%. Net profits increased by 7.6%.

Net profit increase by **7.6%**

Revenues increased by 2.6% in 2018 to reach SR **51,963** Million

1. HRH. Prince Mohammed Khalid ALFaisal
Chairman of the Board
2. H.E. Dr. Khaled Hussain Biyari
Board Vice Chairman
3. H.E. Mohammed Talal Al-Nahas
Board member
4. Mr. Rashid Ibrahim Sharif
Board member
5. Mr. Sanjay Kapoor
Board member
6. Mr. Roy Chestnutt
Board member
7. Dr. Ibrahim bin Abdulrahman Kadi
Board member
8. Mr. Osama Yassin Al-Khiary
Board member
9. Mr. Ahmed Mohammed Al-Omran
Board member





**DRIVEN BY THE DESIRE
TO CONSISTENTLY
ENHANCE CUSTOMER
EXPERIENCE |**

STC (the 'Company') was established as a Saudi Joint Stock Company pursuant to Royal Decree No. M/35 dated 24th Dhul Hijja 1418 AH (April 21st, 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 Hijja 1418 AH (April 20th, 1998), which approved the Company's Articles of Association (the 'Articles'). The Company was, at this point, wholly owned by the Government of the Kingdom of Saudi Arabia (the 'Government'). Pursuant to the Council of Ministers' Resolution No. 171 dated 2nd Rajab 1423 AH (September 9th, 2002), the Government sold 30% of its shares.

The Company commenced its operations as the provider of telecommunications services in the Kingdom of Saudi Arabia (the 'Kingdom') on the 6th of Muharram 1419 AH (May 2nd, 1998) and received Commercial Registration No. 1010150269 as a Saudi Joint Stock Company on the 4th of Rabi'1 1419 AH (June 29th, 1998). The Company's head office is located in Riyadh. The Company has made various investments in affiliates, subsidiaries and joint ventures, collectively known as the 'Group'. The details of these investments are as follows:

Subsidiaries:

Subsidiary	Country of incorporation	Percentage of ownership	
		31 December 2018	31 December 2017
Arabian Internet and Communications Services Co. Ltd (STC Solutions)	Saudi Arabia	100%	100%
Telecom Commercial Investment Co Ltd (TCIC)	Saudi Arabia	100%	100%
VIVA Bahrain	Kingdom of Bahrain	100%	100%
AQALAT Co Ltd	Saudi Arabia	100%	100%
STC Specialized Co (formerly Public Telecommunications Company - Bravo)	Saudi Arabia	100%	100%
Sapphire Co Ltd	Saudi Arabia	100%	100%
STC Turkey Holdings Ltd	British Virgin Islands	100%	100%
STC Asia Holdings Ltd	British Virgin Islands	100%	100%
STC Gulf Investment Holding (STC Gulf)	Kingdom of Bahrain	100%	100%
STC Channels (Formerly Sale Advanced Co. - SaleCo)	Saudi Arabia	100%	100%
Kuwait Telecommunication Co (VIVA Kuwait)	Kuwait	51.8%	51.8%
STC Towers Co Ltd	Saudi Arabia	100%	-

Associate companies:

Associate Company	Country of incorporation	Percentage of ownership / voting rights	
		31 December 2018	31 December 2017
Arab Satellite Communications Organization (ARABSAT)	Saudi Arabia	36.66%	36.66%
Virgin Mobile KSA	Saudi Arabia	10%	10%
Careem	British Virgin Islands	8.87%	9.68%
Oger Telecom Limited	UAE	35%	35%

Joint ventures:

Joint venture	Country of incorporation	Percentage of ownership / voting rights	
		31 December 2018	31 December 2017
Arab Submarine Cables Co Ltd	Saudi Arabia	50%	50%
Contact Center Co (CCC)	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 ICT and media services which include – for example, but not limited to – the following:

- 1) Creating, managing, operating and maintaining fixed and mobile communication networks, systems, and infrastructure.
- 2) Providing customers with the various communication and ICT services, as well as maintaining and managing them.
- 3) Preparing the plans and studies necessary for developing, implementing and providing communication services in all technical, financial and administrative aspects; and preparing and implementing telecommunications training plans and providing or procuring consultancy services.
- 4) Expanding and developing telecommunication networks and systems 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 customers with information technology and comprehensive telecommunications services, including, for example: telecommunications, ICT, management services, cloud services, etc.
- 6) Providing customers with information, technologies and information-based systems including the preparation, printing and distribution of telephone directories, business directories, pamphlets, information and data and providing the means of communication needed to provide Internet services.
- 7) Wholesale and retail trade, importing, exporting, purchasing, owning, renting, manufacturing, marketing, selling, developing, designing, installing, and maintaining equipment, components and parts of the various telecommunications networks, including fixed, mobile and private networks, as well as computer software and intellectual property; and providing other services and carrying out contracting works related to the various telecommunication networks.
- 8) Investing the Company's properties and the consequent actions such as selling, purchasing, leasing, managing, developing and maintaining such real estate.
- 9) Holding 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 as per companies regulations, and buy stocks and shares in other companies or merge with them, and has the right to join other companies in establishing Joint Stock or Limited Liability companies or any other entities within 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 fiscal year 2018, 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 contributing to the achievement of Saudi Vision 2030.

First: The performance and activities of the company during fiscal year 2018

Operational performance

1. Saudi Telecom Company - Kingdom of Saudi Arabia

In 2018, Saudi Telecom Company (STC) implemented broadband deployment plans, with the number of fiber optic subscribers increasing by 17% compared to 2017, in line with the Vision 2030's focus on fiber optic technology. The broadband speed increased to 300 Mbps, while the minimum fiber speed rose to 50 Mbps. The Company launched the TV channel "Jawwy" for fans throughout the Kingdom of Saudi Arabia, targeting those seeking sports and quality content. This included the launch of multiple packages and offers catering to all categories of customers. STC launched STC Pay as an investment arm specializing in digital payments, fintech services for individuals and companies. It includes a digital package with a range of options to enable individuals to control their payments easily and safely. The service makes it easy to transfer money, receive it, shop and control finances through a single mobile application, in accordance with the regulations of the Saud Arabian Monetary Authority. It is in line with the Company's growth and digital transformation strategy, and its central role in the Kingdom of Saudi Arabia's Vision 2030. The Company launched its 5G network, which began with the first phase operation of a number of towers in the Eastern Region. Work will continue to gradually complete the construction of the network in the main cities of Saudi Arabia. The Company, including its subsidiaries STC Solutions and STC Specialized, achieved remarkable growth in revenues during 2018 as a result of continuous efforts to develop innovative and sustainable products and solutions that keep up with new technologies. The most important of these was the launch of a Research Data Centre, a cloud communications service, a big data analysis service and an artificial intelligence initiative, which in turn have created new revenue streams for the Company. In addition, the Company won several international awards and certifications, and contributed to the development of young Saudi nationals. Several agreements, partnerships and specialized workshops were held in association with a number of government and private sector entities, chief among them those concerning the Qiddiya Project, the Red Sea Project and the General Authority for Entertainment related to the implantation of innovative digital technology, cybersecurity, Blockchain, cloud computing and Internet of Things solutions. The company has supported and empowered small and medium enterprises through the provision of specialized technologies and innovative solutions that will accelerate its digital transformation program in line with the Kingdom's Vision 2030. The company also supported and enabled the Hajj Hackathon, which was attended by more than 3,000 people from around the world; Cyber Saber, which was attended by more than 150 students from 36 teams representing 7 Saudi universities; and the CyberCrunch training program for beginners, which aims to bridge the gap between the labor market's needs and the output of education and training initiatives. The Company was also a strategic partner in the MESC Global Forum, which included more than

100 business leaders and thinkers as speakers and focused on the importance of supporting Saudi youth and developing their skills. The event was attended by more than 5000 people from more than 80 countries.

The company has been keen to support and empower small and medium enterprises through innovative solutions that enable them to increase their efficiency and reduce their costs, such as the RAQIB and point of sale service, and others which make use of the Company's extensive infrastructure. It worked to raise awareness of the services provided in cooperation with the Small & Medium Enterprises General Authority of Saudi Arabia. It also participated in the Beban forum as a strategic partner and held several workshops and meetings with entrepreneurs and business owners in cooperation with chambers of commerce in the Kingdom. The Company's wholesale business has made substantial achievements in providing for telephone and internet services to clients, including local, regional and international service providers.

International Call Transit services

There was significant growth in international call transit and international roaming compared to 2017, and in providing for the international needs of roaming customers and users of international GSM, CAMEL, GPRS, 3G and LTE networks. The emphasis in 2018 was on the activating and launch of 4G LTE roaming services. This is in addition to the implementation of the "MSRN" project to route the voice calls of roaming customers from the most important operators around the world and raise the capacity of the Internetwork Packet Exchange "IPX", which passes the international calls and transit, and raises the capacity of the "Media Gateway G9". In addition, "IP-STP" system was established to support the "Diagram & Sigtran" protocols, to connect with international operators and to the launch of the sales management system "TRM" for voice calls and distribute their tracks, which automatically links international exchanges, including IPX, and reduces the time of implementation of international voice agreements.

Local and International Operators Services

The "CNFO" Interconnection Service was introduced to connect sites, expand operators' infrastructures, and enable connectivity of operators' networks with the NNI network. In addition, the "Microwave" service was introduced as a customer access option that can overcome the lack of terrestrial network availability in some cases and to provide data services and commitment to customer service with broader options. Complete Backup Link Service (CBLS) was also launched for data services, and "Burstable Internet" service was launched as a feature that allows "IP Transit" customers to pay only for what they use. Growth in Transition of Internet access services continued to jump, with the total sold capacity increasing by 45% compared to 2017. Products adapted to the latest technological developments (OTN) have also been added, and "E/O-line" services are being provided to local, regional and international customers, which enables local service providers to access Ethernet and fiber-optic networks

that contribute to the seamless transfer and interconnection of their services to international service providers.

Local and International Infrastructure

The third upgrade of the Europe-India Gateway "EIG", the fourth upgrade of the South East Asia-Middle East-Western Europe 4 "SMW-4", and the first upgrade of the South East Asia-Middle East-Western Europe 5 "SMW-5" were implemented to meet the urgent needs of international calls in the Middle East, India and Europe.

International submarine cables capacities increased by 59% compared to 2017.

Regional and International Leadership

The expansion of the cross-border network, which offers a capacity of up to "100GB", connects the major sites of the carriers and operators with the neighboring countries by 30%, and controls the transfer of international call circuits with TDM technology to IPX protocol technology to accommodate issued, incoming and transit international calls in high quality, especially during the Ramadan and Hajj seasons.

International Internet Services

The International Data Center launched new products to improve its competitive position against other regional centers. In addition, new infrastructure was developed to meet international standards. The Jeddah International Internet Center was also developed to attract content services providers, cloud services and international operators, becoming a major hub for Internet services in Saudi Arabia. Furthermore, an agreement was made with Lynx, a leading international Internet partner. An approximately 100GB sales deal on submarine cables was completed, and it was agreed to end a partnership with COLT to reach Europe to create more flexibility for the company and reduce cost.

2. Local subsidiaries

Arabian Internet and Communications Services Co. Ltd (STC Solutions) - KSA

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. In December 2007, STC acquired the entire share capital of Arabian Internet and Communications Services Co. which has a capital of SR 100 million. During Q4 2017, STC Solutions established a subsidiary company, Saudi Digital Payments Company Ltd, in Saudi Arabia. Its main activity is to provide operating systems, e-commerce and online trading. Its head office is located in Saudi Arabia and it operates in Saudi Arabia.

Telecom Commercial Investment Co Ltd (TCIC) - KSA

Telecom Investment Company Ltd was established in the Kingdom of Saudi Arabia in October 2007 with a capital of SR 1 million, and it is 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 communication and information technology systems and software. Its head office is in Saudi Arabia and it operates in Saudi Arabia.

AQALAT Co Ltd - KSA

AQALAT Co. Ltd was established in March 2013 in the Kingdom of Saudi Arabia with a capital of SR 70 million, and it is wholly owned by STC. The company's operations include establishing, owning, investing and managing real estate, and providing consultancy, and importing and exporting services to STC. Its head office is located in Saudi Arabia. The company has not yet begun commercial operations.

STC Specialized Co (formerly Public Telecommunications Company - Bravo) - KSA

STC Specialized Co (formerly Bravo) 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 200 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 located in Saudi Arabia and it operates in Saudi Arabia.

Sapphire Co Ltd - KSA

Sapphire Co Ltd was established in the Kingdom of Saudi Arabia in June 2014 with a capital of SR 100 million. It is wholly owned by STC. The company is a wholesale and retainer 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 of STC decided to liquidate Sapphire and merge its business with Saudi Telecom Company from January 1, 2018. The legal procedures for the liquidation of the company are expected to complete during the year 2019.

STC Channels (Formerly Sale Advanced - SALECO) - KSA

STC Channels (formerly Sale Advanced - SALECO) was established in January 2008 in the Kingdom of Saudi Arabia. The company is a wholesaler and retailer of smart card services, communications equipment and computer services, the selling and reselling of all fixed and mobile telecommunications services, and the maintenance and operation of commercial complexes. The company works in the Saudi market and its head office is located in Saudi Arabia where it operates. In December 2011, STC acquired a 60% stake in STC Channels Company with a capital of SR 100 million. In January 2017, STC acquired the remaining shares for SR 400 million, thereby making it wholly owned by STC. STC has subsidiaries in the Kingdom of Bahrain and the Sultanate of Oman. The main activity of these companies is the same as the parent company STC, which operates in the Kingdom of Bahrain and the Sultanate of Oman.

■ STC Towers Co Ltd – KSA

During Q1 2018, STC established STC Towers Company - a limited liability company of which it owns 100% of its SR 200 million capital. The company will be responsible for owning, constructing, operating, leasing and investing in the towers. During Q1 2019, STC Towers Co. obtained the necessary operational licenses from the Communications and Information Technology Commission. It has yet to begin operations

3- International Subsidiaries

■ VIVA Bahrain – Kingdom of Bahrain

VIVA 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. It is wholly owned by STC. The company offers mobile, international telecommunications, broadband and other related services to the Bahraini market. Commercial operations commenced on March 3, 2010. It is headquartered in Bahrain and operates in Bahrain. During Q1 2018, VIVA Bahrain acquired Mena Telecom (Ltd) in the Kingdom of Bahrain (as a subsidiary). Its main activity is the provision of Internet services and it operates in the Kingdom of Bahrain.

■ STC Gulf Investment Holding (STC Gulf)

STC Gulf was established in the Kingdom of Bahrain on March 12, 2008 and is a private company whose operations provide services and support to the Group's investment activities. STC Gulf has the following wholly owned subsidiaries in the Kingdom of Bahrain. The principal activity of these 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 Holding Company 3 (S.P.C) has a 100% stake in Integral Holding Company (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 is a holding company headquartered in the Kingdom of Bahrain and operating in the UAE and Saudi Arabia. It has holdings in companies operating in the field of content and digital media services in the GCC. The capital of Integral was increased to BD 101 million, equivalent to SR 1,008 million at the exchange rate as of 31 December 2018.

■ STC Turkey Holdings Ltd (STC Turkey)

STC Turkey, a limited liability company, was incorporated under the Commercial Companies Law of the British Virgin Islands on 8 April 2008, and offers services and support to the Group's investment activities. In April 2008, STC Turkey acquired 35% of Oger Telecom Ltd's share capital of US \$ 3.6 billion, equivalent to SR 13.5 billion at the exchange rate at that date. The company is based in Dubai, United Arab Emirates. 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. (See note about Oger Telecom Ltd).

■ STC Asia Holdings Ltd

STC Asia, a limited liability company, was incorporated under the Commercial Companies Law of the British Virgin Islands on July 24, 2007. It offers services and support to the Group's investment activities. STC Asia invests in companies operating in Malaysia and owns investments in STC Malaysia Holdings Ltd (STC Malaysia, a wholly owned subsidiary), a limited liability company incorporated under the Commercial Companies Law of the British Virgin Islands on July 24, 2007. It provides necessary services and support to the Group's investment activities. STC Malaysia Holdings Ltd holds a 25% stake in the Binariang GSM Holding Group with a capital of MYR 20.7 billion, equivalent to about SR 23 billion at the exchange rate as of that date. The company is headquartered in Malaysia (see section about Binariang GSM Holding Group).

■ Kuwait Telecommunication Co (VIVA Kuwait) – Kuwait

In December 2007, STC acquired 26% of Kuwait Telecom (VIVA Kuwait) with a capital of KD 50 million, equivalent to SR 687 million at the exchange rate as of that date. VIVA Kuwait is headquartered in Kuwait and operates in the state of Kuwait and in the field of mobile phone services in the Kuwaiti market. Its commercial operations started on 4 December 2008. It was listed as a joint stock company on the Kuwait Stock Exchange on 14 December 2014. STC manages VIVA Kuwait and accounts for it as a subsidiary, as it controls the majority of VIVA Kuwait's Board of Directors.

In November 2015, the company offered an option to buy shares of VIVA Kuwait, which it does not own, amounting to 74% of the issued shares of VIVA Kuwait. The offer was made by the company to the shareholders of VIVA Kuwait for one Kuwaiti Dinar per share (equivalent to SR 12.37). The offer ended on January 31, 2016. The number of shares that were accepted as a result of this offer was 128,860,518 shares, representing 25.8% of the total issued shares. STC's ownership thus became 51.8% of the total issued shares of VIVA Kuwait. During the year 2018, VIVA Kuwait entered into a binding contract to acquire 100% of the total issued shares of Quality Net, which operates in Kuwait and in the field of providing Internet services.

Debt instruments in the form of bonds were issued with regards to the below companies:

■ STC Asia Holdings Ltd (STC Asia):

On 31 December 2007, STC Asia Holding Ltd invested in 50 year Sukuk worth MYR 1.508 million (callable after 10 years) with an annual profit margin of 10.75% until 28 December 2017 and a margin of 9.25% for subsequent periods. The Sukuk investment was financed through a long-term loan with variable commission for 10 years in Malaysian Ringgit for a similar amount. The loan was due on 28/12/2017 and was paid in full. On 28/12/2017, STC Asia Holding Limited received a syndicated variable commission loan from several banks and a repayment period of five years. These Sukuk are not past due or impaired and are valued at SR 1,490 million as at 31 December 2018 (31 December 2017: SR 1.559 million and 1 January 2017: SR 1,423 million).

■ Saudi Telecom Company

During Q2 2014, STC approved a Sukuk program worth a total

of SR 5 billion. The first tranche was issued and the following information is as of December 31, 2018:

Issuance	Issuance date	Issuance category	Total value of issuance	Due date
Telecommunications Sukuk	9 June 2014	SR 1 million	SR 2 billion	9 June 2024

The instruments described above have been issued at par value without a discount or premium. These instruments bear a three-month SAIBOR return plus a margin of 70 basis points and 10 years payable every three months.

4. Investments

A) Investments recorded in accordance with the equity method

■ Investments in joint ventures Arab Submarine Cables Co Ltd – KSA

Arab Submarine Cables Co (LLC) was established in September 2002 for the purpose of creation, leasing, management and operation of a submarine cable connecting Saudi Arabia and the Republic of Sudan to enable communications between them and other countries. The operational activities of Arab Submarine Cables Co. commenced in June 2003, and in September 2002, STC acquired 50% of the company 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 and it operates in Saudi Arabia.

■ Contact Centers Co (CCC) – KSA

STC with Aegis established the Call Centers Company (LLC) to provide Call Centers and Directory Services at the end of December 2010 in Saudi Arabia. In December 2010, STC owned a 50% share with a capital of SR 4.5 million. 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 becomes 49%. Its head office is located in Saudi Arabia and operates in the Kingdom of Saudi Arabia.

■ Binariang GSM Holding (BGSM)

Binariang GSM Malaysia Group is a holding investment group headquartered in Malaysia which holds investments that it also operates. It holds 62% of Maxis Holdings Group (Malaysia), which operates in Malaysia's mobile communications sector. It also had other investments in India (Aircel), which was exited in 2018. In September 2007, STC acquired 25% of the Binariang Group (through its subsidiaries STC Asia Holding and STC Malaysia Holdings) which has a capital of MYR 20.7 billion, equivalent to SR 23 billion at the exchange rate on 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 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 beginning in the second quarter of 2013.

During the second quarter of 2017, a subsidiary of the Binariang Holding Group (a joint venture) issued additional capital for

non-controlling interests. STC's share of the gains from this increase was SR 141 million, recorded in other reserves.

■ Investments in Associate Companies

■ Arab Satellite Communications Organization (ARABSAT) – KSA

The Arab Satellite Communications Organization (ARABSAT) was established by the Member States of the League of Arab States in April 1976. ARABSAT provides a number of services to these member countries as well as to all official and private sectors in their 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 ARABSAT with a capital of US \$ 500 million, equivalent to about SR 1,875 million at the exchange rate at that date. Its headquarters is in Saudi Arabia and it operates in Saudi Arabia, UAE, Egypt and France.

■ Virgin Mobile Saudi Consortium – KSA

Virgin Mobile Saudi Consortium (Limited Liability Company) was established in 2013 to provide Virtual Mobile Network Operator services. It started operations in 2014 and the Company holds a 10% stake in Virgin. Although the Group has a less than 20% in shares and voting rights of Virgin Consortium, the Group has the ability to exercise significant influence through its membership in the Board of Directors of Virgin Consortium under the Partners Agreement and the Memorandum of Association of the Amended Virgin Consortium. Its head office is in the Kingdom of Saudi Arabia and it operates in Saudi Arabia.

■ Careem

Established under the Commercial Companies Act of the British Virgin Islands in July 2012, Careem provides innovative, fast and convenient transportation services through its website and smartphone applications. In January 2017, STC completed the purchase of 10% of the shares of Careem for US \$ 100 million (SR 375 million). During 2018, the company's share decreased to 8.87% as a result of increasing the capital of Careem through the accession of new partners. Although the Group holds less than 20% of the shares and voting rights in Careem, the Group has the ability to exercise significant influence without control through its membership on the Board of Directors and the acquisition of venture capital funds established by the Group with a share of 8.9% of Careem. Headquartered in Dubai, United Arab Emirates, the company operates in the Middle East, North Africa, Pakistan and Turkey.

■ Oger Telecom Ltd

Oger Telecom Ltd is a holding company registered in Dubai, United Arab Emirates and has investments in companies whose main activities are in the telecommunications sector in Turkey and South Africa. In April 2008, STC acquired (through

its subsidiary, STC Turkey Holding) 35% of Oger Telecom Ltd's share capital of US \$ 3.6 billion, equivalent to SR 13.5 billion at the exchange rate at that date. During 2016, due to the continuing losses and depletion of the entire balance of the Group's investment in Oger Telecom, the Group ceased to recognize its share of additional losses. Oger Telecom is currently facing 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 necessary procedures to liquidate its major subsidiaries and restructure its investments in Turkey and South Africa to meet commitments with the lenders. The liquidation of Oger Telekom Ltd is expected to commence in the foreseeable future.

B) Other investments

■ STC Ventures

STC has invested in this venture capital fund, which specializes in emerging, small and medium-sized emerging companies operating in the fields of telecommunications and information technology in the Saudi market and other international markets, in the form of investment units worth US \$ 50 million equivalent to SR 187.5 million. At 31 December 2018, the investment units owned by the Fund were valued at SR 614 million (31 December 2017: SR 501 million and 1 January 2007: SR 409.4 million). The Fund is headquartered in the Kingdom of Bahrain and invests in the Saudi market, the Middle East, North Africa, Europe, the United States and Japan in order to reduce the Fund's investment risks.

Saudi Technology Ventures (ST Ventures)

During 2017, the company also established an independent venture capital fund for the purpose of investing in the digital and technical sectors 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 the year 2018, the first and second tranches worth a total amount of US \$ 200 million (SR 750 million) were paid. The investment units owned by the Fund were valued at SR 781 million as at 31 December 2018 (31 December 2017: SR 30 million). The Fund commenced its commercial operations and activities in 2018. The Fund's head office is located in Riyadh. It invests internationally in high-growth private technology companies, in line with the Company's strategy, which aims to diversify its investments and enhance its role in the digital economy.

B - THE GROUP'S FINANCIAL PERFORMANCE

- Net profits for the year 2018 amounted to SR 10,780 million compared to SR 10,016 million for the year 2017, an increase of 7.6%. Earnings per share for 2018 amounted to SR 5.39 compared to SR 5.01 for 2017. Gross profit for 2018 amounted to SR 30,546 million compared to SR 28,555 million for 2017, an increase of approximately 6.9%. Operating profit for 2018 amounted to SR 12,245 million compared to SR 10,986 million for 2017, an increase of 11.5%.
- EBITDA for 2018 amounted to SR 19,836 million compared to SR 18,431 million for 2017, an increase of 7.6%.
- Total assets amounted to SR 111,949 million at the end of 2018 compared to SR 108,482 million at the end of 2017, an increase of 3.2%.
- Commitments amounted to SR 45,287 million at the end of 2018 compared to SR 44,680 million at the end of 2017, an increase of 1.4%.
- The Group has a strong financial position and high profits reflected on its shareholders' equity amounting to SR 65,514 million at the end of 2018, compared to SR 62,862 million at the end of 2017, an increase of 4.2%.
- The financial impact of core activities at the Group level
The Group is engaged mainly in the provision of telecommunications and related goods. The majority of the Group's revenues relate to its operations within the Kingdom (STC and STC Channels). The Group operates outside the Kingdom through its subsidiaries, associates and joint ventures in multiple countries.
Revenue is allocated to the operating segment based on the entity that submitted the revenue report. Inter-segment sales are calculated at normal business transaction rates.
The sectors that were independently disclosed exceeded 75% and therefore the rest of the other operating segments were grouped under "Other operating segments".

The Group's revenue and results for the year ended 31 December are as follows:

Item	2018	2017 (Adjusted)
Revenues (1)		
Saudi Telecom Company	39,356,283	41,445,230
STC Channels Co.	5,371,771	3,055,095
Other operating sectors (2)	9,502,560	8,349,196
Exclusions / Adjustments	(2,267,371)	(2,188,186)
Total revenue	51,963,243	50,661,335
Cost of operations (excluding depreciation and amortization)	(32,127,488)	(32,230,589)
depreciation and amortization	(7,590,530)	(7,444,735)
Cost of early retirement program	(450,000)	(600,000)
Financing income	554,909	584,682
Financing costs	(398,814)	(353,542)
Other net income	102,943	85,036
Net (loss) gain on investments in associates and joint ventures	(10,605)	305,591
Other net losses	(215,493)	(18,405)
Zakat and income tax	(747,667)	(720,700)
Net profit	11,080,498	10,268,673

(1) Revenue from the above segments represent revenue generated from external and internal clients. Inter-segment sales and adjustments (between Group companies) for the year ended 31 December 2018 amounted to SR 2,267 million (31 December 2017: SR 2,188 million) which were eliminated on consolidation.

(2) The "other" segment includes VIVA Kuwait, VIVA Bahrain, Integral, STC Specialized Co., STC Solutions, Sapphire, and Aqalat.

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

Item	2018	2017 (Adjusted)
Saudi Telecom Company	25,481,775	24,543,045
STC Channels Co.	1,314,707	698,456
Other operating sectors	3,795,174	3,730,057
Exclusions / Adjustments	(45,341)	(416,149)
Net profit	30,546,315	28,555,409

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

The following is an analysis of the assets and liabilities on a sector basis as of 31 December:

Item	31 December 2018	31 December 2018 (Adjusted)	2017 (Adjusted)
Assets			
Saudi Telecom Company	119,460,448	116,900,875	109,887,049
STC Channels Co.	3,333,662	2,595,865	2,192,516
Other operating sectors	19,539,165	17,813,702	16,409,513
Exclusions / Adjustments	(30,384,630)	(28,828,369)	(25,830,590)
Total assets	111,948,645	108,482,073	102,658,488
Commitments			
Saudi Telecom Company	41,576,064	41,600,776	36,186,344
STC Channels Co.	2,068,819	1,544,043	926,047
Other operating sectors	10,512,261	8,946,143	8,804,278
Exclusions / Adjustments	(8,870,097)	(7,410,470)	(5,200,648)
Total commitments	45,287,047	44,680,492	40,716,021

The following is an analysis of the assets and liabilities on a sector basis as of 31 December:

Application of standards	Prepared in accordance with Saudi Accounting Standards		Prepared in accordance with international standards for financial reporting, standards and other approved versions in KSA*		
	2014 Consolidated Revised	2015 Consolidated Revised	2016 Consolidated Revised	2017 Consolidated Revised	2018 Consolidated Revised
Income list:					
Activity revenues	45,826	50,651	52,674	50,661	51,963
Costs of activity income	(17,670)	(20,306)	(23,986)	(22,106)	(21,417)
Total profit of the activity	28,156	30,345	28,688	28,555	30,546
Operating expenses	(16,524)	(18,486)	(18,737)	(17,569)	(18,301)
Profit from operating activity	11,632	11,859	9,951	10,986	12,245
Income and other expenses - net	532	(1,373)	(74)	3	(417)
Zakat, taxes and non-controlling interests	(1,205)	(1,228)	(978)	(973)	(1,048)
Net profit attributable to the Company's shareholders	10,959	9,258	8,899	10,016	10,780
Other comprehensive income					
Net profit including non-controlling interests			9,126	10,269	11,080
Total items that will not be reclassified subsequently to the consolidated statement of profit or loss			(64)	(27)	127
Total items that will be reclassified subsequently to the consolidated statement of profit or loss	-	-	141	(24)	(257)
Total (comprehensive loss) / other comprehensive income	-	-	77	(51)	(130)
Total gross income	-	-	9,203	10,218	10,950
Total comprehensive income attributable to shareholders of the Company	-	-	8,980	9,958	10,651
Total comprehensive income attributable to non-controlling interests			223	260	299

Application of standards	Prepared in accordance with Saudi Accounting Standards		Prepared in accordance with international standards for financial reporting, standards and other approved versions in KSA*		
	2014 Consolidated Revised	2015 Consolidated Revised	2016 Consolidated Revised	2017 Consolidated Revised	2018 Consolidated Revised
Statement (Millions of riyals)					
Current assets (a)	31,069	36,989	40,834	44,436	48,607
Current liabilities (b)	16,043	22,714	30,055	33,639	32,035
Working capital (a-b)	15,026	14,275	10,779	10,797	16,572
Current assets	31,069	36,989	40,834	44,436	48,607
Fixed and intangible assets	42,752	45,271	46,667	47,115	51,481
Other assets not traded	16,272	14,401	15,157	16,931	11,861
Total assets	90,093	96,661	102,658	108,482	111,949
Current liabilities	16,043	22,714	30,055	33,639	32,035
Long term loans	5,785	3,744	4,017	4,006	3,965
Other non-current liabilities	6,937	8,241	6,644	7,036	9,287
Total liabilities	28,765	34,699	40,716	44,681	45,287
Paid Capital	20,000	20,000	20,000	20,000	20,000
Reserves, retained earnings and exchange differences	40,422	40,541	40,687	42,862	45,514
Equity attributable to shareholders of the Company	60,422	60,541	60,687	62,862	65,514
Non-controlling interests	906	1,421	1,255	939	1,148
Total equity	61,328	61,962	61,943	63,801	66,662
Total liabilities and equity	90,093	96,661	102,658	108,482	111,949
Cash flow statement:					
Net operating cash flow	18,781	20,716	18,375	15,916	19,014
Net investment cash flow	(8,887)	(11,737)	(7,728)	(7,006)	(4,909)
Net financing cash flow	(5,387)	(9,942)	(11,511)	(9,980)	(8,517)
Net cash flow	4,507	(963)	(864)	(1,070)	5,588
Cash and cash equivalents	960	5,467	4,488	3,631	2,567
Impact of foreign currency exchange differences	-	-	7	6	(1)
Cash and cash equivalents at the end of the year	5,467	4,504	3,631	2,567	8,154

* The Group has prepared its consolidated financial statements for the years 2018, 2017 and 2016 in accordance with the International Financial Reporting Standards adopted in the Kingdom of Saudi Arabia and the standards and publications approved by the Saudi Organization for Certified Public Accountants.

** Certain comparative figures for the year ended 31 December 2017 have been reclassified to conform with the classification used in the financial statements for the year ended 31 December 2018.

- Geographical analysis of standard service revenues at the Group level:

During the year 2018, the Group achieved total revenues of SR 51,963 million. Foreign investments at the Group level accounted for 9% of the total. The following table shows the 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 Co Ltd (TCIC), STC Channels (Formerly Sale Advanced - SALECO), STC Specialized Co (formerly Public Telecommunications Company - Bravo), AQALAT Company Ltd. (Aqalat),	VIVA Bahrain (Viva Bahrain), STC Gulf Investment Holding (STC Gulf), STC Turkey Holding Company Ltd. (STC Turkey), STC Asia Holding Company Ltd. (STC Asia), Kuwait Telecommunications Company (VIVA Kuwait)	
47,323	4,640	51,963

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 because the revenue generated by the customer is not linked to one area. The customer's account is established in an area and the calls to which the customer is invoiced occur in several areas. As for international calls and international roaming conducted by the client, they cannot be linked to any area because they are outside the geographical boundaries of the Kingdom of Saudi Arabia.

Highlights of the Group's operating results for 2018 compared to 2017:

Statement (millions of riyals)	2018 Consolidated	2017 Consolidated (adjusted)	Difference	%
Income list:				
Revenue	51,963	50,661	1,302	2.6%
Cost of revenue	(21,417)	(22,106)	689	(3.1%)
Gross profit	30,546	28,555	1,991	6.9%
Total operating expenses	(18,301)	(17,569)	(732)	4.2%
Operating profit	12,245	10,986	1,259	11.5%
Income and other expenses	(417)	3	(420)	-
Zakat and income tax	(748)	(721)	(27)	3.7%
Net income	11,080	10,268	812	7.9%
Net income attributable to the Company's shareholders	10,780	10,016	764	7.6%
Net income attributable to non-controlling interests	300	252	48	19%

The net profit for the year 2018 was SR 764 million. Differences compared to the previous year are as follows:

1. Revenues increased by SR 1,302 million, offset by a decrease in the cost of revenues amounting to SR 689 million, mainly due to the reversal of SR 579 million relating to the mechanism for the calculation of the payment of commercial services as of January 1, 2018. This resulted in a gross profit increase of SR 1,991 million.
2. An increase in operating expenses of SR 732 million, mainly due to higher general and administrative expenses, depreciation and amortization.
3. Recording of expenses and other income losses amounting to SR (417) million compared to gains of SR 3 million. The main reason is the following:

A) Recording of investment losses in associates and joint ventures amounting to SR 11 million compared to gains of SR 306 million, with a provision for impairment of the company's investment in Malaysia's Binariang GSM Group amounting to SR 168 million.

(B) Loss in other gains (losses) amounting to SR (215) million compared to a loss of SR (18) million.

- The Group's Murabaha and Sukuk loans are as follows:

Statement (Millions of riyals)	2018 Consolidated	2017 Consolidated
Short term Murabaha	321	648
Long-term Murabaha	1,965	2,006
Total Murabaha	2,286	2,654
Instruments	2,000	2,000
Total	4,286	4,654

Sukuk details are as follows:

STC has adopted a Sukuk program worth a total value of SR 5 billion. The first tranche has been issued and the breakdown as at 31 December 2018 are as follows:

Issuance	Issuance date	Issuance category	Issuance total value	Due date
Telecommunications sukuk	9 June 2014	SR1 million	SR 2 billion	9 June 2024

The Sukuk described above have been issued at par value without a discount or premium. These instruments bear a three-month SAIBOR return plus a margin of 70 basis points and 10 years payable every three months.

Murabaha details are as follows:

All amounts in SR Million								Paid within the year		Outstanding Balance			
Company	Granting Authority	Nature of Financing	Term of Financing	Date of Obtaining Financing	Currency	Value of Financing	Amount Used	2018	2017	Portion Circulating		Portion Non-Circulating	
										2018	2017	2018	2017
STC- KSA	Samba Bank	Murabaha	10 years	April 2008	SR	1,000	1,000	55	110	-	55	-	0
	Riyad Bank	Murabaha	10 years	April 2008	SR	3,500	3,500	194	389	-	194	-	0
	Al Ahli Bank	Murabaha	10 years	April 2008	SR	5,000	5,000	278	555	-	278	-	0
	Debt Instruments Market	Sukuk	10 years	2007	SR	2,000	2,000	0	0	-	0	2,000	2,000
Total						11,500	11,500	527	1,054	-	527	2,000	2,000
Affiliates	Local and International Banks	Murabaha, Tawarruq and Credit Facilities	From one year to 10 years	Since 2011	Various	3,534	2,925	117	844	321	121	1,965	2,006
Total Murabaha or Group Loans						15,034	14,425	644	1,898	321	648	3,965	4,006

- Some of the above mentioned Murabahas are guaranteed with bond orders and letters of credit.
- The rolling and non-rolling parts of Murabahas include approximately 108 million riyals in Murabahas against mortgaging of fixed assets.
- The following is a statement on the due regulatory amounts paid by the Company with a brief description of each and indications of their purpose:

Statement	SR Million	Description	Reason
Government fees	3,537	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	10,052	The amounts paid or carried forward as dividends to governmental and semi-governmental authorities (Public Investment Fund, Public Pension Agency, and General Organization for Social Insurance).	Regulatory requirement
Social insurance	626	The amounts paid or carried forward to the period pursuant to the provisions of the KSA Labor Law.	Regulatory requirement
Zakat, withholding tax and others	784	The amounts paid or carried forward to the period pursuant to the provisions and rules of the zakat, income tax law and fees payment laws applicable in the KSA.	Regulatory requirement
Total due and paid to governmental and semi-governmental authorities	14,999	Representing the due regulatory amounts paid to the KSA government.	

Punishments, Penalties and Precautionary Attachment

The committee examining violations to the Telecommunications Act made up of members of the Communications and Information Technology Commission (CITC), the Tender Board and others issued a number of edicts against the Company. In line with the Company's responsibilities to protect owners' equity in accordance with rights granted under the Telecommunications Act, it appealed such decisions with lawsuits.

The reasons for such edicts were varied: They included those related to the issuance of prepaid SIM cards, claims regarding the non-routing of international calls through the network of another operator, inactivation of the numbers transfer service, the presenting of offers unapproved from the Commission, and the use of unlicensed frequencies. Furthermore, there were some decisions based on customer complaints in which the Commission decided that the Company delayed its execution of directives or the provision of information. The Company filed 1,275 cases by the end of the fiscal year 2018 worth a total of SR 857 million Riyals. The details of the status of these cases are as follows:

- 310 cases valued at 548 million riyals ended in favour of the Company by the end of the fiscal year 2018.
- 624 cases valued at 259 million riyals ended against the Company by the end of fiscal year 2018.
- The number of cases still being negotiated before the Bureau of Grievances by the end of the fiscal year 2018 stood at 323 and were valued at 50 million riyals including 69 cases for which preliminary judgments were issued in favour of the Company at a total amount of 17 million riyals.

Potential Risks

Strategic and Operational Risks:

The telecommunications sector faced rapid developments, including many technological and economic changes, which have lead to upside and downside risks. This requires enterprises to look ahead, be reactive and flexible, and comprehensively examine these risks. The Company has developed the necessary policies, frameworks and procedures based on internationally accepted risk management standards in order to reduce the impact of negative risks and invest in positive opportunities, to enhance the company's reputation, maintain shareholder rights, and provide the best services to its customers. These policies also ensure that potential risks are identified, analyzed, quantified, developed, and reported quarterly to the Risk Committee chaired by the Chief Executive Officer and the Audit Committee.

This year, an automated risk system was developed which records risks, provides follow-up analysis and measurement, ensures the creation of prevention plans and follow-ups of these plans in coordination with risk representatives from all Company departments. Employees are also able to participate in identifying risks through an automated portal, with the risk management department being in continuous direct contact with the operational managers. The Company is also working to identify emerging risks in light of changes in regulatory, legislative and economic conditions, including Saudi Arabia's Vision 2030, and the 2020 digital transformation program, in coordination with government bodies, including the Communications and Information Technology Commission, National Risk Unit and the National Cyber Security Authority. Recommendations are then raised to the Executive Risk Committee and Audit Committee.

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 ISO31000, and some of the prevention plans. The financial risk is presented in the financial performance section of this report.

Risk	Risk Control Plans
<p>1) Ability to cope with developments in innovation, digital transformation and content:</p> <p>The communications and information technology sector is faces rapid development and change resulting in challenges and opportunities.</p>	<p>The Company has adopted a comprehensive plan aimed at the digital transformation of the Company, which it has included within its three-year "DARE" strategy. This plan will be executed in several stages taking into consideration technological, regulatory and economic developments. In addition, the Company has instituted the "Rawafed" program, which aims to support local content at the national level, to protect and support a culture of innovation, and promote a digital economy.</p>
<p>2) Cyber-attacks and cloud computing security:</p> <p>The communications and information technology sector, including its wired and wireless telecommunications networks, submarine and ground cables, communications, internet and cloud computing services provider companies, is a major target of cyber-attacks.</p>	<p>The Company continued promoting its cybersecurity unit. Bylaws and internal policies are set out, security procedures are improved, and long-term and short-term information security plans are set out. In addition, periodical tests will be conducted on all components of the network to ensure the compatibility of procedures with international standards.</p>
<p>3) Work survival and disaster retention:</p> <p>Continuity and availability of services are major goals the Company seeks to achieve through a fully equipped environment able to handle any emergency which may lead to the suspension of all or some of the Company's services.</p>	<p>The Company has completed a disaster recovery program which targets the most important systems and applications in the network. Projects are being worked on which are aimed at raising capacities and ensuring continuity of business and services, taking into account the different possibilities. The emergency response team supervises the major contingency plans and conducts virtual trials on a regular basis.</p>
<p>4) Regulatory Developments:</p> <p>The regulatory environment, which faces continuous change, directly affects the Company's business. With there being several legislative authorities, the Company faces a range of challenges and opportunities. These should be dealt with and complied with in order to serve the interests of stakeholders.</p>	<p>The Company studies regulatory legislations and coordinates efforts with related departments within and outside the Company. It applies the best standards to ensure the provision of the best services to its customers with the aim of achieving national plans. The Company has also established a compliance unit aimed at improving the Company's ability to comply with the new regulatory legislations and apply best global practices.</p>
<p>5) Data Governance:</p> <p>Currently, the rapid growth of data production and usage is one of the clearest global trends in the communications and information technology sector and in digital transformation projects. This increases potential operational and regulatory risks including personal, commercial and operational risks.</p>	<p>The corporate data analysis department implements data governance procedures through comprehensive policies governing all types of data in line with their privacy level by adopting unified standards and specifications in data descriptions, methods of maintaining the same, their flow, classification and protection. This includes determining the powers of all parties it deals with pursuant to the most recent world practices.</p> <p>The Company also raises awareness of data importance among its personnel and companies it works with through adopting e-training programs, in addition to continuously carrying out awareness campaigns.</p>
<p>6) Potential Significant Disturbances in Supply Procedures:</p> <p>The Company deals with a great number of service providers. This mitigates the risk of depending on one provider to carry out major works at the Company.</p>	<p>The Company designed the network so that it does not rely on a sole supplier, while also ensuring in its contracts that the systems are consistent despite having different suppliers.</p> <p>In addition, the Company periodically reviews the companies it contracts with to confirm their solvency and the safety of their business plans. Furthermore, the Company emphasizes the need to not have a complete reliance on one supplier for any reason whatsoever.</p> <p>In addition, as part of strategic procurement procedures, the market and suppliers available for the provision of materials and services are examined to ensure their financial and production capabilities are adequate for providing services and materials within the scope of the contract and according to the specified term of contract.</p>

Financial Risks

■ Credit Risk Management

The Group adopts policies and guidelines that permit only dealing with other parties with high credit ratings and limits the exposure to each party. The Group's policies and guidelines permit investment only in counterparties with a good credit rating issued by global credit rating agencies and limit exposure to each entity, providing that the exposure does not exceed 30% of the equity of the other party's partners. In addition, the Group's exposure to an investment should not exceed 20% of the existing investments from the other party. The Group credit risks are controlled on a quarterly basis.

Excluding the credit risk concentration mentioned in Note 10 of the consolidated annual financial statement, 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 industry standards.

The financial position of the commercial debtors is continuously assessed, and 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 10 of the consolidated annual financial statements).

In addition, 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. Its exchange rate is fixed against the US Dollar. Therefore, the Group is only exposed to the exchange rate fluctuations from the transactions that deal with foreign currencies other than the US Dollar. This makes the foreign currency fluctuation risk low at the Group level.

Liquidity Risk Management

The Group has set a comprehensive liquidity risk management framework in order to fulfill financing requirements and ensure the short, medium and long term liquidity of the Group, in accordance with approved directives.

The Group ensures its liquidity through maintaining cash reserves, short-term investments and credit facilities not drawn from local and international banks with high credit ratings. The Group determines the requirements of its liquidity through continuous control of short and long-term cash expectations and comparing it against actual cash flows. The Group's liquidity situation is reviewed monthly, and stress tests are conducted by using several assumptions in relation to capital expenses, dividends, commercial debtors' collection and repayments of loans without refinancing.

The Group has got unused financing facilities of up to SR 1,072 Million. It also has available financing facilities valued at 75% of its investment portfolio (See 15-1 of the consolidated annual financial statements). The Group's management expects to meet its obligations through operating cash flows, cash and its equivalents, and receipts from financial assets payable (for further information, see Note 40-6 Liquidity Risk Management in the Annual Consolidated Financial Statements).

■ Fair Value of Financial Instruments

The Group uses assessment techniques that are appropriate to current circumstances and which provide sufficient data to measure fair value. For financial reporting purposes, fair value measurements are classified as Level 1, 2 or 3, based on whether these inputs to fair value measurements are observable, and the importance of these inputs in measuring fair value in a comprehensive manner, as described below:

- Level "1" represents the (unadjusted) prices listed in active markets for similar assets or liabilities which can be reached by the Group on the date of measurement;
- Level "2" represents inputs other than the announced prices listed within Level "1" which can be allocated to assets and liabilities, either directly or indirectly; and
- Level "3" represents inputs which cannot be noticed directly or indirectly.

For more information, kindly see Note "2.40 Fair Values of Financial Instruments" in the consolidated annual financial statements.

■ Capital Management

The Group manages its capital in order to ensure:

- Its ability to survive pursuant to the continuity principle.
- Its ability to finance its working capital and strategic investments requirements efficiently.
- Its ability to provide a long term dividends policy which ensures the stability of dividends payments.
- Maximized returns for shareholders.
- The maintenance of an appropriate combination of debt and owners' equity.

The Group reviews its capital structure in light of strategic investment decisions and changes to the economic environment. It assesses the impact of these changes on the capital cost and the risk posed to the capital.

The Group is not subject to any external capital requirements. The Group did not include any amendments to the capital management procedures and objectives within the year ended 31st December, 2018.

The Group Capital Management Section reviews the capital structure of the Company annually in order to assess the capital cost and risks. The Group aims to achieve the following ratios:

- 1) Debt-to-income ratio before interests, consumption and amortization equal to 2 or less.
- 2) Debt-to-debt and owners' equity ratio equal to 50% or less.

For more information, see Note "40.1 Capital Management" in the consolidated annual financial statements.

■ Profit Rate Risks

The main Group risks to profitability from loans and financial assets arise from changing interest rates. The Group manages profit rate risks through Profit Rate Swap contracts.

No change was made to the Group's exposure to profit risks or the method under which these risks are managed and measured.

The impact below is analyzed based on exposure to profit rates for non-derivative financial instruments at the end of the financial year. As the impact analysis refers to the effect of the change in profit rate prevailing in the market on profit or loss, and for floating rate assets and liabilities, this analysis has been prepared on the assumption that the amounts outstanding at the end of the year are available throughout the year. An increase or decrease of 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 profit of the group will decrease (increase) by 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.

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 the related entities for the year ended December 31 were as follows:

Statement (SR Thousand)	2018	2017
Provided telecommunication services		
Associate Companies	492,013	457,382
Joint Ventures	10,995	17,347
	503,008	474,729

Statement (SR Thousand)	2018	2017
Received telecommunication services		
Associate Companies	17,188	6,067
Joint Ventures	-	18,927
	17,188	24,994

Sale and purchase transactions are carried out by the relevant parties in accordance with normal terms of business. Outstanding balances are unsecured and without commission. No guarantees on the due amounts have been provided or received from or to 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, 2018	December 31, 2017	January 1, 2017	December 31, 2018	December 31, 2017	January 1, 2017
Associate Companies	338,652	325,069	158,902	23,184	29,283	32,702
Joint Ventures	5,444	19,100	6,458	112,801	89,415	81,911
	344,069	344,169	165,360	135,985	118,698	114,613

■ Commercial Transactions and Balances with related entities (Governmental Authorities and Government-related Authorities)

For the year ended December 31, 2018, revenues from transactions conducted with governmental authorities rose to 5,938 million riyals (December 31, 2017 was 5,355 million riyals). Expenses related to the transactions conducted with the governmental authorities (including customs fees) for the year ended December 31, 2018 rose to 4,139 million riyals (December 31, 2017: 3,662 million riyals). 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, that the percentage of the financial return gained by 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 communications revenue as from January 1, 2018 in lieu of the previous calculation mechanism, which showed 15% of the net revenue from telephone and mobile services, 10% of the fixed net revenue from landline services, and 8% of the net revenue from data services. In addition, the services licenses for the Company were merged into a consolidated license.

The total receivables balance with governmental authorities as on December 31, 2018 stood at 12,343 million riyals (December 31, 2017: 18,920 million riyals, and January 1, 2017: 12,596 million riyals). The total accounts payable balance with governmental authorities as on December 31, 2018 stood at 3,706 million riyals (December 31, 2017: 6,872 million riyals, and January 1, 2017: 3,784: million riyals). (For more information, see Note 10.2 of the consolidated annual financial statements). This follows the Group's agreement with government authorities to pay all outstanding receivables as at 31 December 2016, amounting to SR 12,532 million in exchange for the clearing of credit balances and the collection of cash. The Group will also subscribe to SR4 billion in sukuk issued by the Ministry of Finance in the first quarter of 2019 (for further information, see note 44 to the consolidated annual financial statements).

■ Loans to Related Entities

Statement (SR Thousand)	December 31, 2018	December 31, 2017	January 1, 2017
Loans to senior management personnel	1,507	2,093	9,903

■ Benefits, incentives and compensations to Directors and Senior Executive Personnel

The following is a statement on the benefits, incentives and compensations to Directors and Senior Executive Personnel within the year ended December 31:

Statement (SR Thousand)	2018	2017
Short-term benefits and incentives	107,049	103,948
Leave and end of service provisions	36,550	33,000

■ Contribution to National Income

STC's total contribution to national GDP from 2000 to the end of 2018 amounted to more than SR 168 billion. This amount represents government fees paid to the Kingdom and the Kingdom's share of the annual profits.

■ 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 CFO or any other related person.

C. Strategy of the Company

In line with Saudi Vision 2030 and National Transformation Program 2020, the Company has continued its national role and contributions towards achieving the vision by investing in the digitization of the economy, and strengthening its asset base (clients, brands, technology and employees) in order to maintain its leading digital services role in the Middle East and North Africa. In continuation of this direction, the Board of Directors approved the "DARE" strategy, making 2018 the first year of its implementation, which resulted in significant achievements in the development of commercial and internal capabilities, continued improvements in the company's annual financial performance despite the market's decline and economic circumstances, and investment in new capacity development and business trends that will positively impact the Company's medium and long-term financial returns, as well as continued short-term financial gains.

As per the first pillar of the company's strategy, "Digitize STC", the Company invested in deploying a flexible technical infrastructure in 2018, digitizing the services of employees, partners, and key procedures at the company, and making effective use of database analysis.

As per the second strategic pillar, "Accelerate core asset performance", the Company expanded the deployment and delivery of fiber optic networks (FTTH) as part of the National Broadband Plan (NBB) and has continued to expand its service portfolio for ICT companies, SMEs, and the government sector. At the same time, operational costs have been reduced as a result of the allocation of the Business Efficiency Program. The Company continues to improve its organizational structure, and to develop strategic programs to improve organizational culture, and strategic workforce development to ensure optimal structures, culture and human skills for the delivery of digital services.

As per the third strategic pillar, "Reinvent customer experience at world class standards," an independent study conducted by Communications and Information Technology Commission (CITC) in 2018 classified STC as a market leader in the quality of both mobile and fixed Internet services. The percentage of the company's digital channel users increased from 93% through the use of digital sales and support channels for self-service, further digitizing customer contact points and sales channels for consumers, businesses and organizations, and the launch of a number of new digital stores that have received high interaction from customers.

The latest strategic pillar "Expand aggressively scale and scope" is in line with the Company's ambitious growth strategy through expansion of connectivity and infrastructure, and the development of new platforms such as IoT, cloud, cybersecurity, data analytics and digital services and applications.

Some of the most important achievements by the Company in the digital services field include:

- **Launch of new digital financial services (STC Pay).**

- Launch of media products and content on "Jawwy TV" applications through its branches which are wholly owned by Integral and STC Pay, both part of STC.
- Substantial investment in Internet of Things (IoT) platforms and services, cloud and cyber security as part of the expansion of the data center and cloud business, as the company launched the largest data center in the Middle East this year.
- Preparation for the operation of the new STC Towers company, which will help to generate new revenue for the Company and at the same time improve the profitability of other companies in the market by renting tower infrastructure.
- Launch of STC Academy help achieve the objectives of Saudi Vision 2030 through enabling the required digital skills, and filling the gap that resulted from the increasing demand for skills in specialized areas such as data analysis, e-security, digital services and others, in addition to building leadership skills.
- The incubator program for emerging companies at the Saudi company, "InspireU", which resulted in about 18 startups that generated millions of Saudi riyals in financing revenues, and provided thousands of direct and indirect jobs.
- Launching of 5G technology.
- Investment in future emerging technologies through the establishment of a \$500 million ST Ventures Fund, which focuses on modern technology (3D printing, artificial intelligence, Unmanned Aerial Vehicles (UAVs), Virtual Reality (VR), and self-driving cars).

Thus, we can say that in 2018, the Company made significant progress in implementing its strategy, preparing for the future, and achieving strong results in the short term as its assets, technical infrastructure, customer base, strong brand, skilled human resources, financial ability, and commitment to leadership gives it a unique position to be a strategic partner to the government, private, and consumer sectors. The company is committed to being a leader in enabling the digital economy in Saudi Arabia and the rest of the regional economies through its "DARE" strategy.

D) Human resources

In 2018, our human resources activities focused on strategic initiatives and projects aimed at making major improvements to the Company's business and contributing to increasing its focus on customers and employees. The HR department created a strategic plan which supports and complements the Company's overall strategic goals, with a focus on digitizing processes and introducing a range of best practices through several programs:

■ Promise

This program is designed to ensure that the Company has the management capabilities needed for business continuity.

■ Expert

This program provides a competitive advantage for professional development in specialized tracks.

■ Nurturing talent

The program provides new graduates with an integrated orientation and development plan.

■ Co-Op training

The program offers select students from distinguished Saudi universities the opportunity to apply what they have learned academically and get an exposure to the kinds of challenges they may face working at the Company.

■ Succession planning

To ensure that there are leadership capabilities within the Company to fill executive vacancies that may arise.

■ Executive qualification

Promotes career progression by helping establish leaders and forging and developing their relationships with stakeholders.

■ Building and enhancing the reputation of the Company

The aim of this initiative is to build and enhance the reputation of the company, to enable it to present itself in the market as one of the best companies in attracting qualified staff capable of achieving its desired goals.

■ Creating career paths based on the Company's core competencies

This initiative builds on a comprehensive core competencies framework that covers the leadership, technical and digital capabilities, in line with the Company's new growth strategy.

■ Assessment center launch

Launch of an assessment center built on a comprehensive strategy to design and develop tools and mechanisms and implement them at all levels, from the planning and design stage to the application stage, with the aim of developing talents and competencies and career planning.

■ Performance management and assessment system

The human resources department works to develop employee performance through a program aimed at raising the productivities of employees who perform below the required level. The performance management system contributed to the integration of 2,574 contracted employees and raising the level of their performance.

■ Creation and restructuring of several units within the company hierarchy

The executive management has studied and evaluated the Company's organizational structure to better serve its future and strategic direction. Several organizational units have been structured or restructured:

- Restructuring the vector sector and operators.
- Creation of an organizational development unit.

- Restructuring the IT and Operations unit.

- Creation of an information security unit.

- Restructuring of the Enterprise Quality unit.

■ Raising of the Saudization rate and reduction in the average age of staff

In line with the Kingdom's Vision 2030 and the strategic direction of the Company, plans were put in place to employ more than 750 Saudis in 2018, including more than 400 new graduates, to reach a Saudization rate of more than 90% by the end of 2018, and also to increase the number of female employees by 293% compared to 2017, with addition of more than 235 female employees.

■ Training

A total of 908 training sessions were held during 2018 for 5,349 employees, including specialized technical and administrative programs, as well as specialized international certifications. A total of 6 fiber optics training labs were established with the latest equipment, and in partnership with international bodies. A number of interactive electronic training programs were conducted, covering English language, administrative training and specialized training, benefiting 14,531 employees.

■ Housing loans program

During 2018, the Company helped 400 employees through its housing loan program, supporting efforts to raise the number of Saudi homeowners, one of the most important objectives of the Kingdom's Vision 2030.

■ Women's empowerment programs

In support of the importance of the role of women in the workforce and in line with the Kingdom's Vision 2030, the Company shared in the cost of the nursery education of children of its female employees. The Company also paid for the cost of its female employees to help them obtain driving licenses, including training, lecture, and license fees. The program benefited 50 female employees.

■ Financial support programs

The company offers grant, qardh hassan, marriage allowance and family support program to help employees facing financial burdens. These programs benefited 1,500 employees.

■ Sales commission program

The "Testahel" commission program aims to incentivize sales staff, and to raise their productivity and customer satisfaction, with the ultimate objective of improving the Company's profits and revenues. More than 3000 employees benefited from this program.

■ Launch of the STC Academy

The academy provides an environment to encourage leadership in digital technology, with the aim of encouraging the digital transformation of the Company and instilling a digital culture among its current and future generation of leaders. The STC Academy is set to become a unique center of excellence in digital learning, as well as provide intellectual leadership for subsidiaries and overseas institutions in the Kingdom and the GCC. It currently has strategic partnerships with Udacity,

the MiSK Foundation, and Google Inc and expects upcoming partnerships with Harvard University, MIT and Imperial College London.

E) Sports Sponsorship

In 2018, the company continued to play a leading role in sports sponsorship through the largest digital content platform in the region, Dawri Plus.

At the local level:

- Sponsorship of the Saudi Arabia Football Federation
- Sponsorship of the Saudi Professional League
- Sponsorship of the Custodian of the Two Holy Mosques Cup
- STC Under 14s Tournament
- Sponsorship of the Referees' Committee of the Saudi Arabia Football Federation.
- Sponsorship of Saudi teams

At the international level:

- Sponsorship of Real Madrid
- Sponsorship of Manchester United

The company played a significant role in supporting the country's sport scene, which saw Saudi teams reaching the largest international events, including the first Saudi football team's participation in the World Cup in Russia.

In recognition of the Company's excellence in sports support, it received two silver awards at the Asian continent level during the year. The first was for the best sports event for young people, "Aish Al Tahadi" and the second was for best sports application for Dawri Plus.

"Aish Al Tahadi" is a program that helps to develop Saudi Arabia's young football talent, which the Company sponsored in cooperation with the Saudi Football Federation football league. The program includes more than 4,000 young participants from all over Kingdom. As part of the program, the Company sent 40 players to Real Madrid Academy and Manchester United Football Club Reserves and Academy during their summer vacations to teach them basic skills, and allow them to attend daily self-development workshops to broaden their awareness. The participants were selected by Manchester United and Real Madrid coaches.

Dawri Plus is the only application in the Middle East that allows audiences to view game statistics directly, with viewers able to watch replays of highlights and then return to the live broadcasts at any time. Not limited to live broadcasts of matches, it is one of the best sources of Saudi sports news and videos. Its content team ensures all the information that Saudi sports fans require is in one place.

Owned and managed by Integral, Dawri Plus has won the confidence of Saudi players and fans. The application has been downloaded through smart application stores nearly 5 million times.

F) Corporate Social Responsibility

The Company aims to continue to be a pioneer and leader in communications and information technology in the Kingdom by developing its programs and initiatives in line with its Corporate Social Responsibility and Sustainability plan, launched at the end of 2017. This plan culminated with an agreement with King Khalid Foundation, which aimed to maximize the impact of the Company's social responsibility programs. The sustainability strategy was approved by the Board of Directors and launched in December 2018 and is designed to be in line with the Kingdom's Vision 2030. The plan promotes responsible competition among companies and the diverse relationships that exist within the non-profit sector in the Kingdom.

The agreement covers four phases, including analysis of the status quo, evaluation of the program impact, and implementation and development of social initiatives. It also covers the implementation of STC's strategy to translate it into actual projects on the ground.

The Company's commitment to sustainability is built on its leadership of the digital transformation of our society. We have shifted from a culture of direct support and assistance to empowerment, opening new windows of hope for maximizing expectations and the impact of programs, and enabling technology to serve sustainability projects. Our responsibility towards society and employees is to instill a culture of sustainability in our operations. Our efforts to achieve sustainable environmental, social, and economic development are based on the four pillars of our sustainability strategy:

- Communicate through technology
- Human resources development and well-being
- Business practices
- Creating digital solutions for the future

In line with its plan, the Company was able to successfully achieve many of its social responsibility initiatives during 2018, including:

- Enabling technology
- Youth empowerment
- Women's empowerment
- Social investment
- **Social investment**
 - The Company's annual contribution to the Saafah Foundation was SR 1 million. The foundation aims to promote the values of transparency, fairness, and justice in society, serving as a national resource for knowledge and experience in matters related to integrity and anti-corruption.
 - The Company sponsored the 34th National Festival of Heritage and Culture in Janadriyah, in line with its support for national events and the preservation of the Kingdom's cultural heritage.



Cochlear implant treatments for children

- Implementation of a program, in cooperation with the Saudi Association of Sign Language Interpreters, to help children with cochlear implants develop their speech and communication skills at a specialized medical center in Riyadh.
- Blood donation campaigns were organized at the Company's headquarters and other areas in the Kingdom to help patients of government hospitals.
- Several social media campaigns were launched to raise awareness and educate the community on the themes of sign language, diabetes, women, disability, volunteering, blindness, anti-smoking, humanitarian work, Mother's Day, and cancer.
- The Company initiated the adoption of programming courses for the blind in cooperation with the Blind Association in Riyadh and the Saudi Computer Society. Based on the principles of trust, creativity, and cooperation, the courses are aimed at educating blind people in computer programming, assessing existing applications, and creating innovative new ones to help them enter the labor market.
- The Company organized the Creathon initiative, in collaboration with Tasamy for Social Entrepreneurship, to empower and strengthen charities through the development and creation of innovative content. More than 200 students from universities across the Kingdom representing different disciplines attended the event alongside social and charitable activists and representatives from many charities.
- Sponsored the Conference of Small Enterprises and Productive Families in Morocco, which was organized by the Arab Institute for Urban Development and featured participation from several experts.
- The Company contributed to the construction and design of the Clinicians application in collaboration with a group of Saudi doctors. The app's goal is to

improve communication between doctors reviewing medical cases and discussing diagnoses. It facilitates the exchange of knowledge, which helps to improve medical diagnosis and raise the quality of healthcare in the Kingdom.

- In cooperation with the King Abdulaziz Center for National Dialogue, several of the Company's leaders attended an ICT Leaders Program meeting. They discussed enhancing national capacity building and the exchange of experience and knowledge.
- 40 * 40 activity: The Company worked with the Gulf Center for Cancer to support a Gulf Cancer Awareness Campaign marking World Cancer Day.
- The Company sponsored a number of conferences, initiatives, and community programs including:
 - Third International Conference of Disability Experts
 - Saudi Khair Program
 - Building telecommunications capacity and maximizing social responsibility programs for King Khalid Foundation (KKF)
 - Aramco Academy
 - Supporting and empowering specialized charities
 - Support outstanding fees of the Blind Association
 - Enterprise Resource Planning (ERP) system provided to a non-profit associations
 - Enabling a communicative environment for persons with disabilities
 - Middle East Summit for Social Networking
 - Barcode application project for a society
 - Sponsorship of the National Recreation Festival for People with Disabilities: "Welcome to Palin".
 - Contributing to the preparation of educational classes for autistic children from the Charitable Society for Autism Families in the Eastern Province.
 - Supporting and sponsoring the 'Digital Giving initiative, which was launched by the Ministry of Communications and Information Technology with the aim of spreading knowledge among Arab communities and enriching Arab technical content. More than 14,000 specialists participated in the launch the Digital Giving platform.
 - Supporting the launch of an educational reference dictionary for children in cooperation with the Saudi Association of Sign Language Interpreters.
 - Supporting a technology initiative to enable non-profit organizations to use technology to effectively achieve their objectives.

■ Women's Empowerment

■ Participated in the Women in Data Science (WiDS) forum organized by the Ministry of Communications and Information Technology at its headquarters in Riyadh, which was attended by more than 400 women interested in working in the field in the Kingdom.

■ Launched the "Tawakkali wa intaliqui" (Have Faith and Drive) initiative to empower women to drive and increase awareness of traffic safety rules, in support of the implementation of the Royal Order to allow women to drive.

■ Youth Empowerment

■ The Company contributed 6 million riyals during the year to the National Entrepreneurship Institute, a national, independent, non-profit organization established by the Ministry of Energy and the General Organization for Technical and Vocational Training to help empower small and medium-sized entrepreneurs of both sexes. Since the institute's establishment, 10,000 projects have been created.

■ The Company established a strategic partnership with the Prince Mohammed bin Salman bin Abdul-Aziz Foundation (MiSK) creating a channel for knowledge exchange, localization of capacities, and the empowerment of young men and women in the field of information and communications technology. The aim is to develop the society in the Kingdom and enhance the role of women. Key areas of the partnership include technical and digital innovation, community outreach, scholarships, and training programs.

■ The Company is helping to empower entrepreneurs through supporting the InspireU Incubator. Its support helps the incubator provide the best services, consultancy, and technical solutions and in selecting incubated projects. The total number of projects launched was 28 with investments worth 34 million riyals.

■ Enabling technology

■ The "Donate via SMS" service to charitable organizations in the Kingdom is a technical solution used to sustain charities' projects and programs. In total, 288 organizations were beneficiaries.

■ Technical support for child support hotline 116111, which is a pilot project of the National Family Safety Program in the Kingdom. Its objective is to be an easy communication channel for users.

G) Serving Pilgrims

Saudi Telecom is keen to provide its high quality services to Hajj pilgrims through its high speed mobile, data and telephone networks. The company focused on raising its network capacity during the 1439H Hajj season in order to ensure smooth outgoing calls from the Kingdom to all other countries.

International connections increased by 27%, rising to more than half a million international connections compared to last year's pilgrimage season. This supported voice traffic between the Kingdom and all countries of the world, specifically the countries of the Islamic world, which experience a spike in calls traffic.

This Hajj season the company recorded the highest peak hours in the history of the holy sites during Yawm al-Tarwiya in Mina, at Day of Arafah, and during the hours of the stay in Muzdalifah. The Company also recorded significant figures in data transfer, with traffic exceeding more than 7.2 terabytes during the peak hour on Yawm al-Tarwiya, a growth of 34% over the same period last year, which makes it the highest peak hour data consumption in the history of the holy sites.

Transfer of data over the 4G network during peak hours increased by more than 160% compared to last year's Day of Arafah. This is attributed to a 9% growth in the number of STC network users who performed the pilgrimage rituals last year. Despite the surge in volume, all service traffic indicators recorded a quality that exceeded its peers during the same period last year.

In cooperation with the Emirate of Mecca Province, the company contributed to the success of a national campaign to raise awareness about Hajj pilgrimage being a form of worship and civilizational behavior. The company also supported the successful "Hajj Hakathon" which was held during the year and entered the Guinness Book of World Records. The company also collaborated with all sectors involved in the Hajj pilgrimage to promote the slogan for 1439H: "The world in the heart of the Kingdom", which was the brand of the company's mobile network.

On another note, the role of Saudi Telecom employees in the holy sites was not only to ensure the efficiency of the communication network for the pilgrims and other stakeholders, but also to volunteer as part of the company's CSR programme to distribute food and water to the pilgrims.



**WE COMBINE
DARING VISION
WITH OPERATIONAL
EXCELLENCE TO MAKE
THE IMPOSSIBLE
POSSIBLE |**

The 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. 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 in the financial market, or not listed within the Kingdom, or listed abroad, along with a description of their portfolios.

No	Name	Membership	Academic Qualifications	Vocational Experience	Current Occupation	Previous Occupation	Membership
1	His Royal Highness Prince Mohammed bin Khalid Al-Abdullah Al-Faisal	• Chairman of the Board • Executive Committee • Investment Committee	Master of Business Administration	26 years of banking and administrative experience	Chairman, Al Faisaliah Holding Group	Vice President, Al Faisaliah Holding Group	Independent
2	H.E. Dr. Khaled bin Hussain Bityari	Vice Chairman of the Board Executive Committee	Ph.D. Electrical Engineering	• Associate Professor, King Fahd University of Petroleum and Minerals for 12 years • 23 years of business experience	Assistant Secretary of Defense for Executive Affairs - Ministry of Defense	CEO, STC	Non-executive / non-independent
3	H.E. Mr. Mohammed Talal Al-Nahas	Member of the Board Investment Committee	Bachelor of Accounting	Experience in banking, business development and management for 32 years	Governor of the General Organization for Retirement	Director of Branch Network, Al-Enma Bank	Non-executive / non-independent
4	Mr. Rashid bin Ibrahim Sharif	Member of the Board Investment Committee	Master of Business Administration	19 years of banking and administrative experience	Head of General Administration, Saudi Investments - Public Investment Fund	Chief Executive Officer, Riyadh Capital	Non-executive / non-independent
5	Mr. Sanjay Kapoor	Member of the Board Executive Committee	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 Investment Committee	Master of Business Administration	Experience in administrative work for 31 years	Chairman of the Board - Etisalat Grande Communication, Inc.	Executive Vice President and Chief Strategy Officer, Verizon	Non-executive / non-independent
7	Dr. Ibrahim bin Abdulrahman Kadi	• Member of the Board • Review Committee • Executive Committee	Ph.D. Electrical Engineering	Professor of Communications Engineering, King Saud University Experience in communications and informatics, strategic planning, risk management, information security, economic and social impacts of technology	Freelance Advisor	Senior Advisor to the Communications and Information Technology Commission	Independent
8	Mr. Osama bin Yassin Al-Khiary	Member of the Board Nominations and Remuneration Committee	Bachelor of Operations Research	25 years of administrative experience	Retired - Independent Consultant	General Manager and Head of Government Sector, Accenture	Independent
9	Mr. Ahmed bin Mohammed Al Omran	Member of the Board 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	General Manager of IT Infrastructure Management, General Organization for Social Insurance	Non-executive / non-independent

The members of the external committees of the Board of Directors

No	Name	Membership	Academic Qualifications	Vocational Experience	Current Occupation	Previous Occupation	Membership
1	Dr. Khalid bin Dawood Al-Faddagh	Audit Committee	PhD in Applied Mechanics	Technical and administrative experience in auditing of Saudi Aramco	Retired from Saudi Aramco	General Auditor, Aramco	External Member
2	Mr. Khalid bin Abdullah Al Anqari	Audit Committee	Bachelor of Accounting	Technical and managerial experience in auditing	General Manager, Babel Al Khair Trading & Real Estate Est	Head of Private Banking and Lending Products, Samba Financial Group	External Member
3	Mr. Medhat Ben Farid Tawfiq	Audit Committee	Master Program Citibank Asia Pacific	Professional and managerial experience in auditing, risk management	Founder of a risk management and internal audit outsourcing company on behalf of IRSAA Business Solutions	Account Manager, Samba Financial Group	External Member
4	Mr. Sultan bin Abdul Malik Al Sheikh	Executive Committee	Master of Finance	Experience in investment banking operations	Vice President of the Saudi Investment Department, Public Investment Fund	Vice President of the Saudi Investment Department, Public Investment Fund	External Member
5	Eng. Nasser bin Sulaiman Al Nasser	Executive Committee	Bachelor of Electrical Engineering	Experience in the telecommunications sector	Group CEO, STC	Senior VP, Technology and Operations STC	External / executive member
6	Mr. John Brand	• Nominations and Remuneration Committee	Master of Business Economics and 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
7	Mrs. Hoda bint Mohammed Al Ghosn	• 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
8	Mr. Mazen bin Ahmed Al Jubair	Investment Committee	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
2	Mr. Cenk O. Serdar	Master of Business Administration	Senior Vice President of Consumer Unit	Director of Global Consumer Product Management	Vodafone
3	Dr. Tariq M. Enaya	PhD Computer Engineering	Senior Vice President for Business Unit	CEO	Cisco
4	Mr. Ameen F. Alshiddi	Master of Accounting	Chief Financial Officer	Vice President for Finance	STC
5	Dr. Homoud M. Alkussayer	PhD Communication Engineering	Vice President, Governance and Regulatory Affairs	Vice President, Government Sector and Operators Unit	STC
6	Mr. Emad A. Alaoudah	Bachelor of Information Systems	Vice President for Procurement and Support Services	Chief Executive Officer	NUPCO
7	Mr. Jeremy L. Sell	Master of Geography	Head of Strategic Operations	Group Strategy Officer	Mountain Partners AG
8	Eng. Abdullah A. Alzame	Bachelor of Electrical Engineering	Vice President, Infrastructure	General Manager of Network Design	STC
9	Eng. Haithem M. Alfaraj	Bachelor of Computer Engineering	Senior Vice President for Technology and Operations	Chief Technology Officer	Mobily
10	Eng. Abdullah M. Alowini	Master of Computer Engineering	Vice President, Applications	General Manager of Systems for Information Technology	STC
11	Mr. Abdulaziz A. Alqatie	Bachelor of Accounting	Vice President, Financial Reporting and Control	Chief Financial Officer	Viva Kuwait
12	Mr. Mohammed A. Alhkbani	Master of Computer science	Vice President, Enterprise Accounts	General Manager of Network Services Solutions	STC
13	Mr. Riyadh S. Muawad	Bachelor of Computer science	Vice President of Government Sales and Corporate	Cisco Systems' First Regional Manager	Cisco System
14	Mr. Riyadh H. Alonazi	Bachelor of Information Systems	Vice President, Customer Care	General Manager of Customer Experience	STC
15	Mr. Moaeed H. Alyami	Master of Business Administration	Vice President, Investment Operations	General Manager of Operation and Performance of International Operations	STC
16	Eng. Ahmad M. Alghamdi	Bachelor of Systems Engineering	Vice President, Human Resources	Director General of Human Resources Planning and Organizational Development	STC
17	Mr. Mohammed A. Alabbadi	Master of Business Administration	Vice President, Strategy Execution and Corporate Affairs	Managing Director, Cisco	Cisco
18	Dr. Mohammed H. Alsulaiman	PhD Information Technology	Vice President, Corporate Development	Chief Operating Officer	Saudi Kuwait Finance Officer
19	Mr. Sultan H. Binsaeed	Bachelor of Information Technology	Vice President, Business Development	CEO	Advanced Solutions
20	Dr. Khalid M. Albarrak	PhD Information Technology	Vice President, Corporate Analytics & Data VP	Consultant of the Arab Internet Services Company	Arab Internet Services
21	Mr. Markus M. Golder	Master of Business Administration	Vice President, Marketing	Chief of Commercial Office	Sapphire
22	Mr. Wijnand E. Van Till	Master of Financial Management	Vice President, Business Finance	Vice President of Pricing Strategy and Incentives	Etisalat, UAE
23	Mr. Alan F. Whelan	Bachelor of Psychology	Vice President, Wholesale	Managing Director, Northern Europe	Vertiv
24	Mr. Abdullah S. Alanizi	Master of Executive Management	Chief Internal Audit	General Manager of Information Systems and Network Audit	STC
25	Mr. Atif Ahmad	MBA - Management of Technology	Vice President of Enterprise Architecture	Vice President, Wireless	Freedom Mobile & Shaw Communication
26	Mr. Dimitris G. Lioulis	Master of Business Administration	Vice President, Corporate Strategy	Group Chief Operation Officer	LAP GreenN - Dubai
27	Eng. Rafat B. Malik	Bachelor of Aerospace Engineering	Dean, STC Academy	Vice President	IE Corporate Learning Alliance
28	Mr. Ali A. Alharbi	Master of Accounting	Vice President, Corporate Finance	CFO	Bahri
29	Eng. Bader A. Allhieb	Bachelor of Electrical Engineering	Vice President, Operations	General Manager of Customer Service Operations	STC
30	Mr. Anef A. Abanomi	Master of Communications	Vice President Corporate Sales for Business Unit	General Manager of Business Sales	STC

The names of the companies in which the Board member is a currently or formerly a board member

No	Names of companies in which the Board Member is currently a member of the board	Location		Legal entity (listed shareholding / non-listed shareholding / limited liability /)	Names of companies in which the Board Member is formerly a member of the board	Location		Legal entity (listed shareholding / non-listed shareholding / limited liability /)
		In KSA	Abroad			In KSA	Abroad	
1	His Royal Highness Prince Mohammed bin Khalid Al-Abdullah Al-Faisal, Chairman of the Board of Directors, Chairman of the Executive Committee, Chairman of the Investment Committee	1	STC	✓	Listed contribution	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			

No	Names of companies in which the Board Member is currently a member of the board	Location		Legal entity (listed shareholding / non-listed shareholding / limited liability /)	Names of companies in which the Board Member is formerly a member of the board	Location		Legal entity (listed shareholding / non-listed shareholding / limited liability /)
		In KSA	Abroad			In KSA	Abroad	
2	H.E. Dr. Khaled H. Biyari Vice-President of the Council, Member of the Executive Committee	1	STC	✓	Listed contribution	Kuwait Telecom company	✓	Listed contribution
		2	-	-	-	Turkish Telecom Company	✓	Listed contribution
		3				Oger Telecom Company	✓	Limited liability
		4				Arab Internet Services Company	✓	Limited liability
		5				Sapphire Co., Ltd.	✓	Limited liability
		6				Gulf Digital Media Company	✓	Limited liability

No	Names of companies in which the Board Member is currently a member of the board	Location		Legal entity ((listed shareholding / non-listed shareholding / limited liability /))	Names of companies in which the Board Member is currently a member of the board	Location		Legal entity ((listed shareholding / non-listed shareholding / limited liability /))
		In KSA	Abroad			In KSA	Abroad	
1	STC	✓		Listed joint stock	Taiba Holding Company Member of the Board of Directors	✓		Listed joint stock
2	Public Pension Agency. Board member	✓		Unlisted joint stock	Saudi Tourist Checks Company	✓		Unlisted joint stock
3	Sabic. Board member	✓		Listed joint stock	-	-	-	-
4	Riyadh Bank. Board member	✓		Listed joint stock				
5	GOSI. Board member	✓		Unlisted joint stock				
6	National Center for Privatization, Board member	✓		Unlisted joint stock				
7	Acwa Power Projects, Board member	✓		Unlisted joint stock				
8	ASMA Capital Partner B.S.C., Chairman of the Board		✓	Unlisted joint stock				
9	Al Ra'idah Investment Company, Chairman of the Board	✓		Unlisted joint stock				
10	Raza Real Estate Company, Chairman of the Board	✓		Unlisted joint stock				
11	Al Tawuniyah Real Estate Investment Co., Chairman of the Board	✓		Unlisted joint stock				

No	Names of companies in which the Board Member is currently a member of the board	Location		Legal entity ((listed shareholding / non-listed shareholding / limited liability /))	Names of companies in which the Board Member is currently a member of the board	Location		Legal entity ((listed shareholding / non-listed shareholding / limited liability /))
		In KSA	Abroad			In KSA	Abroad	
1	STC	✓		Listed joint stock	Ruwa Al Madina Holding Company	✓		Unlisted joint stock
2	National Commercial Bank	✓		Listed joint stock	Investment Control Company	✓		Unlisted joint stock
3	Accor Invest Group		✓	Unlisted joint stock	Riyadh Financial Company CEO	✓		Unlisted joint stock
4	King Abdullah Financial Center Management & Development Company	✓		Unlisted joint stock	-	-	-	-
5	Saudi Electricity Company	✓		Listed joint stock				

No	Names of companies in which the Board Member is currently a member of the board	Location		Legal entity ((listed shareholding / non-listed shareholding / limited liability /))	Names of companies in which the Board Member is currently a member of the board	Location		Legal entity ((listed shareholding / non-listed shareholding / limited liability /))
		In KSA	Abroad			In KSA	Abroad	
1	STC	✓		Listed joint stock	Bennett Coleman Co., Ltd.		✓	Unlisted joint stock
2	OnMobile Global Limited		✓	Listed joint stock	PVR, Ltd.		✓	Unlisted joint stock
3	Vlcc Health Care Limited		✓	Unlisted joint stock	MicroMax Information Inc.		✓	Unlisted joint stock
4	IBus Network & Infrastructure Pvt Ltd		✓	Unlisted joint stock	Indus Towers Ltd.		✓	Unlisted joint stock
5	Tech-connect Retail Private Limited		✓	Unlisted joint stock	IFFCO Kisan Sanchar Ltd.		✓	Unlisted joint stock
6	Z-Axis Management Consultants & Strategic Advisors LLP		✓	LLP	Bharti Airtel Ltd.		✓	Unlisted joint stock
7	-	-	-	-	GSMA		✓	Unlisted joint stock

No	Names of companies in which the Board Member is currently a member of the board	Location		Legal entity ((listed shareholding / non-listed shareholding / limited liability /))	Names of companies in which the Board Member is currently a member of the board	Location		Legal entity ((listed shareholding / non-listed shareholding / limited liability /))
		In KSA	Abroad			In KSA	Abroad	
1	STC	✓		Listed joint stock	-	-	-	-
2	Telstar Company		✓	Listed joint stock				
3	Digital Turbine Inc		✓	Public company				
4	Blackstone Group Senior Advisor		✓	Public company				
5	Delta Partners Company Non-executive partner		✓	Public company				

No	Names of companies in which the Board Member is currently a member of the board	Location		Legal entity ((listed shareholding / non-listed shareholding / limited liability /))	Names of companies in which the Board Member is currently a member of the board	Location		Legal entity ((listed shareholding / non-listed shareholding / limited liability /))
		In KSA	Abroad			In KSA	Abroad	
1	STC	✓		Listed contribution	Maxis Group, Malaysia		✓	Listed contribution
2	-	-	-	-	Maxs Communications Berhard		✓	Unlisted joint stock
3					Oger Telecom		✓	Unlisted joint stock

No	Names of companies in which the Board Member is currently a member of the board	Location		Legal entity ((listed shareholding / non-listed shareholding / limited liability /))	Names of companies in which the Board Member is currently a member of the board	Location		Legal entity ((listed shareholding / non-listed shareholding / limited liability /))		
		In KSA	Abroad			In KSA	Abroad			
		8	Mr. Osama Al-Khiary Chairman of Nomination and Remuneration Committee			1	STC		✓	
2	Digital Company (Consultant)	✓		Limited Liability Company	Accenture Middle East (Board Member & Executive Director)		✓	Limited Liability Company		
3	-	-	-	-	Al Faisaliah Holding Group (Executive Director)	✓		Closed joint stock		

No	Names of companies in which the Board Member is currently a member of the board	Location		Legal entity ((listed shareholding / non-listed shareholding / limited liability /))	Names of companies in which the Board Member is currently a member of the board	Location		Legal entity ((listed shareholding / non-listed shareholding / limited liability /))		
		In KSA	Abroad			In KSA	Abroad			
		9	Mr. Ahmed Al Omran Member of the Nomination and Remuneration Committee			1	STC		✓	
2	SAMBA Financial Group	✓		Listed contribution	-	-	-	-		
3	Takamol Holding Company	✓		Limited liability						
4	Saudi Cement Company	✓		Listed contribution						

Participation of members in Board and committee meetings

First: The following tables show the number of meetings of the Board of Directors and the remaining committees of the sixth session ended on 27/4/2018, and the attendance of the members of those meetings during the year 2018, which was as follows:

Meetings of the Board of Directors (the sixth session ended on 27/4/2018):

The Board of Directors held four meetings. The following table shows the number of meetings during 2018 and members' attendance.

No	Name	Position	The sixth session of the Board ended on 27/4/2018				Total
			25	26	27	28	
			26-27 February	21 March	4 April	25 April	
1	Dr. Abdullah bin Hassan Al-Abdulqader	Chairman of Board of Directors	✓	✓	✓	✓	4
2	Mr. Taha bin Abdullah Al-Qweiz	Deputy Chairman of the Board	✓	✓	✓	✓	4
3	H.E. Mr. Mohammed bin Talal Al Nahhas	Member	✓	✓	✓	✓	4
4	Dr. Khalil bin Abdul Fattah Kurdi	Member	✓	✓	✓	✓	4
5	Mr. Omar bin Mohammed alTurki	Member	✓	✓	✓	✓	4
6	Mr. Abdul Aziz bin Habdan Al Habdan	Member	✓	✓	✓	✓	4
7	Mr. Saleh bin Ali Al-Athel	Member	✓	✓	✓	✓	4
8	Professor Abdulrahman bin Abdulaziz Mazi	Member	✓	✓	✓	✓	4
9	Dr. Ibrahim bin Abdulrahman Kadi	Member	✓	✓	✓	✓	4

Meetings of the Board Committees

Executive Committee:

The Executive Committee held two meetings. The following table shows the number of meetings held by the Committee during 2018 and the members' attendance.

No	Name	Position	The sixth session of the Board ended on 27/4/2018		Total
			17	18	
			14 March	26 March	
1	Dr. Abdullah bin Hassan Al-Abdulqader	Chairman of the Committee	✓	✓	2
2	Mr. Omar bin Mohammed al-Turki	Member	✓	✓	2
3	Professor Abdulrahman bin Abdulaziz Mazi	Member	✓	✓	2
4	Dr. Ibrahim bin Abdulrahman Kadi	Member	✓	✓	2

Nominations and Remuneration Committee:

The Nominations and Remuneration Committee held five meetings. The following table shows the number of meetings held by the Committee during 2018 and members' attendance.

No	Name	Position	The sixth session of the Board ended on 27/4/2018					Total
			23	24	25	26	27	
			10 January	20 February	7 March	21 March	2 April	
1	Dr. Ibrahim bin Abdulrahman kadi	Chairman of the Committee	✓	✓	✓	✓	✓	5
2	Mr. Taha bin Abdullah Al-Qweiz	Member	✓	✓	✓	✓	✓	5
3	Mr. Omar bin Mohammed al-Turki	Member	✓	✓	✓	✓	✓	5
4	Mr. Saleh bin Ali Al-Athel	Member	✓	✓	✓	✓	✓	5

■ **Review Committee:**

The Audit Committee held six meetings. The following table shows the number of meetings held by the Committee during 2018 and members' attendance.

No	Name	Position	The sixth session of the Board ended on 27/4/2018						Total
			26	27	28	29	30	31	
			1 January	25 January	1 February	18 March	3 April	22 April	
1	Mr. Abdul Aziz bin Habdan Al Habdan	Chairman of the Committee	✓	✓	✓	✓	✓	✓	6
2	Dr. Khalil bin Abdul Fattah Kurdi	Member	✓	✓	✓	✓	✓	✓	6
3	Mr. Khalid bin Mohammed Al-Khuwaiter	Member	✓	✓	✓	✓	✓	✓	6
4	Dr. Khalid bin Dawad Al-Fadag	Member	✓	✓	✓	✓	✓	✓	6

■ **Investment Committee:**

The Investment Committee held two meetings. The following table shows the number of meetings held by the Committee during 2018 and members' attendance.

No	Name	Position	The sixth session of the Board ended on 27/4/2018		Total
			23	24	
			5 February	23 April	
1	Mr. Taha bin Abdullah El-Kuwaiz	Chairman of the Committee	✓	✓	2
2	Mr. Abdulrahman bin Abdulaziz Mazi	Member	✓	✓	2
3	Mr. Mohammed Bin Talal Al Nahhas	Member	✓	✓	2
4	Mr. Abdul Aziz bin Habdan Al Habdan	Member	✓	✓	2
5	Mr. Saleh bin Ali Al-Athel	Member	✓	✓	2

■ **Governance, Risk and Compliance Committee:**

The Committee on Governance, Risk and Committee held three meetings. The following table shows the number of meetings of the Committee during 2018 and members' attendance.

No	Name	Position	The sixth session of the Board ended on 27/4/2018			Total
			10	11	12	
			29 January	12 March	5 April	
1	Dr. Khalil bin Abdul Fattah Kurdi	Chairman of the Committee	✓	✓	✓	3
2	Dr. Ibrahim bin Abdulrahman Kadi	Member	✓	✓	✓	3
3	Mr. Abdullah bin Ibrahim Al-Hwish	Member	✓	✓	✓	3
4	Mr. Bakr bin Abdul Latif AlHaboob	Member	✓	✓	✓	3

Second: The following tables show the number of Board meetings and by committee meetings held during the 7th term that started on 28/4/2018, as well as members' attendance of these meetings during 2018:

■ **Board Meetings of the 7th term (started on 28/4/2018):**

The Board held four meetings. The following table shows the number of Board meetings held in 2018 and the attendance of

No	Name	Position	The sixth session of the Board ended on 27/4/2018				Total
			1	2	3	4	
			8 May	28 June	12 September	16 December	
1	His Royal Highness Prince Mohammed bin Khalid Al-Abdullah Al-Faisal	Chairman of Board of Directors	✓	✓	✓	✓	4
2	H.E. Dr. Khaled bin Hussein Biyari	Deputy Chairman of the Board	✓	✓	✓	✓	4
3	HE Mr. Mohammed bin Talal Al Nahhas	Member	✓	X	✓	✓	3
4	Mr. Rashid bin Ibrahim Sharif	Member	✓	✓	✓	✓	4
5	Mr. Sanjay Kapoor	Member	✓	✓	✓	✓	4
6	Mr. Roy Chestnutt	Member	X	✓	✓	✓	3
7	Dr. Ibrahim bin Abdulrahman Kadi	Member	✓	✓	✓	✓	4
8	Mr. Osama bin Yassin Al-Khiary	Member	✓	✓	✓	✓	4
9	Mr. Ahmed bin Mohammed Al Omran	Member	✓	✓	✓	✓	4

Apologies received from members at some meetings were due to extraordinary circumstances.

■ **Board Committee Meetings**

In accordance with the Corporate Governance Regulations and the regulations issued by the relevant authorities, the Board shall form the committees necessary to perform its functions in order to achieve the required efficiency and effectiveness. The committees shall be responsible for determining the responsibilities and working procedures required by the Board and documenting the responsibilities and procedures as appropriate. The Committees of the Board for the current (seventh) session were as follows:

■ **Executive Committee:**

The committee is composed of four Board members and two external members. It is responsible for reviewing the estimated annual budgets and the local and international core and non-core business of the Company, and approving them according to the powers assigned to them by the Board. The committee held three meetings during 2018, as shown in the following table:

No	Name	Position	The sixth session of the Board ended on 27/4/2018			Total
			1	2	3	
			27 June	4 September	4 December	
1	His Royal Highness Prince Mohammed bin Khaled Al-Abdullah Al-Faisal	Chairman of the Committee	✓	✓	✓	3
2	H.E. Dr. Khaled bin Hussein Biyari	Member	✓	✓	✓	3
3	Mr. Sanjay Kapoor	Member	✓	✓	✓	3
4	Dr. Ibrahim bin Abdulrahman Kadi	Member	✓	✓	✓	3
5	Mr. Sultan bin Abdul Malik Al-Sheikh	Member	✓	✓	✓	3
6	Eng. Nasser bin Sulaiman Al Nasser	Member	✓	✓	✓	3

■ **Nominations and Remuneration Committee:**

The 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 the necessary incentives for management and employees to perform their required roles; make recommendations to the Board of Directors on changes that may be made; and on an annual basis 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. The Board held four meetings during 2018, as shown in the following table:

No	Name	Position	The sixth session of the Board ended on 27/4/2018				Total
			1	2	3	4	
			29 May	26 June	3 September	28 November	
1	Mr. Osama bin Yassin Al-Khiary	Chairman of th Committee	✓	✓	✓	✓	4
2	Mr. Ahmed bin Mohammed Al Omran	Member	✓	✓	✓	✓	4
3	Mr. John Brand	Member	✓	✓	✓	✓	4
4	Mrs. Hoda bint Mohammed Al Ghoson	Member	✓	X	✓	✓	3

Audit Committee:

The General Assembly approved the formation of the Audit Committee for the seventh term of the Board on 7/6/2018, and approved the Committee's tasks, controls and the remuneration of its members. The Committee is made up of one Board member and three external members specialized in financial affairs, accounting and auditing. The Committee is responsible for reviewing the Company financial and administrative policies and procedures, and the procedures for preparing financial reports and their outputs. The Committee also reviews internal audit reports and comments, and issues recommendations to the Board on the appointment, dismissal, remuneration and independence of external legal account auditors. It examines preliminary and annual financial statements before presenting them to the Board, providing opinions and guidance thereon. It reviews the legal accountant's observations on the statements and reviews the audit plan with the external auditor. It fulfills other works periodically and regularly in order to assess the efficiency and effectiveness of control activities and risk management at the Company. The Committee held four meetings during 2018:

No	Name	Position	The General Assembly's resolved to form an Audit Committee on 7/6/2018				Total
			1	2	3	4	
			7 June	26 July	24 October	1 November	
1	Dr. Ibrahim bin Abdulrahman Kadi	Chairman of th Committee	✓	✓	✓	✓	4
2	Dr. Khalid bin Dawood Al - Fadag	Member	✓	✓	✓	✓	4
3	Mr. Khalid bin Abdullah Al Anqari	Member	✓	✓	✓	✓	4
4	Mr. Medhat bin Farid Tawfiq	Member	✓	✓	✓	✓	4

Investment Committee:

The committee consists of four members of the board of Directors and an external member. The committee is responsible for reviewing the investment policy according to the Company's strategies. The committee also reviews and examines strategic investment opportunities and decides whether to recommend them. The committee held three meetings during 2018, as shown in the following table:

No	Name	Position	The sixth session of the Board ended on 27/4/2018			Total
			1	2	3	
			28 May	5 September	5 December	
1	His Royal Highness Prince Mohammed bin Khaled Al-Abdullah Al-Faisal	Chairman of the Committee	✓	✓	✓	3
2	H.E. Mr. Mohammed bin Talal Al Nahhas	Member	✓	✓	✓	3
3	Mr. Rashid bin Ibrahim Sharif	Member	✓	✓	✓	3
4	Mr. Roy Chestnutt	Member	✓	✓	X	2
5	Mr. Mazen bin Ahmed Al-Jubair	Member	✓	✓	✓	3

Statement the meetings held by the General Assembly during fiscal year 2018, their dates, and the names of the Board members present:

The First Ordinary General Assembly on 26/4/2018:

The results of the General Assembly meeting were published on the Tadawul website (www.tadawul.com.sa) on 29/4/2018. The meeting was held at the Company's headquarters in Riyadh on Thursday, 26/10/2018 with a presence representing 85.19% of the capital. The results of the vote on the agenda of the Assembly were as follows:

- Approval of the report of the Board of Directors for the fiscal year ended 31/12/2017.
- Approval of the report of the Company's auditor for the fiscal year ended 31/12/2017.
- Approval of the Company's consolidated financial statements for the year ended 31/12/2017.
- Approval of the appointment of Ernst & Young as the Auditor of the Company from among the various candidates upon the recommendation of the Review Committee, in order for them to audit the financial statements for the second, third, fourth and annual periods of fiscal year 2018 and the first quarter of fiscal year 2019, as well as determination of their fees.
- Approval of the discharge of the members of the Board of Directors for the year ended 31/12/2017.
- Election of the members of the Board of Directors from among the for the next three-year period beginning from 28/4/2018 until 28/4/2021, according to the cumulative voting method:
 - His Royal Highness Prince Mohammed bin Khalid Al-Abdullah Al-Faisal Al-Saud
 - His Excellency Dr. Khalid bin Hussein bin Saleh Biyari
 - His Excellency Mr. Mohammed Bin Talal Bin Mohammed Al Nahhas
 - Mr. Rashid bin Ibrahim bin Mohammed Sharif
 - Mr. Sanjay Kapoor
 - Mr. Roy Chestnutt
 - Dr. Ibrahim bin Abdulrahman bin Hamad Al-Qadi
 - Osama bin Yassin bin Ahmed Al-Khayari
 - Mr. Ahmed bin Mohammed bin Abdul Qadir Al Omran
- Approval of the remuneration and compensation paid to the members of the Board of Directors for their membership, which is included in the report of the Board of Directors for the period from 1 January 2017 to 31 December 2017.

The names of the members present at the meeting of the Assembly are as follows:

No	Name	Attendance
1	Dr. Abdullah bin Hassan Al-Abdulqader	✓
2	Mr. Taha bin Abdullah Al-Qweiz	X
3	H.E. Mr. Mohammed bin Talal Al Nahhas	✓
4	Dr. Khalil bin Abdul Fattah Kurdi	X
5	Mr. Omar bin Mohammed al-Turki	X
6	Mr. Abdul Aziz bin Habdan Al Habdan	✓
7	Mr. Saleh bin Ali Al-Athel	✓
8	Mr. Abdulrahman bin Abdulaziz Mazi	✓
9	Dr. Ibrahim bin Abdulrahman Kadi	✓

- The absence of Mr. Taha bin Abdullah Al-Quwaiz, Dr. Khalil bin Abdul Fattah Kurdi and Mr. Omar Bin Mohammad Al Turki was due to their prior engagements.
- Minutes of meetings can be found on the Company's website www.stc.com.sa

Statement the meetings held by the General Assembly during fiscal year 2018, their dates, and the names of the Board members present:

The Second Ordinary General Assembly meeting on 7/6/2018:

The results of the General Assembly's meeting were published on the Tadawul website (www.tadawul.com.sa) on 10/6/2018. The meeting was held at the Company's headquarters in Riyadh on Thursday 7/9/2018. After the quorum, where attendance rate represented 84.08% of the capital, the result of voting on the agenda of the Assembly were as follows:

- Approval, according to the ordinary voting method, of the formation of the Review Committee, which will start its work from 7/6/2018 and continue until the end of the seventh session of the Board of Directors on 28/4/2021, and its duties and work controls, and the remuneration of its members which amounts to SR 100,000 per annum per member. The members of the Committee are:
 - Dr. Ibrahim Abdulrahman Kadi
 - Dr. Khalid bin Dawood Al-Fadag
 - Mr. Khalid bin Abdullah Al-Anqari
 - Mr. Medhat bin Farid Tawfiq

The names of the members present at the meeting of the Assembly are as follows:

No	Name	Attendance
1	His Royal Highness Prince Mohammed bin Khaled Al-Abdullah Al-Faisal	✓
2	Dr. Khaled bin Hussein Biary	✓
3	H.E. Mr. Mohammed bin Talal Al Nahhas	✓
4	Mr. Rashid bin Ibrahim Sharif	X
5	Mr. Sanjay Kapoor	X
6	Mr. Roy Chestnutt	X
7	Dr. Ibrahim bin Abdulrahman Kadi	✓
8	Mr. Osama Yassin Al-Khiary	✓
9	Mr. Ahmed Bin Mohammed Al Omran	✓

- The absence of Mr. Rashid bin Ibrahim Sharif, Mr. Sanjay Kapoor and Mr. Roy Chestnutt was due to their prior engagements.
- Minutes of meetings can be found on the Company's website www.stc.com.sa

Annual assessment of the Board of Directors

The Board of Directors approved the policy of evaluating the performance of the Board of Directors and its committees at 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.

Company's dividend distribution policy

Article 45 of STC's Articles of Association provides for the distribution of the Company's annual net profits, after deduction of all general expenses and other costs, as follows:

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

- The remainder, representing 5% of the paid up capital of the Company, shall be distributed to the shareholders.
- 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 remuneration to members of the Board of Directors, provided that the remuneration is commensurate with the number of meetings attended by the member.
- The Ordinary General Assembly may, upon the proposal of the Board of Directors, 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.

Article 46 of STC's Articles of Association stipulates that the shareholder shall be entitled to his share of the profits in accordance with a General Assembly resolution issued in this regard. The decision shall specify the maturity date and the date of distribution which shareholders registered up until the specified last day will be eligible for. The profits to be distributed to the shareholders 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 Tuesday, 28/11/1437 (corresponding to 10/11/2011) the dividend distribution policy for the Company for a period of three years starting from the fourth quarter of the year 2015, which was adopted at the 2015 General Assembly. It is a distribution policy based on maintaining a minimum dividend per share on a quarterly basis. Dividends for the three years will be in line with this policy, as follows:

STC commits to distribute one Saudi riyal per quarter for the three years. In addition, the Company will consider paying additional dividends on a quarterly basis, subject to the approval of the Board of Directors after assessing the Company's financial position, future prospects and capital requirements. These additional distributions are likely to vary from one quarter to the next based on the company's performance, and the dividend policy will remain subject to change as follows:

- Any significant changes in the Company's strategy and business (including the business environment in which the Company operates).
- Laws, regulations, legislation and regulations governing the sector to which the Company is subject.
- Any obligations or undertakings related to 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.

The Board of Directors approved the dividend distribution policy for the next three years, which is based on maintaining a minimum distribution per share of one Saudi riyal per quarter starting from the fourth quarter of fiscal year 2018. The Company will consider paying additional allocations. These additional allocations are subject to approval by the Board of Directors after evaluating the Company's financial position, future expectations and capital requirements based on company performance from quarter and quarter. The dividend policy will remain subject to change as follows:

- Any significant changes in the Company's strategy and business (including the business environment in which the Company operates).
- Laws, regulations, legislation and regulations governing the sector to which the Company is subject.
- Any obligations or undertakings related to 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.

The Board of Directors, at its meeting held on Saturday 16/4/1440 AH (corresponding to 16/12/2018), raised the dividend distribution policy to the General Assembly for approval.

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 (sixth session)

No	Name	Beginning of 2018		27/4/2018		Net Difference	Percentage
		No. of shares	Debt instruments	No. of shares	Debt instruments		
1	Dr. Abdullah bin Hassan Al-Abdulqader	1,000	-	1,000	-	0	0%
2	Mr. Taha bin Abdullah Al-Qweiz	0	-	0	-	0	0%
3	H.E. Mr. Mohammed bin Talal Al Nahhas	0	-	0	-	0	0%
4	Dr. Khalil bin Abdul Fattah Kurdi	0	-	0	-	0	0%
5	Mr. Omar bin Mohammed Al-Turki	0	-	0	-	0	0%
6	Mr. Abdul Aziz bin Habdan Al Habdan	0	-	0	-	0	0%
7	Mr. Saleh bin Ali Al-Athel	254,038	-	254,038	-	0	0%
8	Mr. Abdulrahman bin Abdulaziz Mazi	51,000	-	51,000	-	0	0%
9	Dr. Ibrahim bin Abdulrahman Kadi	1,000	-	1,000	-	0	0%

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

No	Name	Name of subsidiary	Beginning of 2018		27/4/2018		Net Difference	Percentage
			No. of shares	Debt instruments	No. of shares	Debt instruments		
1	Dr. Abdullah bin Hassan Al-Abdulqader	None	0	-	0	-	0	0%
2	Mr. Taha bin Abdullah Al-Qweiz	None	0	-	0	-	0	0%
3	H.E. Mr. Mohammed bin Talal Al Nahhas	None	0	-	0	-	0	0%
4	Dr. Khalil bin Abdul Fattah Kurdi	None	0	-	0	-	0	0%
5	Mr. Omar bin Mohammed al-Turki	None	0	-	0	-	0	0%
6	Mr. Abdul Aziz bin Habdan Al Habdan	None	0	-	0	-	0	0%
7	Mr. Saleh bin Ali Al-Athel	None	0	-	0	-	0	0%
8	Mr. Abdulrahman bin Abdulaziz Mazi	None	0	-	0	-	0	0%
9	Dr. Ibrahim bin Abdulrahman Kadi	None	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 STC shares or debt instruments (seventh session)

No	Name	28/4/2018		End of 2018		Net Difference	Percentage
		No. of shares	Debt instruments	No. of shares	Debt instruments		
1	His Royal Highness Prince Mohammed bin Khaled Al-Abdullah Al-Faisal	14,823	-	14,823	-	0	0%
2	H.E. Dr. Khaled bin Hussein Biyari	2,000	-	2,000	-	0	0%
3	H.E. Mr. Mohammed bin Talal Al Nahhas	0	-	0	-	0	0%
4	Mr. Rashid bin Ibrahim Sharif	0	-	0	-	0	0%
5	Mr. Sanjay Kapoor	0	-	0	-	0	0%
6	Mr. Roy Chestnutt	0	-	0	-	0	0%
7	Dr. Ibrahim bin Abdulrahman Kadi	2,666	-	2,666	-	0	0%
8	Mr. Osama bin Yassin Al-Khiary	0	-	0	-	0	0%
9	Mr. Ahmed Bin Mohammed Al Omran	0	-	0	-	0	0%

Description of any interest, contractual papers and subscription rights by senior executives in STC's equity or debt instruments

No	Name	Beginning of 2018		End of 2018		Net Difference	Percentage
		No. of shares	Debt instruments	No. of shares	Debt instruments		
1	Eng. Nasser bin Suleiman Al - Nasser	0	-	0	-	0	0%
2	Mr. Cenk O. Serdar	0	-	0	-	0	0%
3	Dr. Tariq M. Enaya	0	-	0	-	0	0%
4	Mr. Ameen F. Alshiddi	0	-	0	-	0	0%
5	Dr. Homoud M. Alkussayer	0	-	0	-	0	0%
6	Mr. Emad A. Alaoudah	0	-	0	-	0	0%
7	Mr. Jeremy L. Sell	0	-	0	-	0	0%
8	Eng. Abdullah A. Alzamee	0	-	0	-	0	0%
9	Eng. Haithem M. Alfaraaj	0	-	0	-	0	0%
10	Eng. Abdullah M. Alowini	0	-	0	-	0	0%
11	Mr. Abdulaziz A. Alqatie	4,500	-	4,500	-	0	0%
12	Mr. Mohammed A. Alhakkani	52	-	52	-	0	0%
13	Mr. Riyadh S. Muawad	0	-	0	-	0	0%
14	Mr. Riyadh H. Alonazi	0	-	0	-	0	0%
15	Mr. Moaeed H. Alyami	0	-	0	-	0	0%
16	Eng. Ahmad M. Alghamdi	0	-	0	-	0	0%
17	Mr. Mohammed A. Alabbadi	0	-	0	-	0	0%
18	Dr. Mohammed H. Alsulaiman	0	-	0	-	0	0%
19	Mr. Sultan H. Binsaeed	0	-	0	-	0	0%
20	Dr. Khalid M. Albarrak	0	-	0	-	0	0%
21	Mr. Markus M. Golder	0	-	0	-	0	0%
22	Mr. Wijnand E. Van Till	0	-	0	-	0	0%
23	Mr. Alan F. Whelan	0	-	0	-	0	0%
24	Mr. Abdullah S. Alanizi	0	-	0	-	0	0%
25	Mr. Atif . Ahmad	0	-	0	-	0	0%
26	Mr. Dimitris G. Lioulas	0	-	0	-	0	0%
27	Eng. Rafat B. Malik	0	-	0	-	0	0%
28	Mr. Ali A. Alharbi	0	-	0	-	0	0%
29	Eng. Bader A. Allhieb	0	-	0	-	0	0%
30	Mr. Anef A. Abanomi	0	-	0	-	0	0%

Description of any interest, contractual papers and subscription rights by senior executives in equity or debt instruments of subsidiaries

No	Name	Name of subsidiar	Beginning of 2018		27/4/2018		Net Difference	Percentage
			No. of shares	Debt instruments	No. of shares	Debt instruments		
1	Eng. Nasser bin Suleiman Al - Nasser	None	0	-	0	-	0	0%
2	Mr. Cenk O. Serdar	None	0	-	0	-	0	0%
3	Dr. Tarig M. Enaya	None	0	-	0	-	0	0%
4	Mr. Ameen F. Alshiddi	None	0	-	0	-	0	0%
5	Dr. Homoud M. Alkussayer	None	0	-	0	-	0	0%
6	Mr. Emad A. Alaoudah	None	0	-	0	-	0	0%
7	Mr. Jeremy L. Sell	None	0	-	0	-	0	0%
8	Eng. Abdullah A. Alzame	None	0	-	0	-	0	0%
9	Eng. Haithem M. Alfaraaj	None	0	-	0	-	0	0%
10	Eng. Abdullah M. Alowini	None	0	-	0	-	0	0%
11	Mr. Abdulaziz A. Alqatie	None	0	-	0	-	0	0%
12	Mr. Mohammed A. Alhakbani	None	0	-	0	-	0	0%
13	Mr. Riyadh S. Muawad	None	0	-	0	-	0	0%
14	Mr. Riyadh H. Alonazi	None	0	-	0	-	0	0%
15	Mr. Moeaed H. Alyami	None	0	-	0	-	0	0%
16	Eng. Ahmad M. Alghamdi	None	0	-	0	-	0	0%
17	Mr. Mohammed A. Alabbadi	None	0	-	0	-	0	0%
18	Dr. Mohammed H. Alsulaiman	None	0	-	0	-	0	0%
19	Mr. Sultan H. Binsaeed	None	0	-	0	-	0	0%
20	Dr. Khalid M. Albarrak	None	0	-	0	-	0	0%
21	Mr. Markus M. Golder	None	0	-	0	-	0	0%
22	Mr. Wijnand E. Van Till	None	0	-	0	-	0	0%
23	Mr. Alan F. Whelan	None	0	-	0	-	0	0%
24	Mr. Abdullah S. Alanizi	None	0	-	0	-	0	0%
25	Mr. Atif . Ahmad	None	0	-	0	-	0	0%
26	Mr. Dimitris G. Lioulis	None	0	-	0	-	0	0%
27	Eng. Rafat B. Malik	None	0	-	0	-	0	0%
28	Mr. Ali A. Alharbi	None	0	-	0	-	0	0%
29	Eng. Bader A. Allhieb	None	0	-	0	-	0	0%
30	Mr. Anef A. Abanomi	None	0	-	0	-	0	0%

Corporate governance

Following the issuance of the Companies Law by Royal Decree No. M / 3 dated 28/1/1437 AH and of the Corporate Governance Regulations of the Capital Markets Authority (CMA) Board issued on 16/5/1438 H (corresponding to 13/2/2017), STC has updated its governing Articles of Association, and the working procedures of the Board of Directors and its Executive Committees (Executive, Nominations and Remuneration, Review and Investment), in line with the new corporate governance regulations.

Amendments to the Company's Articles of Association, the working procedures of the Nominations and Remuneration Committee, and the bylaws of the Review Committee were adopted by the General Assembly on 13/07/1438 AH (corresponding to 10/4/2017). The Board of Directors also approved the Company's Corporate Governance Regulations, (Executive, Investment) dated 4/3/1439 AH corresponding to 22/11/2017.

All provisions of the Corporate Governance Regulations issued by the CMA were implemented at the beginning of 2018. Article 84 (Fraud, Embezzlement and Corruption Policy) and Article 86 (Professional Behavior Policy) were approved at the Board of Directors' meeting on 21/3/2018.

Internal Control

The Company's Board of Directors declares that the accounting records have been prepared correctly and that the internal control system and procedures have been properly prepared and effectively implemented without material observations, and that there is little doubt as to the Company's ability to continue its activities.

The Review Committee of the Board of Directors oversees Internal Audit, which regularly reviews the adequacy and effectiveness of the internal control system and procedures, so as to provide a continuous assessment of the system and 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 Review Committee, in the presence of internal audit officers and related divisions,

held 10 meetings during which it discussed a number of topics related to the work of the Committee, financial statements, investments, and business units, as well as strategic and organizational affairs, human resources and 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 purpose of adding value, improving operations and achieving the Company's goals. It regularly evaluates and improves the effectiveness of risk management and internal control. Internal Audit conducted several periodic and special audits in accordance with the annual audit plan approved by the Review Committee, with the aim of giving necessary assurance about the effectiveness and efficiency of internal control and risk management, 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, information technology, business units and the finance department. Internal audit also provides consulting services to contribute, alongside the Executive Management, to more efficient and effective operations, higher revenue and cost reductions, in addition to contributing to the review of the annual financial statements and the coordination of the work of the external auditors.

Shareholders Register

Requests for registration were made (13) times to STC shareholders in 2018 for the following purposes:

- Updating of the Shareholders Register monthly.
- Quarterly dividend distribution.
- Holding of the General Assembly

No	Date of request of the shareholders register	Reasons for the request
1	31/1/2018	Updating of monthly shareholder record
2	28/2/2018	Updating of monthly shareholder record
3	29/3/2018	Updating of monthly shareholder record
4	24/4/2018	Updating of monthly shareholder record
5	26/4/2018	Convening of the General Assembly
6	30/4/2018	Quarterly profit distribution for the fourth quarter of 2017
7	9/5/2018	Quarterly profit distribution for the first quarter of 2018
8	7/6/2018	Convening of the General Assembly
9	2/8/2018	Quarterly profit distribution for the second quarter of 2018
10	30/9/2018	Updating of monthly shareholder record
11	31/10/2018	Quarterly profit distribution for the third quarter of 2018
12	30/11/2018	Updating of monthly shareholder record
13	31/12/2018	Updating of monthly shareholder record

Statement the meetings held by the General Assembly during fiscal year 2018, their dates, and the names of the Board members present:

Company distributed cash dividends amounting to SR2,000 million to the shareholders of the Company for the first, second and third quarters of 2018, in line with this policy.

Third: Distribution of profits and bonuses as recommended by the Board of Directors

The Board of Directors recommended distributing an the amount of SR (2,000) in cash dividends to shareholders for the fourth quarter of 2018 million, equal to an SR 1 per share. After evaluating the financial position, future expectations and capital requirements of the Company, the Board of Directors has recommended the distribution of SAR 2 as a one-off allocation for 2018. Accordingly, the total dividends for the year 2018 will be SAR 12,000 million (6 SAR per share), the following is a breakdown of the distributions:

Distribution of dividends:

In line with the Company's policy of distributing profits for the next three years, which started from the fourth quarter of 2015 and was approved by the Board of Directors on 28 Muharram 1437 AH (corresponding to 10 November 2015) and by the General Assembly on 4 April 2016, a minimum dividend of one SAR per share will be distributed per quarter. The

Statement	Total Distribution (SR Million)	Earnings per share (SR)	Date of announcement	Due date	Payment Date
Cash dividends for Q1 2018	2,000	1	22/4/2018	7/5/2018	28/5/2018
Cash dividends for Q2 2018	2,000	1	26/7/2018	31/7/2018	16/8/2018
Cash dividends for Q3 2018	2,000	1	24/10/2018	29/10/2018	20/11/2018
Cash dividends for Q4 2018	2,000	1	16/12/2018	TBD	TBD
One-off distribution for 2018	4,000	2	16/12/2018	TBD	TBD
Total distributions	12,000	6			

A minimum dividend of one SAR per share will be distributed per quarter. The Company distributed cash dividends amounting to SR2,000 million to the shareholders of the Company for the first, second and third quarters of 2018, in line with this policy.

Remuneration and compensation of directors and the top five senior executives:

for the sessions of the Board and the committees of 5000 riyals for each session. It also awarded members of the Review Committee a sum of 100,000 riyals each, for their membership in the Review Committee.

The Board of Directors of the Company approved in 2017 the remuneration policy of the Board of Directors and its committees and the remuneration of the members of the Review Committee. Each Board member receives a remuneration of SR 200,000 for his membership in the Board and a bonus of SR 200,000 for his membership in the committees of the Board, as well as an attendance allowance

Board members' remuneration and allowances for attending Board and committee meetings during the year ended 2018, in addition to those of the top five executives in the Company, including the CEO and the Chief Executive Officer of Finance, were as follows:

(SR)	Fixed Remunerations					Variable Remunerations					Indemnity	Total	Expense Allowance	
	Fixed remunerations	Allowance for attending meetings of the Board	In-kind benefits	Remunerations of technical, administrative and consulting work	Remuneration of the Chairman of the Board, the Managing Director or the Secretary if he is a member	Total	percentage of profits	Periodic bonus	Short - term incentive plans	Long - term incentive plans				Shares granted
First: Independent members														
1- Saleh bin Ali al-Athel	200,000	20,000	-	-	-	220,000	-	-	-	-	-	-	220,000	-
2- Abdulrahman bin Abdulaziz Mazi	200,000	20,000	-	-	-	220,000	-	-	-	-	-	-	220,000	-
3- Dr. Ibrahim bin Abdulrahman Kadi	200,000	20,000	-	-	-	220,000	-	-	-	-	-	-	220,000	-
Total	600,000	60,000	-	-	-	660,000	-	-	-	-	-	-	660,000	-
Second: Non-executive members														
1- Abdullah bin Hassan Al-Abdalqader	200,000	20,000	-	-	-	220,000	-	-	-	-	-	-	220,000	-
2- Taha bin Abdullah Alqweiz	200,000	20,000	-	-	-	220,000	-	-	-	-	-	-	220,000	-
3- Mohammed Al-Nahhas	200,000	20,000	-	-	-	220,000	-	-	-	-	-	-	220,000	-
4- Khalil bin Abdul Fattah Kurdi	200,000	20,000	-	-	-	220,000	-	-	-	-	-	-	220,000	-
5- Omar bin Mohammed al-Turki	200,000	20,000	-	-	-	220,000	-	-	-	-	-	-	220,000	-
6- Abdulaziz bin Habdan Al-Habdan	200,000	20,000	-	-	-	220,000	-	-	-	-	-	-	220,000	-
Total	1,200,000	120,000	-	-	-	1,320,000	-	-	-	-	-	-	1,320,000	-
Third: Executive members														
None	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net total	1,800,000	180,000	-	-	-	1,980,000	-	-	-	-	-	-	1,980,000	-

The Board of Directors approved, at its meeting held on 14/3/1431 AH (corresponding to 13/3/2017), to amend the remuneration of the Chairman of the Board of Directors to be one hundred thousand (100,000) riyals per month

Remuneration and compensation of directors for the seventh session which started on 28/4/2018

(SR)	Fixed Remunerations					Variable Remunerations					Indemnity	Total	Expense Allowance	
	Fixed remunerations	Allowance for attending meetings of the Board	In-kind benefits	Remunerations of technical, administrative and consulting work	Remuneration of the Chairman of the Board, the Managing Director or the Secretary if he is a member	Total	percentage of profits	Periodic bonus	Short - term incentive plans	Long - term incentive plans				Shares granted
First: Independent members														
1- His Royal Highness Prince Mohammed bin Khaled Al-Abdullah Al-Faisal	-	20,000	-	-	-	20,000	-	-	-	-	-	-	20,000	-
2- Dr. Ibrahim bin Abdulrahman Kadi	-	20,000	-	-	-	20,000	-	-	-	-	-	-	20,000	-
3- Mr. Osama bin Yassin Al-Khayari	-	20,000	-	-	-	20,000	-	-	-	-	-	-	20,000	-
Total	-	60,000	-	-	-	60,000	-	-	-	-	-	-	60,000	-
Second: Non-executive members														
1- H.E. Dr. Khalid Bin Hussein Biyari	-	20,000	-	-	-	20,000	-	-	-	-	-	-	20,000	-
2- Mr. Mohammed bin Talal Al-Nahhas	-	15,000	-	-	-	15,000	-	-	-	-	-	-	15,000	-
3- Mr. Rashid bin Ibrahim Sharif *	-	20,000	-	-	-	20,000	-	-	-	-	-	-	20,000	-
4- Mr. Sanjay Kapoor	-	20,000	-	-	-	20,000	-	-	-	-	-	-	20,000	-
5- Mr. Roy Chestnutt	-	15,000	-	-	-	15,000	-	-	-	-	-	-	15,000	-
6- Mr. Ahmed bin Mohammed Al-Omran	-	20,000	-	-	-	20,000	-	-	-	-	-	-	20,000	-
Total	-	110,000	-	-	-	110,000	-	-	-	-	-	-	110,000	-
Third: Executive members														
None	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net total	-	170,000	-	-	-	170,000	-	-	-	-	-	-	170,000	-

The Board of Directors approved, at its meeting held on 14/3/1431 AH (corresponding to 13/3/2017), the amendment of the remuneration due to the Chairman of the Board of Directors as being one hundred thousand (100,000) riyals per month, as approved at its meeting held on 22/8/1439 AH, corresponding to 8/5/2018, and the remuneration of the Deputy Chairman of the Board of Directors as being one hundred thousand 100,000 riyals per month.

*** The attendance allowance for Board meetings by representatives of the Public Investment Fund shall be provided to the Fund.**

(Remuneration of members of the committees in the sixth session ended 27/4/2018)

Name	Committees	Fixed Remunerations (without attendance of meetings allowance)	Attendance of meetings allowance	Total
Dr. Abdullah bin Hassan Al-Abdulqader	Executive	64,796	10,000	74,796
Mr. Taha bin Abdullah Al-Qweiz	• Nominations and Remunerations • Investment	64,796	35,000	99,796
H.E. Mr. Mohammed bin Talal Al Nahhas	Investment	64,796	10,000	74,796
Dr. Khalil bin Abdul Fattah Kurdi	• Review • Governance, Risk and Compliance	64,796	45,000	109,796
Mr. Omar bin Mohammed al-Turki	• Executive • Nominations and remunerations	64,796	35,000	99,796
Mr. Abdul Aziz bin Habdan Al Habdan	• Review • Investment	64,796	40,000	104,796
Mr. Saleh bin Ali Al-Athel	• Nominations and Remunerations • Investment	64,796	35,000	99,796
Mr. Abdulrahman Abdulaziz Mazi	• Executive • Investment	64,796	20,000	84,796
Dr. Ibrahim bin Abdulrahman Kadi	• Executive • Nominations and Remunerations • Governance, Risk and Compliance	64,796	50,000	114,796
Mr. Khalid bin Mohammed Al-Khuwaiter	• Review (External Member)	100,000	30,000	130,000
Dr. Khalid bin Dawood Al - Fadaq	• Review (External Member)	100,000	30,000	130,000
Mr. Abdullah bin Ibrahim Al-Hawish	• Governance, Risk and Compliance (External Member)	100,000	15,000	115,000
Mr. Bakr bin Abdul Latif Alhboub	• Governance, Risk and Compliance (External Member)	100,000	15,000	115,000
Total		983,164	370,000	1,353,164

(Remuneration of members of the committees in the seventh session beginning on 28/4/2018)

Name	Committees	Fixed Remunerations (without attendance of meetings allowance)	Attendance of meetings allowance	Total
His Royal Highness Prince Mo-hammed bin Khalid Al-Abdullah Al-Faisal	• Executive • Investment	135,204	30,000	165,204
H.E. Dr. Khalid bin Hussein Biyari	• Executive	135,204	15,000	150,204
H.E. Mr. Mohammed bin Talal Al Nahhas	• Investment	135,204	15,000	150,204
Mr. Rashid bin Ibrahim Sharif	• Investment	135,204	15,000	150,204
Professor Sanjay Kapoor	• Executive	135,204	15,000	150,204
Mr. Roy Chestnutt	• Investment	135,204	10,000	145,204
Dr. Ibrahim bin Abdulrahman Kadi	• Executive • Review	135,204	35,000	170,204
Mr. Osama bin Yassin Al-Khayari	• Nominations and Remunerations	135,204	20,000	155,204
Mr. Ahmed bin Mohammed Al-Omran	• Nominations and Remunerations	135,204	20,000	155,204
Dr. Khalid bin Dawood al - Fadaq	• Review (External Member)	-	20,000	20,000
Mr. Khalid bin Abdullah Al-Anqari	• Review (External Member)	-	20,000	20,000
Sayed Medhat Ben Farid Tawfiq	• Review • Executive	-	20,000	20,000
Mr. Sultan bin Abdulmalek Sheikh	• Executive (External Member)	-	15,000	15,000
Eng. Nasser bin Suleiman Al - Nasser	• Executive (External/Executive Member)	-	15,000	15,000
Mr. John Brand	• Nominations and Remunerations (External Member)	-	20,000	20,000
Mrs. Hoda bint Mohammed Al Ghoson	• Nominations and Remunerations (External Member)	-	15,000	15,000
Mr. Mazen Bin Ahmed Al-Jubair	• Investment (External Member)	-	15,000	15,000
Total		1,216,836	315,000	1,531,836

Rewards for the five most senior executives (including Chief Executive Officer and Chief Financial Officer, during 2018)

(SR)	Fixed Remunerations				Variable Remunerations					Indemnity	Board remunerations for executives if applicable	Net total	
	Salaries	Allowances	In-kind benefits	Total	Periodic remunerations	Revenues	Short - term incentive plans	Long - term incentive plans	Shares granted (value entered)				Total
Total	11,011,500	3,241,875	-	14,253,375	-	-	14,496,640	-	-	14,496,640	5,605,443	1,714,438	36,069,897

Subsequent Events

The Board of Directors approved at its meeting held on January 10, 2019 the purchase of an additional 39% stake in Virgin Mobile Saudi Arabia for SR 151 Million following the completion of legal procedures and regulatory approvals in 2019, increasing Saudi Telecom Group's stake in Virgin Mobile Saudi Arabia to 49%.

Board of Directors' acknowledgements: The Board of Directors of STC acknowledges the following:

- The accounting records have been prepared correctly.
- The internal control 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 31 December 2018 have been prepared in accordance with the International Financial Reporting Standards adopted in the Kingdom of Saudi Arabia and other standards and regulations approved by the Saudi Organization for Certified Public Accountants.
- The Company did not report any natural or legal person owning 5% or more of the issued shares of the Company during 2018.
- No debt instruments were convertible into shares or option rights, warrants or similar rights issued or granted by the Company during 2018.
- There was no refund, purchase or cancellation by the Company during 2018 for any redeemable debt instruments.

- There was no arrangement or agreement whereby a Board member or a 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, Chief Executive Officer or Chief Financial Officer or any person related to any of them, except as described in the description of the interests of the related parties.
- 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 directors, senior executives, their spouses or minor children.
- The Company's External Auditor has expressed his opinion without reservation on the 2018 consolidated financial statements.

Recommendations: The Board of Directors of STC recommends to the General Assembly of the Company the following:

1. Approval of the Board of Directors' report for the fiscal year ended 31/12/2018.
2. Approval of the report of the auditor of the company for the fiscal year ended 31/12/2018.

3. Approval of the Company's consolidated financial statements for the year ended 31/12/2018.
4. Approval of the appointment of the auditor from among the candidates upon the recommendation of the Review Committee, to examine, review and audit the financial statements for the second, third, fourth quarters and annual fiscal year 2019, and the first quarter of fiscal year 2020, along with their determined fees.
5. Approval of the adoption of the policy of distribution of dividends for the Company for the next three years beginning from the fourth quarter of 2018.
6. Approval of the Board of Directors' recommendation for additional one-time distributions for the year 2018 in the amount of SR 4,000 million for each share. The rights of the shareholders of the shares registered with the Securities Depository Center will be valid by the end of the second trading day, following the date of the General Assembly. The distribution date will be announced later. (Date is set as 16/5/2019).
7. Approval of amendment to Article (16), Paragraph (B) of the Articles of Association of the Company relating to bonds and instruments so that it would be: "The Company may, by decision of the Board of Directors, 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 or through a series of issuances or through one or more programs set by the Board of Directors of the Company from time to time, all in times and amounts and in accordance with the conditions approved by the Board of Directors, and has the right to take all necessary measures in this ".
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 control system at the Company's main location at least 21 days before the date of the Assembly.

10. Approval of the amendment to Article (44), paragraph (2) of the Articles of Association of the Company, relating to the filing 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 main location at least 21 days before the date of the General Assembly.
11. Approval of the nomination and remuneration policy of Board members, and the remuneration of the executive committees and 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 Review Committee, its functions and procedures, and its members' remuneration of 150,000 riyals annually each, and the attendance allowance of SR 5000 for each session starting from 2019.
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 1 January 2018 to 31 December 2018.
15. Approval of the Company's establishment of an international Sukuk program and the offering of instruments directly through it or through a Special Purpose Entity used to issue primary or secondary instruments 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 of 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 shall, for this purpose, take all necessary actions and procedures for the establishment of the Program and the issuance of Sukuk under it, and grant the Board the right to delegate any or all of such powers to any person or other persons and to grant them the right to delegate others.

Conclusion:

The Board of Directors, after thanking God for his approval, thanks the Custodian of the Two Holy Mosques King Salman bin Abdulaziz Al Saud and His Royal Highness Prince Mohammed bin Salman bin Abdulaziz Al Saud and our wise government. The Board of Directors expresses its thanks and appreciation to the Company's clients and shareholders for their trust and to the employees for their dedication and diligence in the performance of their work. The Board confirms its commitment to develop the Company's services to meet the needs of its clients, realize the aspirations of its shareholders, serve social objectives, and confirm the Company's leadership position in the telecommunications sector of the Kingdom of Saudi Arabia.

SAUDI TELECOM COMPANY
(SAUDI INVESTMENT COMPANY)

FINANCIAL STATEMENTS
FOR END OF THE YEAR 31 DECEMBER 2018

REDEFINING TELECOMMUNICATIONS TO MATCH NATIONAL ASPIRATIONS



I CONTENTS

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Independent Auditor's Report	73
Consolidated statement of financial position	81
Consolidated statement of profit or loss	82
Consolidated statement of comprehensive income	83
Consolidated statement of cash flows	84
Consolidated statement of changes in equity	85
Notes to the consolidated financial statements	86



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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 2018, 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 2018, and its consolidated financial performance and its consolidated cash flows for 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.

Independent auditor's report

To the Shareholders of Saudi Telecom Company (continued)
(A Saudi Joint Stock Company)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
<p>The Group's revenue consists primarily of subscription fees for telecommunication, data packages and use of the network totalling SR 52 billion for the year ended 31 December 2018.</p> <p>With effect from 1 January 2018, the Group adopted IFRS 15 "Revenue from Contracts with Customers" which impacted both how the Group recognizes revenue and the treatment of costs to obtain customer contracts. The Group applied the requirements of IFRS 15 retrospectively and restated prior years consolidated financial statements.</p> <p>In order to adopt the new standard, management undertook a process to identify customer contracts relating to services provided. For each type of contract identified management determine the performance obligations that exist under the contract and the transaction price which represents revenue expected to be received under the contract. The revenue was then allocated to the performance obligations under the contract utilising a proportionate allocation method. Revenue is recognised proportionately as performance obligations are satisfied. Further, as per IFRS 15, the incremental costs incurred to obtain a customer under a contract are now capitalised and amortised over the expected life of the relationship with that customer. Previously these costs were expensed as incurred.</p> <p>We considered this a key audit matter as the application of accounting standards for revenue recognition has a significant impact to the Group's consolidated financial statements and the complexity of the estimates and assumptions used in the application of the standard. In addition, there are inherent risks about the accuracy of revenues recorded due to the complexity associated with the network environment and significant dependency on IT applications, as well as the materiality of the amounts and volumes of transactions involved.</p> <p>Refer to note 4.3 for revenue recognition policy and note 32 for details of group revenue and note 3 for the disclosure of the adoption of IFRS 15.</p>	<p>Our audit procedures included, among others, the following:</p> <ul style="list-style-type: none"> • Involvement of IT specialists in testing the design, implementation and effectiveness of system internal controls related to revenue recognition. • Review of a sample of revenue reconciliations prepared by management between the primary billing system and the general ledger. • Performance of analytical procedures by comparing expectations of revenue with actual revenue on a monthly basis and analysed variances. • In relation to the criteria utilised by management to determine the appropriate level of revenue to be recognised we have, on a sample basis, tested <ul style="list-style-type: none"> - The performance obligations identified were consistent with the terms and conditions in the underlying contract; - The transaction price agreed to execute customer contract; - The value of the performance obligations used in allocating the transaction prices were determined using market rates for each stand-alone service provided. • With respect to customer acquisition costs we have, on a sample basis: <ul style="list-style-type: none"> - Tested the costs back to supporting documentation to assess that the costs were incremental in nature and incurred in the process of obtaining a customer contract; - Tested that incremental costs are amortised over the expected life of the relationship with the customer; and - Assessed the expected life of the relationship with the customer by observing past customer behaviour and internal customer churn data. • Assessment of the relevant disclosures in the consolidated financial statement.

Independent auditor's report

To the Shareholders of Saudi Telecom Company (continued)
(A Saudi Joint Stock Company)

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)	
<p>As at 31 December 2018, the Group received following claims from the GAZT, relating to Zakat and withholding tax:</p> <p>Zakat: The Group received the zakat assessments from its inception until 2011, which resulted in additional exposure. The Group challenged the claim and submitted its appeal which is underway before GAZT and the relevant committee.</p> <p>Withholding Tax: The Group received withholding tax assessments from the 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.</p> <p>We considered this as a key audit matter as accounting for zakat and withholding tax involves significant management estimates in addition to the materiality of the additional amounts claimed.</p> <p><i>Refer to note 4.8 for zakat and withholding taxes policy and notes 31 and 43-E for disclosure of Group's zakat and withholding tax liabilities.</i></p>	<p>Our audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> • Review of correspondences between the Group, the GAZT and the Group's consultants to determine the amount of the additional assessments made by the GAZT. • Attend meetings with those charged with governance and the management of the Group to obtain an update on the zakat and withholding tax matters and the results of their interactions with the relevant committees. • Use of specialist to assess the appropriateness of the exposures disclosed for both zakat and withholding tax for the years assessed by the GAZT and management's judgement in this matter. • Review of the prior year's decisions from the relevant committee on zakat assessment. • Assessed the related disclosures included in the consolidated financial statements of the Group.



Independent auditor's report
To the Shareholders of Saudi Telecom Company (continued)
(A Saudi Joint Stock Company)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Allowance for impairment in trade receivable	
<p>At 31 December 2018, the Group's trade receivables amounted to SR 15.6 billion against which an impairment allowance of SR 2.5 billion was maintained.</p> <p>The Group adopted IFRS 9 "Financial Instruments" during the year which requires the use of the expected credit loss (ECL) model instead of the incurred credit loss model under IAS 39. The Group applied the requirements of IFRS 9 retrospectively, and restated prior years consolidated financial statements. The adoption resulted in a transition adjustment of SR 173 million to the Group's equity as at 1 January 2018.</p> <p>We considered this as a key audit matter as ECL model involves complex calculations and use of assumptions by management.</p> <p><i>Refer to notes 4 and 5 for trade receivables policy and critical accounting judgements and note 10 for the movement in Group's ECL.</i></p>	<p>Our audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> • Assessment of the design, implementation, and operating effectiveness of the key controls over the following: <ul style="list-style-type: none"> - Recording of trade receivables and settlements. - Trade receivables aging reports. • Test of a sample of trade receivables to assess whether ECL has been recorded in a timely manner. • Assessment of 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. • Testing the mathematical accuracy of the ECL model. • Assessment of the disclosures included in the consolidated financial statements of the Group.

Independent auditor's report
To the Shareholders of Saudi Telecom Company (continued)
(A Saudi Joint Stock Company)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Capitalization and useful lives of property, plant and equipment	
<p>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.</p> <p>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.</p> <p>Further, there are a number of areas where management judgment impacts the carrying values and depreciation of property, plant and equipment which include:</p> <ul style="list-style-type: none"> - Decision to capitalize or expense costs; - Review of the useful lives of property, plant, and equipment 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. <p>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.</p> <p><i>Refer to note 4.9 accounting policy of property, plant and equipment and note 7 for the related disclosures.</i></p>	<p>Our audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> • Tested the effectiveness of the key controls in place over the capitalization of property, plant and equipment and assessed the Group's capitalisation policies. <p>In addition to the above, we also performed the following procedures on the capitalized cost:</p> <ul style="list-style-type: none"> • Assessed the Group's capitalisation policy for compliance with relevant accounting standards; • Tested the implementation of expenditure policy during the year, including review of minutes of meetings where capital expenditure plan was approved. • On a sample basis, we tested capitalisation of project expenses in compliance with the Group's capitalisation policy including instances where actual costs differed from the expenditure plan.





Independent auditor's report

To the Shareholders of Saudi Telecom Company (continued)
(A Saudi Joint Stock Company)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Provisions related to government fees</p> <p>During 2018, the Group reached an agreement with the Ministry of Finance, the Ministry of Communications & Information Technology and the authority of Communications and Information Technology ("Government Entities") regarding the basis of government fees calculation, and settlement of outstanding dispute related to prior years.</p> <p>Based on the agreement the dispute related to government fees for the period from 1 January 2008 to 31 December 2017 was settled completely. In return, the Group committed to capital expenditure in its infrastructure consistent with the Kingdom of Saudi Arabia strategy of developing telecommunication infrastructure within a period of three years from 1 January 2018 according to the terms and conditions of the Settlement Agreement (Referred to as "Target Performance Indicators").</p> <p>We considered this as a key audit matter due to the involvement of management's judgment and estimates in measuring the Target Performance Indicators as well as the materiality of the amounts involved.</p> <p><i>Refer to note 4.13 for accounting policy of provision and notes 42.a and 43.f which disclose related provisions.</i></p>	<p>Our audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> • Review of underlying agreement between the Group and Government Entities which included the agreed Target Performance Indicators; • Review of management's assumptions for assessment of compliance with the Target Performance Indicators and the impact of these on the consolidated financial statements; • Testing the mathematical accuracy of achieved Target Performance Indicators. • Assessment of the disclosures included in the consolidated financial statements of the Group.
<p>Valuation of property, plant and equipment and intangible assets</p> <p>As at 31 December 2018, the Group's consolidated financial position included property, plant and equipment amounting to SR 41.9 billion and intangible assets amounting to SR 9.5 billion.</p> <p>The assessment of the recoverable value of these assets, or relevant cash-generating units ('CGUs'), involves significant judgment in respect of factors such as technological changes, challenging economic conditions, changing regulatory environment and restrictions, operating/capital costs and other economic assumptions used by the Group.</p> <p>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.</p> <p><i>Refer to note 4.11 for the related accounting policy and note 5.1.2 for the related disclosures.</i></p>	<p>Our audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> • Test of design and implementation of the internal controls to assess the Group's determination of impairment of assets, if any. • Reviewed management's impairment indicator testing. • Assessed management's assumptions and estimates used to determine the recoverable value of the assets by based on our knowledge of the Group and the industry it operates in. • Assessment of management's methods of identification of individual CGUs. • Assessed mathematical accuracy of cash flow models. • Assessment of the disclosures included in the consolidated financial statements of the Group.



Independent auditor's report

To the Shareholders of Saudi Telecom Company (continued)
(A Saudi Joint Stock Company)

Other Information Included in the Group's 2018 Annual Report

The Board of Directors of the Group (the "Board") are responsible for the other information in its annual report. Other information consists of the information included in the Group's 2018 annual report, other than the consolidated financial statements and our auditor's report thereon. The Group's 2018 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 2018 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.



Independent auditor's report

To the Shareholders of Saudi Telecom Company (continued)
(A Saudi Joint Stock Company)

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

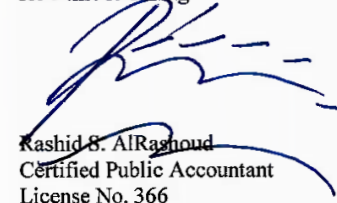
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies 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


Rashid S. AlRaghad
Certified Public Accountant
License No. 366



Riyadh: 13 Rajab 1440H
(20 March 2019)

Consolidated Statement Of Financial Position As At 31 December 2018 (All Amounts In Saudi Riyals Thousands Unless Otherwise Stated)

	Notes	31 December 2018	31 December 2017 (Restated - Note 3)	1 January 2017 (Restated-Note 3)
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment	7	41,920,409	39,940,616	39,407,579
Intangible assets and goodwill	8	9,560,119	7,174,575	7,259,148
Investments in associates and joint ventures	19	6,581,733	6,908,653	6,301,641
Contract costs	13	1,030,129	1,091,254	1,131,085
Contract assets	14	504,042	276,842	64,676
Financial assets	15	3,373,016	7,793,291	7,401,610
Other non-current assets	12	371,621	860,851	259,051
TOTAL NON-CURRENT ASSETS		63,341,069	64,046,082	61,824,790
CURRENT ASSETS				
Inventories	9	787,456	482,281	474,516
Trade and other receivables	10	14,422,178	20,368,531	14,335,511
Short term murabahas	11	9,685,491	14,465,364	15,004,490
Contract assets	14	8,117,463	5,211,211	6,019,946
Financial assets	15	5,488,245	335,487	432,501
Other current assets	12	1,952,878	1,006,073	935,532
Cash and cash equivalents	17	8,153,865	2,567,044	3,631,202
TOTAL CURRENT ASSETS		48,607,576	44,435,991	40,833,698
TOTAL ASSETS		111,948,645	108,482,073	102,658,488
EQUITY AND LIABILITIES				
EQUITY				
Issued capital	20	20,000,000	20,000,000	20,000,000
Statutory reserves	21	10,000,000	10,000,000	10,000,000
Other reserves	22	(1,903,878)	(1,775,390)	(1,935,473)
Retained earnings		37,417,562	34,637,791	32,622,215
Equity attributable to the holders of the Parent Company		65,513,684	62,862,401	60,686,742
Non-controlling interests		1,147,914	939,180	1,255,725
TOTAL EQUITY		66,661,598	63,801,581	61,942,467
LIABILITIES				
NON-CURRENT LIABILITIES				
Long term borrowings	23	3,965,479	4,005,980	4,017,231
Provisions	24	891,910	1,203,152	1,122,266
Provision for end of service benefit	26	3,919,362	3,922,065	3,776,269
Deferred income	25	2,144,290	990,275	670,139
Contract liabilities	27	771,915	773,165	775,638
Other financial liabilities	28	1,526,259	59,755	208,963
Other non-current liabilities	29	32,726	87,227	90,887
TOTAL NON-CURRENT LIABILITIES		13,251,941	11,041,619	10,661,393
CURRENT LIABILITIES				
Trade and other payables	30	16,670,958	13,155,927	13,908,388
Short term borrowings	23	320,533	647,763	1,867,220
Provisions	24	6,829,451	7,633,280	5,686,284
Zakat and income tax liabilities	31	1,465,775	1,507,881	1,378,960
Deferred income	25	41,141	96,431	81,654
Contract liabilities	27	2,538,940	3,261,695	2,961,889
Other financial liabilities	28	90,731	54,640	44,138
Other current liabilities	29	4,077,577	7,281,256	4,126,095
TOTAL CURRENT LIABILITIES		32,035,106	33,638,873	30,054,628
TOTAL LIABILITIES		45,287,047	44,680,492	40,716,021
TOTAL EQUITY AND LIABILITIES		111,948,645	108,482,073	102,658,488

The accompanying notes from 1 to 46 form an integral part of these consolidated financial statements


Chairman


Deputized Board Member


Chief Executive Officer


Chief Financial Officer



Consolidated Statement Of Profit Or Loss For The Year Ended 31 December 2018
(All Amounts In Saudi Riyals Thousands Unless Otherwise Stated)

	Notes	2018	2017 (Restated-Note 3)
Revenues	32	51,963,243	50,661,335
Cost of revenues	33	(21,416,928)	(22,105,926)
GROSS PROFIT		30,546,315	28,555,409
OPERATING EXPENSES			
Selling and marketing	34	(5,463,212)	(5,608,634)
General and administration	35	(5,247,348)	(4,516,029)
Depreciation and amortisation	7,8	(7,590,530)	(7,444,735)
TOTAL OPERATING EXPENSES		(18,301,090)	(17,569,398)
OPERATING PROFIT		12,245,225	10,986,011
OTHER INCOME AND EXPENSES			
Cost of early retirement		(450,000)	(600,000)
Finance income	36	554,909	584,682
Finance costs	37	(398,814)	(353,542)
Other income, net		102,943	85,036
(Loss) / gain from investments in associates and joint ventures, net		(10,605)	305,591
Other losses, net	38	(215,493)	(18,405)
TOTAL OTHER INCOME AND EXPENSES		(417,060)	3,362
NET PROFIT BEFORE ZAKAT AND TAX		11,828,165	10,989,373
Zakat and income tax	31	(747,667)	(720,700)
NET PROFIT		11,080,498	10,268,673
Net profit attributable to:			
Equity holders		10,779,771	10,015,576
Non-controlling interests		300,727	253,097
		11,080,498	10,268,673
Basic and diluted earnings per share (In Saudi Riyals)	39	5.39	5.01


The accompanying notes from 1 to 46 form an integral part of these consolidated financial statements



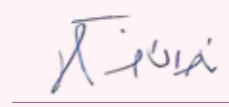
Consolidated Statement Of Comprehensive Income For The Year Ended 31 December 2018
(All Amounts In Saudi Riyals Thousands Unless Otherwise Stated)

	Notes	2018	2017 (Restated-Note 3)
NET PROFIT		11,080,498	10,268,673
OTHER COMPREHENSIVE INCOME:			
Items that will not be reclassified subsequently to consolidated statement of profit or loss:			
Re-measurement of end of service benefit provision	26	13,414	(117,361)
Fair value changes on equity instruments at fair value through other comprehensive income (FVTOCI)		113,543	90,557
Total items that will not be reclassified subsequently to consolidated statement of profit or loss		126,957	(26,804)
Items that will be reclassified subsequently to consolidated statement of profit or loss:			
Foreign currency translation differences		(10,003)	6,875
Share of other comprehensive loss of associates and joint ventures, net		(247,317)	(30,603)
Total items that will be reclassified subsequently to consolidated statement of profit or loss		(257,320)	(23,728)
OTHER COMPREHENSIVE LOSS		(130,363)	(50,532)
TOTAL COMPREHENSIVE INCOME		10,950,135	10,218,141
Total comprehensive income attributable to:			
Equity holders		10,651,283	9,958,319
Non-controlling interests		298,852	259,822
		10,950,135	10,218,141


The accompanying notes from 1 to 46 form an integral part of these consolidated financial statements


Chairman


Deputized Board Member


Chief Executive Officer


Chief Financial Officer


Chairman


Deputized Board Member


Chief Executive Officer


Chief Financial Officer



Consolidated Statement Of Cash Flows For The Year Ended 31 December 2018
(All Amounts In Saudi Riyals Thousands Unless Otherwise Stated)

	Notes	2018	2017 (Restated-Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit before zakat and tax		11,828,165	10,989,373
<i>Adjustments for:</i>			
Depreciation and amortisation	7,8	7,590,530	7,444,735
Amortisation and impairment loss of contract costs and assets	33&34	623,136	579,468
Impairment loss on trade receivables	10	741,583	848,495
Write-down of inventory	9	31,863	124,487
Finance income	36	(554,909)	(584,682)
Finance costs	37	398,814	353,542
Provision for end of service benefits and other provisions		1,293,581	2,806,935
Loss / (Gain) from investments in associates and joint ventures, net		10,605	(305,591)
Other losses, net	38	215,493	18,405
Operating profit before working capital adjustments		22,178,861	22,275,167
Movements in working capital:			
Trade and other receivables		5,274,505	(8,298,267)
Inventories		(337,038)	(132,252)
Contract costs		(477,758)	(404,074)
Contract assets		(3,339,955)	1,756,702
Other assets		(1,210,921)	(702,237)
Trade and other payables		3,246,720	410,636
Deferred income		1,098,725	374,007
Contract liabilities		(724,005)	(1,027,978)
Other liabilities		(5,482,112)	2,813,388
Cash generated from operations		20,227,022	17,065,092
Less: Zakat and income tax paid	31	(690,934)	(649,427)
Less: Provision for end of service benefits paid	26	(521,861)	(499,614)
Net cash from operating activities		19,014,227	15,916,051
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment		(8,406,935)	(6,576,858)
Additions to intangible assets		(1,350,151)	(1,359,313)
Proceeds from sale of property, plant and equipment		123,283	13,375
Purchase of interest in an associate		-	(375,095)
Dividends received from associates		-	41,077
Proceeds from finance income		595,731	752,261
Proceeds and payments related to financial assets, net		4,129,233	498,916
Net cash used in investing activities		(4,908,839)	(7,005,637)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(8,054,671)	(8,019,234)
Acquisition cost of non-controlling interests in a subsidiary	2.16	-	(437,382)
Repayment of borrowings		(635,710)	(3,298,573)
Proceeds from borrowing		303,936	1,924,461
Finance costs paid		(130,517)	(149,454)
Net cash used in financing activities		(8,516,962)	(9,980,182)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		5,588,426	(1,069,768)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		2,567,044	3,631,202
Net foreign exchange difference		(1,605)	5,610
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	17	8,153,865	2,567,044

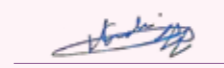
The accompanying notes from 1 to 46 form an integral part of these consolidated financial statements

 Chairman
 Deputized Board Member
 Chief Executive Officer
 Chief Financial Officer

Consolidated Statement Of Changes In Equity For The Year Ended 31 December 2018
(All Amounts In Saudi Riyals Thousands Unless Otherwise Stated)

	Notes	Issued capital (Note 20)	Statutory reserves (Note 21)	Other reserves (Note 22)	Retained earnings	Total equity Attributable to equity holders of the Parent Company	Non- controlling interests (Note 16-2)	Total equity
Balance as at 1 January 2017, as previously reported		20,000,000	10,000,000	(1,935,833)	31,877,188	59,941,355	1,336,976	61,278,331
Impact of adoption of IFRS 9 and IFRS 15		-	-	360	745,027	745,387	(81,251)	664,136
Balance as at 1 January 2017 (as restated)		20,000,000	10,000,000	(1,935,473)	32,622,215	60,686,742	1,255,725	61,942,467
Net profit (as restated)		-	-	-	10,015,576	10,015,576	253,097	10,268,673
Other comprehensive loss		-	-	(57,257)	-	(57,257)	6,725	(50,532)
Total comprehensive income (as restated)		-	-	(57,257)	10,015,576	9,958,319	259,822	10,218,141
Dividends paid to shareholders	45	-	-	-	(8,000,000)	(8,000,000)	-	(8,000,000)
Acquisition of non-controlling interest	2.16	-	-	67,474	-	67,474	(546,772)	(479,298)
Dividends paid to non-controlling interests		-	-	-	-	-	(29,595)	(29,595)
Other reserves	22	-	-	149,866	-	149,866	-	149,866
Balance as at 31 December 2017 (as restated)		20,000,000	10,000,000	(1,775,390)	34,637,791	62,862,401	939,180	63,801,581
At 1 January 2018		20,000,000	10,000,000	(1,775,390)	34,637,791	62,862,401	939,180	63,801,581
Net profit		-	-	-	10,779,771	10,779,771	300,727	11,080,498
Other comprehensive loss		-	-	(128,488)	-	(128,488)	(1,875)	(130,363)
Total comprehensive income		-	-	(128,488)	10,779,771	10,651,283	298,852	10,950,135
Dividends paid to shareholders	45	-	-	-	(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

The accompanying notes from 1 to 46 form an integral part of these consolidated financial statements

 Chairman
 Deputized Board Member
 Chief Executive Officer
 Chief Financial Officer



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 (collectively referred to as the "Group") comprise the provision and introduction of telecommunications, information and media services, which include, among other things:

- 1) Establish, manage, operate and maintain fixed and mobile telecommunication networks, systems and infrastructure.
- 2) Deliver, provide, maintain and manage diverse telecommunication and information technology (IT) services to customers.
- 3) Prepare the required plans and necessary studies to develop, implement and provide the telecom and IT services covering all technical, financial and administrative aspects. In addition, prepare and implement training plans in the field of telecommunications and IT, and provide consultancy services.

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

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



2. BASIS OF PREPARATION AND CONSOLIDATION

2.1 Basis of preparation

The consolidated financial statements have been prepared under 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").

The consolidated financial statements have been prepared on a historical cost basis, unless stated otherwise, in the below accounting policies.

An additional consolidated statement of financial position as at 1 January 2017 has been presented as a result of the adoption of IFRS 9 and 15 (Note 3.2).

The consolidated financial statements are presented in Saudi Riyals ("SR"), which is considered the functional currency for the Group, and all values are rounded to the nearest thousand Saudi Riyals, except when otherwise indicated.

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 16).

Control is achieved when the Group has:

- Power over the investee (i.e. existing rights that give it 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 three elements of control.

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.

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 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.


Chairman


Deputy Board Member


Chief Executive Officer


Chief Financial Officer



3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

3.1 New and revised IFRSs in issue but not yet effective

3.1.1 IFRS 16 "Leases"

IFRS 16 'Leases' was published in January 2016 and will be effective for Group from 1 January 2019, replacing IAS 17 'Leases'. IFRS 16 specifies how an entity will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The Group has not early adopted the standard and so transition to IFRS 16 will take place on 1 January 2019. The Group is currently in process of assessing the financial impact of application of IFRS 16 on the Group's consolidated financial statements.

Few other amendments to IFRS and IFRIC that are applicable from the date mentioned against each of the amendment and interpretation:

Amendments and interpretations	Effective Date
Amendments to IFRS 9 'Financial Instruments' - Prepayments features with negative compensation	1 January 2019
Amendments to IAS 19 'Employee Benefits' - Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to IAS 28 'Investments in Associates and Joint Ventures' - Long-term interests in Associates and Joint Ventures	1 January 2019
IFRIC 23 'Uncertainty over Income Tax Treatments'	1 January 2019
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
Annual Improvements to IFRS Standards 2015 - 2017 Cycle	1 January 2019
Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures' - Sale or contribution of assets between an investor and its associate or joint venture	Effective date is deferred indefinitely earlier adoption is permitted

3.2 New standards issued and adopted

3.2.1 IFRS 9 "Financial Instruments"

IFRS 9 "Financial Instruments" replaces IAS 39 "Financial Instruments: Recognition and measurement" for annual periods beginning on or after 1 January 2018. IFRS 9 addresses classification, measurement and derecognition requirements for financial assets and liabilities and introduces new rules on hedging and impairment requirements for financial assets.

The Group has adopted IFRS 9 retrospectively from 1 January 2017, in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. (see Note 3.2.3)

3.2.2 IFRS 15 "Revenue from contracts with customers"

IFRS 15 replaces the standards IAS 11 "construction contracts" and IAS 18 "revenue" and their related interpretations. IFRS 15 applies to all contracts with customers except for those covered by other standards. IFRS 15 is delivered in five-step model to recognize revenue from contracts with customers.

The Group has adopted IFRS 15 retrospectively from 1 January 2017, in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. (see Note 3.2.3)

3.2.3 The impact of applying the new and revised IFRS standards

The Group has adopted IFRS 9 and IFRS 15 retrospectively which resulted into the following remeasurement and reclassification adjustments:



3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

3.2 New standards issued and adopted (Continued)

3.2.3 The impact of applying the new and revised IFRS standards (Continued)

Consolidated statement of financial position as at 1 January 2017:

	As reported earlier under IAS 18 and 39	Adjustments due to adoption of IFRS 9	Adjustments due to adoption of IFRS 15	As restated under IFRS 9 and 15
Intangible assets and goodwill (b)	7,840,443	-	(581,295)	7,259,148
Contract cost (b)	-	-	1,131,085	1,131,085
Contract assets (c)	-	(52,581)	6,137,203	6,084,622
Trade and other receivables (a,c)	19,768,149	218,663	(5,651,301)	14,335,511
Others (e)	74,168,296	(131)	(320,043)	73,848,122
Total assets	101,776,888	165,951	715,649	102,658,488
Trade and other payables	13,885,561	(1,145)	23,972	13,908,388
Contract liabilities (d)	-	-	3,737,527	3,737,527
Deferred income (d)	4,262,618	-	(3,510,825)	751,793
Others	22,350,378	-	(32,065)	22,318,313
Total liabilities	40,498,557	(1,145)	218,609	40,716,021
Retained earnings (b,d)	31,877,188	167,096	577,931	32,622,215
Others	29,401,143	-	(80,891)	29,320,252
Total liabilities and equity	101,776,888	165,951	715,649	102,658,488



3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

3.2 New standards issued and adopted (Continued)

3.2.3 The impact of applying the new and revised IFRS standards (Continued)

Consolidated statement of financial position as at 31 December 2017:

	As reported earlier under IAS 18 and 39	Adjustments due to adoption of IFRS 9	Adjustments due to adoption of IFRS 15	As restated under IFRS 9 and 15
Intangible assets and goodwill (b)	7,773,839	-	(599,264)	7,174,575
Contract cost (b)	-	-	1,091,254	1,091,254
Contract assets (c)	-	(53,072)	5,541,125	5,488,053
Trade and other receivables (a,c)	25,549,424	225,732	(5,406,625)	20,368,531
Others (e)	74,789,541	-	(429,881)	74,359,660
Total assets	108,112,804	172,660	196,609	108,482,073
Trade and other payables	13,827,806	(1,451)	(670,428)	13,155,927
Contract liabilities (d)	-	-	4,034,860	4,034,860
Deferred income (d)	4,635,523	-	(3,548,817)	1,086,706
Others	26,404,802	-	(1,803)	26,402,999
Total liabilities	44,868,131	(1,451)	(186,188)	44,680,492
Retained earnings (b,d)	34,010,412	173,016	454,363	34,637,791
Others	29,234,261	1,095	(71,566)	29,163,790
Total liabilities and equity	108,112,804	172,660	196,609	108,482,073

Consolidated statement of profit or loss for the year ended 31 December 2017:

	As reported earlier under IAS 18 and 39	Adjustments due to adoption of IFRS 9	Adjustments due to adoption of IFRS 15	As restated under IFRS 9 and 15
Revenue (c)	50,746,675	-	(85,340)	50,661,335
Cost of revenue (b)	(21,255,477)	-	(850,449)	(22,105,926)
Selling and distribution expenses (b)	(5,726,280)	5,616	112,030	(5,608,634)
General and administration expenses	(4,471,573)	-	(44,456)	(4,516,029)
Depreciation and amortisation (b)	(8,208,360)	-	763,625	(7,444,735)
Finance cost	(354,199)	657	-	(353,542)
Others	(360,651)	(353)	(2,792)	(363,796)
Net profit	10,370,135	5,920	(107,382)	10,268,673



3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

3.2 New standards issued and adopted (continued)

3.2.3 The impact of applying the new and revised IFRS standards (continued)

Consolidated statement of comprehensive income for the year ended 31 December 2017:

	As reported earlier under IAS 18 and 39	Adjustments due to adoption of IFRS 9	Adjustments due to adoption of IFRS 15	As restated under IFRS 9 and 15
Net profit	10,370,135	5,920	(107,382)	10,268,673
Items that will not be reclassified subsequently to consolidated statement of profit or loss:				
Re-measurement of end of service benefit provision	(117,361)	-	-	(117,361)
Fair value changes on equity instruments measured at fair value through other comprehensive income (FVOCI)	-	90,557	-	90,557
Total items that will not be reclassified subsequently to consolidated statement of profit or loss	(117,361)	90,557	-	(26,804)
Items that will be reclassified subsequently to consolidated statement of profit or loss:				
Foreign currency translation differences	(17,962)	24,837	-	6,875
Fair value changes on available-for-sale financial assets, net	90,557	90,557	-	-
Share of other comprehensive loss of associates and joint ventures, net	-	30,603	-	(30,603)
Total items that will be reclassified subsequently to consolidated statement of profit or loss	72,595	96,323	-	(23,728)
OTHER COMPREHENSIVE LOSS	(44,766)	5,766	-	(50,532)
TOTAL COMPREHENSIVE INCOME	10,325,369	154	107,382	10,218,141

Consolidated statement of cash flows for the year ended 31 December 2017:

	As reported earlier under IAS 18 and 39	Adjustments	As restated under IFRS 9 and 15
Net cash from operating activities	16,700,155	(784,104)	15,916,051
Net cash used in investing activities	(7,789,741)	784,104	(7,005,637)
Net cash used in financing activities	(9,980,182)	-	(9,980,182)



3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

3.2 New standard issued and adopted (continued)

3.2.3 The impact of applying the new and revised IFRS standard (continued)

Changes due to the adoption of IFRS 9:

The adoption of IFRS 9 has not had a significant impact on the Group's accounting policies related to financial assets or liabilities except for the reclassification of financial assets and new requirements for impairment loss calculation.

The following table sets out the original measurement categories in accordance with IAS 39 as well as the new measurement categories in accordance with IFRS 9 of the Group's financial assets as at 1 January 2017:

	Original classification amount under IAS 39	New classification under IFRS 9	Original book value under IAS 39	New book value under IFRS 9
Financial Assets				
Diversified investment portfolio	Fair value through profit or loss	Fair value through profit or loss	3,986,104	3,986,104
Trade receivables and others (a,c)	Loans and receivables	Amortized cost	19,768,149	19,768,149
Investments in murabahas and sukuk	Loans and receivables	Amortized cost	2,731,914	2,731,914
Other investments	Loans and receivables	Amortized cost	701,088	701,088
Short term murabahas	Loans and receivables	Amortized cost	15,004,490	15,004,490
Cash and cash at banks	Loans and receivables	Amortized cost	3,631,202	3,631,202
Investments in funds	Available for sale Investments	Fair value through other comprehensive income	415,005	415,005

(a) Impairment of financial assets

IFRS 9 requires the use of the expected credit loss model instead of the incurred credit loss model under IAS 39.

Changes due to the adoption of IFRS 15

(b) Contract costs

Under IAS 18, contract costs related to commission (cost to obtain a contract) and installation service (cost to fulfil a contract) were expensed as incurred as it was not qualified to be recognized as an asset under any other accounting standards. Upon adoption IFRS 15, these were capitalized as contract costs and included as assets in the consolidated statement of financial position. Commission costs considered as cost to obtain a contract because these costs are incremental costs and the Group expects to recover those costs. Installation costs considered as cost to fulfil a contract with a customer and are not within the scope of another standard. The Group recognizes an asset from the costs incurred to fulfil a contract only if those costs meet all of the following criteria:

1. The costs relate directly to a contract (or to a specified anticipated contract).
2. The costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.
3. The costs are expected to be recovered.

Changes due to the adoption of IFRS 15 (continued)

(c) Contract assets

Under IFRS 15, if the Group transferred goods or services to a customer before the customer pays consideration or before payment is due, the Group shall present the contract as a contract asset, excluding any amounts presented as a receivable.



A contract asset is the Group right to consideration in exchange for goods or services that the Group has transferred to a customer. There was no significant change due to this change; except for reclassification between receivables and contract assets.

(d) Contract liabilities

Prepaid Subscription Revenue

Previously, the Group recognized prepaid subscription revenue based on "Months"; however, as a result of IFRS 15 adoption, it is recognized based on "Days" resulting in increase in contract liabilities and decrease in retained earnings.

Installation fees

Under IAS 18, revenue was recognized upfront when the installation was completed. Under IFRS 15, the installation service is not considered a separate performance obligation and therefore a one-time installation fee is added to the total transaction price and recognized over the period of service delivery, resulting in a change in timing of revenue recognition.

(e) Reclassification

Reclassifications and adjustments resulting from the adoption of IFRS 15.

3.3 IFRS issued and applied

Following are other amendments to IFRS and IFRIC adopted by the Group during the year without a material impact:

Amendments and interpretations	Effective Date
IFRIC 22 'Foreign Currency Transactions and Advance Consideration	1 January 2018
Amendments to IFRS 2 'Share-based Payment': Clarification of the classification and measurement of share-based payment transactions	1 January 2018
Amendments to IFRS 4 'Insurance Contracts' - Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'	1 January 2018 (Optional)
Clarifications to IFRS 15 'Revenue from Contracts with Customers'	1 January 2018
Amendments to IAS 40 'Investment Property': Clarification on transfers of property to or from investment property	1 January 2018
Annual Improvements to IFRS Standards 2014 - 2016 Cycle	1 January 2018

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Business combinations

Acquisitions of businesses 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 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.

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 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 date. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 or joint control 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 recognised as 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. 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 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 year in which the investment is acquired.

The requirements of IFRS 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.

4.3 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 revenue 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 of services revenues rendered to 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.



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Revenue Recognition (Continued)

Product and services	Nature and timing of satisfaction of performance obligation
Telecommunication services	Telecommunication services include voice, data and text services. The Group recognizes revenue 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 revenue 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 revenue 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 instrument is recognised 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).

4.4 Leasing

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception date and if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use, even if that right is not explicitly specified in an arrangement.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards of ownership. If the contract does not transfer it substantially, the contract is classified as an operating lease.

Leased assets:

Finance leases are recognized at the commencement of the lease as assets and liabilities in the consolidated statement of financial position at the fair value of the leased assets or, if lower, at the present value of the minimum lease payments and then lease payments are apportioned between finance charges and a reduction in the lease liability so as to achieve the remaining balance of the liability. Finance charges are recognised in the consolidated statement of profit or loss.

At the beginning of the contract or when reviewed, the Group separates payments and other amounts required under the contract into lease payments and payments to other items based on the relative fair value.

The leased asset is depreciated over the estimated useful life of the asset. Where there is no reasonable assurance that the asset ownership will be transferred to the Group at the end of the contract term, the asset is depreciated over the useful life of the asset or lease period, whichever is lower.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset

are exhausted. The benefits received and accrued are also allocated as an incentive to enter into an operating lease on a straight-line basis over the lease term. The total benefit from the incentive is recognized as a reduction of the lease expense on a straight-line basis unless another basis better represents the period during which the economic benefits of the leased asset are exhausted. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Leased out assets:

Operating lease income is recognized in the consolidated statement of profit or loss on a straight-line basis over the lease term. The benefits granted as an incentive to enter into an operating lease are also distributed on a straight-line basis over the lease term. The aggregate benefit from the incentive is recognized as a reduction of rental income on a straight-line basis unless another basis better represents the period during which the economic benefits of the leased asset are exhausted.

Amounts due from finance leases are recognized as receivables in an amount equal to the Group's net investment in the lease. The rental payment receivable is treated as a payment of the original amount as financing income to compensate the Group for its investment and services. The incremental costs which are directly associated with the lease negotiation process are included in the amounts due and the amount of financing income recognized over the period of the contract is reduced.

In case the Group considers the lease as a manufacturer or a seller at the beginning of the contract, revenue are recognized at the fair value of the asset or the present value of the outstanding lease payments and the cost of revenue and gain or loss resulting from the sale are recognized directly. Additional costs directly associated with the negotiation of the lease contract incurred by the Group as a manufacturer or seller are recognized as an expense at the beginning of the lease term.



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.5 Foreign currencies

The information and disclosures are presented in Saudi Riyals (the functional currency of STC – the Parent Company). For each subsidiary, the Group determines the functional currency, which is the currency of the primary economic environment in which the entity operates, and items included in the financial statements of each entity 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 retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated 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.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise in 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 arrangement 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 arrangements 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 conditions attaching to them 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.

4.7 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.

Provision for employees' end of service benefits is made 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 annual rate of increase in salaries, average period of employment and an appropriate discount rate. The assumptions used are calculated on a consistent basis for each period and reflect management's best estimate. The discount rates are set in line with the best available estimate of market yields currently available at the reporting date with reference the Kingdom of Saudi Arabia interest rate swap curve or other basis, if applicable.



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.7 Employee benefits (continued)

4.7.1 Retirement benefit costs and end of service benefits (continued)

Re-measurement of net liabilities that includes actuarial gains and losses arising from 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 labor downsizing; and
- The date on which the Group recognizes the related restructuring costs.

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

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

4.7.2 Short-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 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 relating to investee companies outside the Kingdom of Saudi Arabia is calculated in accordance with tax laws applicable in those countries.

Deferred income tax provision for foreign entities is calculated using the liability method for the temporary differences at the end of the financial year between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities and assets are measured at the tax rates expected to be applied in the reporting period in which the obligation is settled, or the assets are 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.

4.9 Property, plant and equipment

Property, plant 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 up to the customer connection point, including contractors' charges, direct materials and labour costs up to the date the relevant assets are placed in service.

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



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.9 Property, plant and equipment (continued)

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items.

When significant parts of property, plant 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 so as to write off the cost of assets, other than land, using the straight-line method, over their estimated useful lives. An item of property, plant 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, plant 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, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

4.10 Intangible assets other than goodwill

Intangible assets are stated in the consolidated financial position at cost less accumulated amortisation and accumulated impairment losses. The cost of intangible assets acquired in a business combination is 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 reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

4.10.1 Software

Computer software licenses are capitalised based on the cost incurred to acquire and bring into use the specific software. 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 spectrum fees

Amortisation periods for licence and 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 from the commencement of related network services.

Licences with indefinite useful lives are not amortised, 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.

4.10.3 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 financial 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 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 can be estimated 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.

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 assets decommissioning 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 if the obligation can be reliably assessed.

The Group calculates the provision of future costs relating to the removal and decommissioning of network and other assets. Upon initial recognition of the obligation, the present value of the expected costs (using the cash flow discount rate) is added to the value of the network in question 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 network and other assets.

4.15 Financial instruments

4.15.1 Recognition, classification 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 in the following categories:

- At fair value (either through other comprehensive income, or through profit or loss)
- 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 the non-derivative financial liabilities measured 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 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).

4.15.2.2 Subsequent measurement of financial assets

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

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.

Financial assets carried at fair value through profit or loss

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

Financial assets measured at fair value through other comprehensive income

- The financial carried at fair value through other comprehensive income ("FVTOCI") are measured at each reporting date 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:



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.15.2 Measurement (Continued)

4.15.2.2 Subsequent measurement of financial assets (Continued)

Measurement category	Recognition and presentation of gains and losses
At amortised cost	<p>The following items are recognised in the consolidated statement of profit or loss:</p> <ul style="list-style-type: none"> finance income using the effective interest method; expected credit losses and reversals; and foreign exchange gains and losses. <p>When the financial asset is derecognised, the gain or loss is recognised in consolidated statement of profit or loss.</p>
At FVTOCI	<p>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:</p> <ul style="list-style-type: none"> finance income using the effective interest method; expected credit losses and reversals; and foreign exchange gains and losses.
Equity instruments – gain or loss – presented in consolidated statement of comprehensive income	<p>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.</p>
At FVTPL	<p>Gains and losses, both on subsequent measurement and derecognition, are recognised in consolidated statement of profit or loss.</p>

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;

- Financial liabilities at FVTPL;
- 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;
- Commitments to provide a loan at a below-market interest rate and not measured at fair value though profit or loss;
- Financial guarantee contracts;
- Contingent consideration recognised at fair value by the Group in a business combination to which IFRS 3 applies (Such contingent consideration shall subsequently be measured at fair value with changes recognised in the consolidated statement of profit or loss).

Gains or losses on financial liabilities that are measured at fair value and (that are not generally part of a hedging relationship) are recognised in consolidated statement of profit or loss, except for gains and losses on certain financial liabilities designated as at FVTPL when the entity is required to present the effects of changes in the liability's credit risk in the consolidated statement of comprehensive income.

b) Liabilities at fair value through profit or loss

Financial liabilities falling under this category include:

- liabilities held for trading.
- derivative liabilities not designated as hedging instruments.
- 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.



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.15 Financial instruments (Continued)

4.15.2 Measurement (Continued)

4.15.2.3 Subsequent measurement of financial liabilities (Continued)

Gains or losses on a financial liability designated as at FVTPL are generally split and presented as follows:

- 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.
- The remaining amount of change in the fair value of the financial liability is presented in the consolidated statement of profit or loss.

c) Liabilities other than financial liabilities at FVTPL

Financial liabilities are measured at amortised cost using the effective interest rate. The proceeds from issuing debt are adjusted over the life of the debt so that the carrying amount at maturity is the amount repayable at maturity. Financial liabilities that are designated as hedged items are subject to the hedge accounting requirements.

4.15.3 Impairment of financial instruments

With respect to impairment of financial assets, IFRS 9 requires the use of the expected credit loss 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 FVTOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk 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 contract 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 in book value will be recorded in the consolidated statement of profit or loss.

4.15.5 Derecognition of financial liabilities

The financial liabilities are derecognised when and only when the under-lying obligations are extinguished, cancelled or expired.

4.15.6 Offsetting of financial instruments

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:

- The Group currently has a legally enforceable right to set off the recognised amounts of the asset and liability; and
- 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 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 statement purposes is determined on such a basis, except for leasing transactions that are within the scope of IAS 17, 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:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- 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
- Level 3 inputs are unobservable inputs for valuing the asset or liability, either directly or indirectly.

4.18 Segmental Information

The specific operational 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. CRITICAL ACCOUNTING JUDGEMENTS 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 and underlying assumptions 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 Critical judgements in applying accounting policies

The following are the critical judgements, 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.

5.1.2 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. 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 Financial instruments designated at FVTPL

The Group has established a diversified investment portfolio which has been designated at FVTPL. In estimating the fair value of the investments, the Group uses market-observable data to the extent available.

5.2.4 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 24 for details.

5.2.5 Useful lives for property, plant 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. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

5.2 Key sources of estimation uncertainty (Continued)

5.2.6 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 observed default rates and reflects that on future estimates.

The Group recognises an allowance for impairment loss of 100% against all trade receivables that are aged over 360 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, profits and assets relate to its operations in the Kingdom (STC KSA and STC Channels). 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:

	2018	2017 (Restated-note 3)
Revenues (1)		
Saudi Telecom Company	39,356,283	41,445,230
STC Channels	5,371,771	3,055,095
Other operating segments (2)	9,502,560	8,349,196
Eliminations / adjustments	(2,267,371)	(2,188,186)
Total revenues	51,963,243	50,661,335
Cost of operations (excluding depreciation and amortisation)	(32,127,488)	(32,230,589)
Depreciation and amortisation	(7,590,530)	(7,444,735)
Cost of early retirement	(450,000)	(600,000)
Finance income	554,909	584,682
Finance cost	(398,814)	(353,542)
Other income, net	102,943	85,036
(Loss) / profit from investments in associates and joint ventures, net	(10,605)	305,591
Other losses, net	(215,493)	(18,405)
Zakat and income tax	(747,667)	(720,700)
Net profit	11,080,498	10,268,673

- Segment revenue reported above represents revenue generated from external and internal customers. There were SR 2,267 million for the year ended 31 December 2018 (31 December 2017: SR 2,188 million) inter-segment sales and adjustments in the current year eliminated at consolidation.
- Others include: Viva Kuwait, Viva Bahrain, Intigral, STC Specialized and STC Solutions, Sapphire and Aqalat.



6. SEGMENT INFORMATION (CONTINUED)

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

	2018	2017 (Restated-note 3)
Saudi Telecom Company	25,481,775	24,543,045
STC Channels	1,314,707	698,456
Other operating segments	3,795,174	3,730,057
Eliminations / adjustments	(45,341)	(416,149)
Gross profit	30,546,315	28,555,409

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.

The following is an analysis of the assets and liabilities on a segment basis as at 31 December:

	31 December 2018	31 December 2017 (Restated-note 3)	1 January 2017 (Restated-note 3)
Assets			
Saudi Telecom Company	119,460,448	116,900,875	109,887,049
STC Channels	3,333,662	2,595,865	2,192,516
Other operating segments	19,539,165	17,813,702	16,409,513
Eliminations / Adjustments	(30,384,630)	(28,828,369)	(25,830,590)
Total Assets	111,948,645	108,482,073	102,658,488
Liabilities			
Saudi Telecom Company	41,576,064	41,600,776	36,186,344
STC Channels	2,068,819	1,544,043	926,047
Other operating segments	10,512,261	8,946,143	8,804,278
Eliminations / Adjustments	(8,870,097)	(7,410,470)	(5,200,648)
Total Liabilities	45,287,047	44,680,492	40,716,021



6. SEGMENT INFORMATION (CONTINUED)

Following are the additions to non-current assets based on the segments for the year ended 31 December:

Additions to non-current assets	2018	2017 (Restated-note 3)
Saudi Telecom Company	11,373,307	7,446,573
STC Channels	56,427	59,715
Other operating segments	1,118,474	792,756
	12,548,208	8,299,044

Information about major customers

Included in revenues arising from sales are revenues of approximately SR 5,938 million for the year ended 31 December 2018 (31 December 2017: SR 5,355 million) that arose from sales to the Government and Government entities (see note 18.2). No other single customers contributed 10% or more to the Group's revenue.

Information about geographical areas

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

	Revenues for the year ended		Non-current assets as at		
	31 December 2018	31 December 2017 (Restated-note 3)	31 December 2018	31 December 2017 (Restated-note 3)	1 January 2017 (Restated - note 3)
Kingdom of Saudi Arabia	47,323,610	46,035,112	53,862,288	54,452,787	52,663,015
Others	4,639,633	4,626,223	9,478,781	9,593,295	9,161,775
	51,963,243	50,661,335	63,341,069	64,046,082	61,824,790

7. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Telecommunication 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	120,579	64,551	8,206,522	8,414,910
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, PLANT AND EQUIPMENT (CONTINUED)

	Land and buildings	Telecommunication network and equipment	Other assets	Capital work in progress	Total
Cost					
As at 1 January 2017	14,540,020	72,965,751	7,454,850	3,365,652	98,326,273
Additions	4,486	57,223	49,248	6,853,665	6,964,622
Disposals / transfers	137,094	4,571,728	368,818	(6,553,729)	(1,476,089)
Effect of foreign currency exchange differences	229	32,509	573	1,515	34,826
As at 31 December 2017	14,681,829	77,627,211	7,873,489	3,667,103	103,849,632
Accumulated depreciation					
As at 1 January 2017	8,112,372	45,856,742	4,949,580	-	58,918,694
Depreciation for the year	354,885	5,152,444	376,586	-	5,883,915
Disposals / transfers	(86,079)	(735,334)	(113,282)	-	(934,695)
Effect of foreign currency exchange differences	299	41,638	(835)	-	41,102
As at 31 December 2017	8,381,477	50,315,490	5,212,049	-	63,909,016
Net book value as at 31 December 2017	6,300,352	27,311,721	2,661,440	3,667,103	39,940,616
Net book value as at 1 January 2017	6,427,648	27,109,009	2,505,270	3,365,652	39,407,579

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

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

- Land and buildings include land of SR 2,200 million as at 31 December 2018 (31 December 2017: SR 2,177 million and 1 January 2017: SR 2,173 million).
- Pursuant to Royal Decree No. M/35 Dated 24 Dhu al-Hijjah 1418 (corresponding to April 21, 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. Legally transferred lands up to 31 December 2018 are amounted to SR 1,879 million (2017: SR 1,879 million), Ownership transfer of the remaining lands is ongoing with total value of SR 144 million (2017: SR 144 million).
- During the year, the Group disposed of assets with a net book value of SR 414 million (31 December 2017: SR 262 million) resulting in a loss on sale of property, plant and equipment amounting to SR 291 million (31 December 2017: SR 249 million) (see note 38).

Following is the breakdown of depreciation expense if allocated to operating costs items for the year ended 31 December:

	2018	2017
Cost of revenues	4,859,647	4,893,304
Selling and marketing expenses	31,472	37,019
General and administrative expenses	1,013,873	953,592
	5,904,992	5,883,915

- Property, plant and equipment include land and buildings owned by a subsidiary that are pledged against murabaha borrowings amounting to SR 108 million (31 December 2017: SR 108 million and 1 January 2017: SR 93 million).



8. INTANGIBLE ASSETS AND GOODWILL

	Computer software	Telecommunication Licenses	Others (1)	Total
Cost				
As at 1 January 2018	9,492,799	4,971,203	1,936,258	16,400,260
Additions	1,052,228	2,724,417	356,653	4,133,298
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	2,070,454	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 at 31 December 2018	2,913,403	5,418,474	1,228,242	9,560,119
Cost				
As at 1 January 2017 (Restated - note 3)	8,112,281	4,969,812	2,057,579	15,139,672
Additions	1,252,929	-	81,493	1,334,422
Disposals/Transfers	(4,370)	-	(176,250)	(180,620)
Effect of foreign currency exchange differences	131,959	1,391	(26,564)	106,786
As at 31 December 2017 (Restated - note 3)	9,492,799	4,971,203	1,936,258	16,400,260
Accumulated amortisation and impairment				
As at 1 January 2017 (Restated - note 3)	5,333,222	1,697,346	849,956	7,880,524
Amortisation for the year	1,101,994	201,289	257,537	1,560,820
Disposals/Transfers	(4,370)	-	(176,250)	(180,620)
Effect of foreign currency exchange differences	29,680	397	(65,116)	(35,039)
As at 31 December 2017 (Restated - note 3)	6,460,526	1,899,032	866,127	9,225,685
Net book value at 31 December 2017 (Restated - note 3)	3,032,273	3,072,171	1,070,131	7,174,575
Net book value at 1 January 2017 (Restated - note 3)	2,779,059	3,272,466	1,207,623	7,259,148

(1) Others relate to contractual-based intangible assets, for example under-sea cable network, franchise agreements and goodwill of SR 75.6 million (31 December 2017: 75.6 million and 1 January 2017: SR 75.6 million).



8. INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

The following useful lives are used in the calculation of amortisation:

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

The net book value and expiry dates of the most significant mobile operating licences are as follows at:

Country	End of amortisation period	31 December 2018	31 December 2017	1 January 2017
Kuwait	October 2033	1,933,493	2,063,841	2,194,189
Bahrain	February 2038	730,375	691,127	723,386
Kingdom of Saudi Arabia	May 2026	2,754,606	317,203	354,891
		5,418,474	3,072,171	3,272,466

Following is the breakdown of amortisation expense if allocated to operating costs items for the year ended 31 December:

	2018	2017 (Restated-note 3)
Cost of revenues	550,947	562,800
Selling and distribution expenses	23,282	120,977
General and administration expenses	1,111,309	877,043
	1,685,538	1,560,820

9. INVENTORIES

	31 December 2018	31 December 2017 (Restated - note 3)	1 January 2017 (Restated - note 3)
Goods held for resale	1,128,454	905,593	801,210
Less: Allowance for write-down	(340,998)	(423,312)	(326,694)
	787,456	482,281	474,516

The movement analysis for allowance for write down is as follows for the year ended 31 December:

	2018	2017
Balance at beginning of the year	423,312	326,694
Reversal/write off during the year	(114,177)	(27,869)
Provision for the year	31,863	124,487
Balance at end of the year	340,998	423,312



10. TRADE AND OTHER RECEIVABLES

	31 December 2018	31 December 2017 (Restated-note 3)	1 January 2017 (Restated-note 3)
Trade receivables	15,516,973	21,579,781	16,373,307
Deduct: allowance for impairment loss	(2,546,712)	(2,509,534)	(2,796,832)
	12,970,261	19,070,247	13,576,475
■ Non trade receivables	1,451,917	1,298,284	759,036
	14,422,178	20,368,531	14,335,511

10.1 Trade receivables

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 follows:

	31 December 2018	31 December 2017 (Restated-note 3)	1 January 2017 (Restated-note 3)
Not past due	464,011	2,519,640	2,731,427
Past due:			
1 - 30 days	1,814,988	1,882,199	1,232,103
31 - 90 days	1,443,925	878,334	982,567
91 - 150 days	1,687,290	1,489,091	1,435,565
151 - 270 days	2,761,160	2,028,146	1,873,930
271 - 365 days	731,356	1,023,528	1,655,135
<365 days	6,614,243	11,758,843	6,462,580
Total	15,516,973	21,579,781	16,373,307

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

	2018	2017 (Restated-note 3)
Balance at beginning of the year	2,509,534	2,796,832
Charged during the year (Note 34)	741,583	848,495
Amounts written off during the year	(704,405)	(1,135,793)
Balance at end of the year	2,546,712	2,509,534

10.2 Government and government related entities

Trade receivables balance from Government and Government entities are amounting to SR 12,343 million as at 31 December 2018 (31 December 2017: SR 18,920 million and 1 January 2017: SR 12,596 million) (see Note 2.18). No other clients represent more than 10% of the total balance of trade receivables.



10. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	31 December 2018	31 December 2017 (Restated-note 3)	1 January 2017 (Restated-note 3)
Less than a year	6,936,884	7,187,855	6,798,621
More than one year to two years	5,367,424	6,751,021	4,080,746
More than two years	38,416	4,981,162	1,716,281
	12,342,724	18,920,038	12,595,648

11. 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 2017: 2% to 6%).

12. OTHER ASSETS

	31 December 2018	31 December 2017 (Restated-note 3)	1 January 2017 (Restated-note 3)
Advances	1,425,088	1,251,533	501,563
Prepaid expenses	628,119	175,233	219,717
Deferred expenses	99,355	249,309	445,867
Others	171,937	190,849	27,436
	2,324,499	1,866,924	1,194,583
Current	1,952,878	1,006,073	935,532
Non-current	371,621	860,851	259,051
	2,324,499	1,866,924	1,194,583

13. CONTRACT COSTS

	Costs to obtain the contracts (1)	Costs to fulfil the contracts (2)	Total
As at 31 December 2018	174,357	855,772	1,030,129
As at 31 December 2017 (Restated - note 3)	102,706	988,548	1,091,254
As at 1 January 2017 (Restated - note 3)	85,982	1,045,103	1,131,085

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

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



13. CONTRACT COSTS (CONTINUED)

Following is the allocation of contract costs amortization and impairment losses among operating costs items:

	2018	2017 (Restated-note 3)
Cost of revenues	373,644	388,470
Selling and marketing expenses	42,989	55,436
	416,633	443,906

14. CONTRACT ASSETS

	31 December 2018	31 December 2017 (Restated-note 3)	1 January 2017 (Restated-note 3)
Unbilled revenue	8,709,224	5,524,376	6,145,792
Less: Allowance for impairment losses	(87,719)	(36,323)	(61,170)
	8,621,505	5,488,053	6,084,622
Current	8,117,463	5,211,211	6,019,946
Non-current	504,042	276,842	64,676
	8,621,505	5,488,053	6,084,622

Contract assets are initially recognized for revenue earned from rendering of telecom services, sale of devices, and construction contracts for which no bills were issued. Upon completion of billing cycle, the amounts recognized as contract assets are reclassified to trade receivables.

15. FINANCIAL ASSETS

	31 December 2018	31 December 2017 (Restated-note 3)	1 January 2017 (Restated-note 3)
Financial assets measured at FVTPL (i)	3,115,185	4,148,368	3,986,104
Financial assets at amortised cost			
Sukuk (iv)	1,490,137	1,559,371	1,422,602
Murabahas (i) (ii)	2,250,746	1,186,173	1,309,312
Loans to employees (iii)	524,417	612,918	632,726
Non trade receivables and other loans (v)(vi)	86,174	86,314	68,362
	4,351,474	3,444,776	3,433,002
Financial assets designated at FVTOCI (vii)	1,394,602	535,634	415,005
	8,861,261	8,128,778	7,834,111
Current	5,488,245	335,487	432,501
Non-current	3,373,016	7,793,291	7,401,610
	8,861,261	8,128,778	7,834,111



15. FINANCIAL ASSETS (CONTINUED)

- i) During 2014, The Company established a diversified investment portfolio with high credit rated local and international banks with an amount of SR 4 billion for a period that does not exceed five years and with full principal protection. The portfolio contains a mix of various murabaha's (fixed profit payable at maturity), Sukuk's (paying fixed coupons) and derivative financial instruments. The portfolio provides a minimum guaranteed return and additional upside return based on performance of the derivative financial instruments. During 2018, a portion of this investment amounting to SR 1,061 million was liquidated and reinvested in a one-year Murabaha agreement with an annual profit rate of 1.42%.

- ii) During 2014, The Company has invested SR 1 billion with a local bank in Murabahas agreements for a five-year term with an annual profit margin of 3%.

The investments in Murabaha agreements are not a past due nor impaired with a carrying value of SR 2,128 million as at 31 December 2018 (31 December 2017: 1,083 million and 1 January 2017: SR 1,156 million).

- iii) 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 loans provided to an employee after June 2016 are being funded through a local commercial bank and are secured by a guarantee issued by the Company. The Company bears loans' finance costs in full.

- iv) On 31 December 2007, STC Asia Holdings Limited (a subsidiary), invested Malaysian Ringgit ("MR") 1,508 million in Sukuk for 50 years (callable after 10 years) with an annual profit margin of 10.75% until 28 December 2017 then 9.25% for subsequent periods. The Sukuk investment was financed by a long term loan

with variable commission for ten years denominated in MR, for an equivalent amount. The loan was due on 28 December 2017 and was fully paid. STC Asia Holding Limited acquired a variable commission loan on 28 December 2017 from several banks on a five year repayment period. These Sukuk are not past due or impaired and their carrying amount is SR 1,490 million as at 31 December 2018 (31 December 2017: SR 1,559 million and 1 January 2017: SR 1,423 million).

- v) A subsidiary of STC Channels has placed a term deposit amounting to SR 2 million as at 31 December 2018 (31 December 2017: SR 2 million and 1 January 2017: 2 million) with a local commercial bank in Oman.

- vi) A Group subsidiary, Telecom Commercial Investment Company, has supplier retentions amounting to SR 80 million as at 31 December 2018 (31 December 2017: SR 80 million and 1 January 2017: SR 80 million).

- vii) Financial assets investments designated at fair value through other comprehensive income consist mainly of the Company's investment in units of STC Ventures Fund which 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 owned by the Group were valued at SR 614 million as at 31 December 2018 (31 December 2017: SR 501 million and 1 January 2017: SR 409.4 million).

During 2017, the Company established another ventures' capital investment fund (STV LP) for the purpose of investing in the digital and technical sectors with a total value of US \$ 500 million equivalent to SR 1,875 million, the fund is to be financed in the future by five equal instalments with value of US \$ 100 million equivalent to SR 375 million. During 2018, the first and second instalments were paid in total of US \$ 200 million (equivalent to SR 750 million). Investment units owned by the Company were valued at SR 781 million as at 31 December 2018 (31 December 2017: SR 30 million). The Fund commenced its commercial operations in 2018. The Fund's head office is located in Riyadh and invests internationally in high-growth private technology companies.



16. SUBSIDIARIES

Subsidiaries owned by the Company are as follows:

Name of subsidiary		Country of incorporation	Effective shareholding percentage		
			31 December 2018	31 December 2017	1 January 2017
Arabian Internet and Communications Services Company Limited ("STC Solutions")	1	Kingdom of Saudi Arabia	100%	100%	100%
Telecom Commercial Investment Company Limited ("TCIC")	2	Kingdom of Saudi Arabia	100%	100%	100%
VIVA Bahrain ("Viva Bahrain")	3	Kingdom of Bahrain	100%	100%	100%
Aqalat Company Limited ("Aqalat")	4	Kingdom of Saudi Arabia	100%	100%	100%
STC Specialized	5	Kingdom of Saudi Arabia	100%	100%	100%
Sapphire Company Limited ("Sapphire")	6	Kingdom of Saudi Arabia	100%	100%	100%
STC Turkey Holdings Limited ("STC Turkey")	7	British Virgin Islands	100%	100%	100%
STC Asia Holdings Limited ("STC Asia")	8	British Virgin Islands	100%	100%	100%
STC Gulf Investment Holding S.P.C. ("STC Gulf")	9	Kingdom of Bahrain	100%	100%	100%
STC Channels	10	Kingdom of Saudi Arabia	100%	100%	60%
Kuwait Telecom Company ("Viva Kuwait")	11	Kuwait	51.8%	51.8%	26%
Communication Towers Co. Ltd.	12	Kingdom of Saudi Arabia	100%	-	-

a) Arabian Internet and Communications Services Company Limited ("STCS") was established in the Kingdom of Saudi Arabia 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, STC acquired 100% of share capital of the Arabian Internet and Communications Services Company Limited, amounting to SR 100 million.

During the fourth quarter of 2017, STCS has established as subsidiary company "Saudi Digital Payments Company Limited" in the Kingdom, the main activity is to provide operating system services, e-commerce and e-trading.

b) TCIC was established in the Kingdom of Saudi Arabia in October 2007 with a capital of SR 1 million in purpose of operation and maintenance of telecommunication networks, computer systems' networks and internet

networks, maintenance, operation and installation of telecommunication and information technology systems and programs in the Saudi market.

c) Viva 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. Viva Bahrain operates in the field of 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, Viva Bahrain has fully acquired "MENA Telecom Company Limited" in the Kingdom of Bahrain (as a subsidiary). The main activity is to provide Internet services.

d) Aqalat was established in the Kingdom of Saudi Arabia in March 2013 with a capital of SR 70 million fully



16. SUBSIDIARIES (CONTINUED)

owned by STC to operate in the field of establishing, owning, investing, managing of real estate and contracting, and providing consulting services, and importing and exporting services to the benefit of STC.

e) STC Specialized (Formerly: Public Telecommunications Company "BRAVO") was established in February 2002 in the Kingdom of Saudi Arabia. The Company acquired 100% of SR 200 million share capital in January 2014. This Company 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.

f) Sapphire was established in the Kingdom of Saudi Arabia in June 2014 with a capital of SR 100 million fully owned by STC to operates 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 Board of Directors has decided to wind up Sapphire to integrate its business with STC starting 1 January 2018. The legal procedures for the liquidation of the company is expected to be completed during 2019.

g) 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 entity established to provide services and support required in respect of investment activities of the Group.

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 19.1)

h) 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 company that invests in companies operating primarily in the Malaysia. It holds an investment in STC Malaysia Holdings Limited ("STC Malaysia"), (a wholly owned subsidiary), which was incorporated under the Commercial Companies Law in the British Virgin Islands.

STC Malaysia Holdings Limited in turn holds the Group's 25% stake in Binariang GSM Holdings ("BGSM") (Note 19.2). 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.

i) STC Gulf was incorporated in the Kingdom of Bahrain on 12 March 2008 and has wholly-owned subsidiaries in the Kingdom of Bahrain. The primary objective of this company and its 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. holds 100% (2017: 100%) in Intigral Holding, which was established in the Kingdom of Bahrain in June 2009 with a share capital amounting to BHD 28 million which is equivalent to approximately SR 281 million at the exchange rate as at that date. Intigral 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.

j) STC Channels ("STCC") (Formaly: Advanced sale (Saleco)) was established in the Kingdom of Saudi Arabia 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 working in the same field. STC acquired 60% of STCC SR 100 million share capital in December 2011. On January 2017, the Company acquired the remaining shares in STCC by SR 400 million. Accordingly, STCC became a wholly-owned subsidiary of STC.

k) In December 2007, the Company acquired 26% share capital of Viva Kuwait Company for amount of Kuwaiti Dinar ("KD") 50 million, equivalent to approximately SR 687 million at the exchange rate as at that date. Viva Kuwait 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.

The Group manages Viva Kuwait and treats its investment as a subsidiary due to its control over the Company's majority representation in Viva Kuwait's board of directors.

On November 2015, the Company has submitted a voluntary offer to acquire the issued shares of Viva Kuwait not already owned by the Company, which represented 74% of Viva Kuwait issued shares.



16. SUBSIDIARIES (CONTINUED)

The offer presented by the Company to Viva Kuwait's shareholders amounted to KD 1 per share (equivalent to SR 12.37).

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 Viva Kuwait. Saudi Telecom has thus become owning 51.8% of the total issued shares of Viva Kuwait.

During 2018, Viva Kuwait entered into a binding contract to acquire 100% of the total issued shares of Qualitynet, which operates in Kuwait in the field of providing Internet services.

- l) During the first quarter of 2018, the Company established Communication Towers Co. Ltd., a fully owned limited liability Company, with a share capital of SR 200 million. Communication Towers Company will be responsible for owning, constructing, operating, leasing and commercializing telecom towers. During the first quarter of 2019, Communications Towers Company obtained the necessary operating licenses from the Communications and Information Technology Commission (CITC) and has not yet started commercial operation.

16.1 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		
	2018	2017		For the year ended 31 December 2018	31 December 2018	31 December 2017 (Restated-note 3)
VIVA Kuwait	48.2%	48.2%	300,107	1,143,582	937,768	705,183
STC Channels	-	-	-	-	-	506,765
Individually immaterial subsidiaries			620	4,332	1,412	43,777
			300,727	1,147,914	939,180	1,255,725

16.2 Change in the Group's ownership interest in subsidiaries

In January 2017, the purchase and transfer of the remaining shares in STC Channels representing 40% of STC Channels' outstanding shares for SR 400 million was completed. Accordingly, STC Channels became a 100% owned subsidiary of STC. As a result of this increase, the non-controlling interest decreased by 547 million SR and other reserves increased by SR 67 million.

17. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017	1 January 2017
Short term murabaha (with 3 months maturity or less)	6,316,162	1,043,615	1,713,740
Cash at banks	1,640,738	1,325,836	1,823,630
Cash on hand	5,848	19,638	50,263
Cheques under collection	191,117	177,955	43,569
	8,153,865	2,567,044	3,631,202

The Company invests a part of its surplus cash in murabaha accounts with original maturity of three months or less with several local banks. The average rate of profit during the year of 1% - 3% (2017: 1.6%-3.57%)



18. RELATED PARTY TRANSACTIONS

18.1 Trading transactions and balances with related parties (Associates and Joint Ventures - see Note 19)

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

	2018	2017
Telecommunication services provided		
Associates	492,013	457,382
Joint Ventures	10,995	17,347
	503,008	474,729
	2018	2017
Telecommunication services received		
Associates	17,188	6,067
Joint Ventures	-	18,927
	17,188	24,994

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:

	Amounts due from related parties			Amounts due to related parties		
	31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017
Associates	338,652	325,069	158,902	23,184	29,283	32,702
Joint ventures	5,444	19,100	6,458	112,801	89,415	81,911
	344,096	344,169	165,360	135,985	118,698	114,613

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

Revenues related to transactions with governmental parties for the year ended 31 December 2018 amounted to SR 5,938 million (31 December 2017: SR 5,355 million) and expenses related to transactions with governmental parties for the year ended 31 December 2018 (including government charges) amounted to SR 4,139 million (31 December 2017: SR 3,662 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 percentage of government charges collected by the government for providing telecommunications services commercially has been amended to become a uniform annual fee of 10% of net telecommunications revenues effective 1 January 2018 instead of the previous calculation mechanism which were 15% of net mobile service revenues, 10% of net fixed line revenues and 8% of net revenues from data services. Furthermore, the Company's services licenses have been combined into a unified license.

As at 31 December 2018, accounts receivable from Government entities totalled SR 12,343 million (31 December 2017: SR 18,920 million, 1 January 2017: 12,596 million) and as at 31 December 2018, accounts payable to Government entities totalled SR 3,706 million (31 December 2017: SR 6,872 million, 1 January 2017: 3,784 million) (see note 10.2) which were after the Group's agreement with the government to pay all outstanding receivables as at 31 December 2016 amounting to SR 12,532 million through off setting accounts payables balances and the collection of the balance in cash. The Group will also subscribe to an amount of SR 4 billion in Sukuk that shall be issued by the Ministry of Finance during the first quarter of 2019 (see note 44).



18. RELATED PARTY TRANSACTIONS (CONTINUED)

18.3 Loans to related parties

	31 December 2018	31 December 2017	1 January 2017
Loans to key management personnel	1,507	2,093	9,903

18.4 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 was as follows:

	2018	2017
Short-term benefits and remunerations	107,049	103,948
Provision for leave and end of service benefits	36,550	33,000

19. ASSOCIATES AND JOINT VENTURES

19.1 Associates

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

19.1.1 Details of associates

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

Name of Associates		Country of incorporation	Proportion of ownership interest / voting rights		
			31 December 2018	31 December 2017	1 January 2017
Arab Satellite Communications Organisation ("Arabsat")	1	Kingdom of Saudi Arabia	36.66%	36.66%	36.66%
Virgin Mobile Saudi Consortium ("VMSC")	2	Kingdom of Saudi Arabia	10%	10%	10%
Careem Company	3	Virgin Islands, Britain	8.87%	9.68%	-
Oger Telecom Limited ("OTL")	4	United Arab Emirates	35%	35%	35%

- 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 US\$ 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. Although the Group holds less than 20% of ownership interest and voting control in VMSC, the Group has the ability to exercise significant influence through its membership in VMSC board of directors by virtue of the partners' agreement and the amended article of association of VMSC.



19. ASSOCIATES AND JOINT VENTURES (CONTINUED)

19.1 Associates (continued)

19.1.1 Details of associates (continued)

- 3) Careem was founded in July 2012 and it is offering innovative, fast and convenient transportation services through its website and smart phone applications. In January 2017, the Company completed the purchase of 10% of Careem shares for USD 100 million (equivalent to SR 375 million). During the year 2018, the Company's share decreased to 8.87% (2017: 9.68%) as a result of Careem Company capital increase through the entrance of new shareholders. Although the Group holds less than 20% of ownership interest and voting control in Careem, the Group has the ability to exercise significant influence without control through its membership in Careem board of directors and the 8.9% ownership in Careem by the venture funds established by the Group.
- 4) Oger Telecom Limited ("OTL") is a holding company registered in Dubai, the United Arab Emirates. In April 2008, STC through one of its subsidiaries (STC Turkey Holding) acquired 35% of OTL's share capital amounting to US\$ 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 is currently facing financial difficulties to settle its current 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 its investments in Turkey and South Africa in order to meet the financial obligations of the lenders. In addition, OTL is expected to commence its liquidation process in the foreseeable future.

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

Arabsat	31 December 2018	31 December 2017 (Restated)	1 January 2017 (Restated)
Statement of financial position			
Current assets	1,110,572	917,399	962,214
Non-current assets	6,096,520	6,696,704	6,935,088
Current liabilities	(490,799)	(849,855)	(1,221,185)
Non-current liabilities	(1,633,181)	(1,782,393)	(1,840,899)
For the year ended in 31 December			
		2018	2017
Statement of income and other comprehensive income			
Revenue		997,308	855,437
Profit for the year		316,028	500,361
Other comprehensive (loss)/income for the year		(55,358)	147,038
Total comprehensive income for the year		260,670	647,399



19. ASSOCIATES AND JOINT VENTURES (CONTINUED)

19.1 Associates (continued)

19.1.2 Details of material associates

Reconciliation of the above-summarised financial information to the carrying amount of the Group's interest in Arabsat:

	31 December 2018	31 December 2017 (Restated)	1 January 2017 (Restated)
Net assets of the associate	5,083,112	4,981,855	4,835,218
Proportion of the Group's ownership interest in Arabsat	36.66%	36.66%	36.66%
Carrying amount of the Group's interest in Arabsat	1,863,469	1,826,348	1,772,591

Aggregate information of associates that are not individually material for the year ended 31 December:

	2018	2017
The Group's share of loss from continued operations	61,988	43,484
Aggregate carrying amount of the Group's interests in these associates	269,809	331,798
Total carrying amount of the Group's interest in associates	2,133,278	2,158,146

19.2 Joint ventures

19.2.1 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 2018	31 December 2017	1 January 2017
Arab Submarine Cables Company Limited	1	Kingdom of Saudi Arabia	50%	50%	50%
Contact Centres Company ("CCC")	2	Kingdom of Saudi Arabia	49%	49%	49%
Binariang GSM Holding ("BGSM")	3	Malaysia	25%	25%	25%

- 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 of Saudi Arabia and the Republic of Sudan for the telecommunications between them and any other country.

The operations of the Company started in June 2003 and STC 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.

- 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 of Saudi Arabia, 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%.
- 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.



19. ASSOCIATES AND JOINT VENTURES (CONTINUED)

19.2 Joint ventures (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 (on 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.

During the second quarter of 2017, a subsidiary of Binariang group GSM (joint venture) issued an additional share capital for its non-controlling interests. STC Group share of the gain from this increase was SR 141 million recognized in other reserves.

19.2.2 Details of joint ventures (continued)

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

Binariang group Holding GSM	31 December 2018	31 December 2017 (Restated)	1 January 2017 (Restated)
Statement of financial position			
Current assets	3,273,483	18,324,419	20,081,520
Non-current assets	25,851,745	25,936,669	23,710,427
Current liabilities	(4,547,699)	(21,756,437)	(21,832,724)
Non-current liabilities	(12,946,453)	(12,762,038)	(13,883,338)

The above amounts of assets and liabilities include the following:

	31 December 2018	31 December 2017	1 January 2017
Cash and cash equivalents	1,374,852	1,399,929	1,024,317
Current financial liabilities (excluding trade and other payables and provisions)	(1,164,892)	(591,156)	(1,171,373)
Non-current financial liabilities (excluding trade and other payables and provisions)	(12,339,736)	(12,031,079)	(13,006,198)



19. ASSOCIATES AND JOINT VENTURES (CONTINUED)

19.2 Joint ventures (continued)

19.2.2 Details of material joint ventures (continued)

Statement of income and other comprehensive income	For the year ended 31 December	
	2018	2017 (Restated)
Revenue	8,087,147	8,717,567
Profit from continuing operations	1,192,434	1,270,735
Profit (Loss) from discontinued operations	600,723	(2,717,893)
Profit (Loss) for the year	1,793,157	(1,447,158)
Other comprehensive income for the year	167,949	271,614
Total comprehensive income/(loss) for the year	1,961,106	(1,175,544)
Depreciation and amortisation	(1,032,504)	(1,050,312)
Finance income	48,264	92,238
Finance cost	(884,317)	(1,094,206)
Income tax expense	(556,003)	(638,438)

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

	31 December 2018	31 December 2017 (Restated)	1 January 2017 (Restated)
Net assets of BGSM (excluding non-controlling interest share and share of other shareholders in Aircel)	(5,192)	(224,098)	(460,436)
Proportion of the Group's ownership interest in the joint venture	(1,298)	(56,024)	(115,109)
Goodwill and fair value adjustments	1,352,070	1,352,070	1,352,070
Impairment loss provision	(168,000)	-	-
Others: the carve-out of Aircel Group	3,208,024	3,392,741	3,189,353
Carrying amount of the Group's interest in the joint venture	4,390,796	4,688,787	4,426,314



19. ASSOCIATES AND JOINT VENTURES (CONTINUED)

19.2 Joint ventures (continued)

19.2.2 Details of material joint ventures (continued)

Aggregate information of joint ventures that are not individually material for the year ended 31 December:

	2018	2017
The Group's share of profit from operations	8,806	18,203
The Group's share of other comprehensive income	-	-
The Group's share of total comprehensive income	8,806	18,203
Aggregate carrying amount of the Group's interests in these joint ventures	57,659	61,720
Total carrying amount of the Group's share in the joint ventures	4,448,455	4,750,507

20. ISSUED CAPITAL

	31 December 2018	31 December 2017	1 January 2017
Issued and fully paid capital comprises:			
2 billion fully paid ordinary shares	20,000,000	20,000,000	20,000,000

21. 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 approved to cease the transfer to statutory. Although the recent change in the companies law, appropriations can ceased when the reserve reaches 30% as minimum instead of 50% of the share, the Company maintained the accumulated reserve at 50%. This reserve is not available for distribution to the Company's shareholders.



22. OTHER RESERVES

	Foreign currency translation	Cash flow hedge	Investments at FVTOCI reserve	Other Reserves	Total
As at 1 January 2018	(41,582)	(140,865)	312,431	(1,905,374)	(1,775,390)
Fair value of investments at FVTOCI	-	-	113,543	-	113,543
Re-measure the end of service benefit obligation	-	-	-	13,414	13,414
Exchange difference on translation of foreign operations	(8,128)	-	-	-	(8,128)
Company's Share of other comprehensive income of joint ventures and associates	-	-	-	(247,317)	(247,317)
As at 31 December 2018	(49,710)	(140,865)	425,974	(2,139,277)	(1,903,878)
As at 1 January 2017 - (Restated)	(41,732)	(140,865)	221,874	(1,974,750)	(1,935,473)
Acquisition of non-controlling interest in a subsidiary	-	-	-	67,474	67,474
Fair value of investments at FVTOCI	-	-	90,557	-	90,557
Re-measurement of end of service benefit obligation	-	-	-	(117,361)	(117,361)
Exchange difference on translation of foreign operations	150	-	-	-	150
Company's Share of other comprehensive income of joint ventures and associates	-	-	-	(30,603)	(30,603)
Others	-	-	-	149,866	149,866
As at 31 December 2017	(41,582)	(140,865)	312,431	(1,905,374)	(1,775,390)



23. BORROWINGS

Total loans paid during the year ended 31 December 2018 amounted to SR 636 million (31 December 2017: SR 3,299 million). Total loans received during the year ended 31 December 2018 amounted to SR 304 million (31 December 2017: SR 1,924 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 2018	Balance as at 31 December 2017	Balance as at 1 January 2017	Balance as at 31 December 2018	Balance as at 31 December 2017	Balance as at 1 January 2017
Murabaha (1)	1 Apr 2008	1 April 2018	SAR	3 months SAIBOR + 0.25%	-	530,311	1,057,637	-	-	526,427
Sukuk (2)	9 Jan 2014	9 Jun 2024	SAR	3 months SAIBOR + 0.7%	-	-	-	2,000,000	2,000,000	2,000,000
Murabaha	1 May 2009	1 Mar 2021	BHD	1 month BIBOR + 0.25%	26,891	5,379	5,370	53,781	80,672	86,716
Murabaha (3)	1 Jul 2017	1 May 2022	BHD	1 month BIBOR + 1.6%	58,280	-	-	521,281	527,393	-
Murabaha	1 Dec 2009	1 Dec 2017	BHD	1 month BIBOR + 0.25%	-	-	144,550	-	-	-
Murabaha	1 Dec 2009	1 Dec 2017	BHD	1 month BIBOR + 0.75%	-	-	223,395	-	-	-
Murabaha	Dec 2018	Nov 2025	BHD	2.1%	2,863	-	-	21,786	-	-
Murabaha	Dec 2018	Jan 2019	SAR	LIBOR + 0.55%	232,499	-	-	-	-	-
Tawaruq	Jan 2011	Dec 2017	KWD	3.25%	-	155	184,271	-	-	-
Murabaha	Jun 2013	Jun 2018	KWD	3.10%	-	60,307	108,767	-	-	78,038
Murabaha	Jun 2013	Jun 2018	KWD	3.5%	-	51,611	143,230	-	-	64,905
Murabaha (4)	Dec 2017	Dec 2022	MYR	6 months KLIBOR + 0.65%	-	-	-	1,368,631	1,397,915	-
Murabaha	Dec 2007	Dec 2017	MYR	6 months KLIBOR + 0.45%	-	-	-	-	-	1,261,145
Total					320,533	647,763	1,867,220	3,965,479	4,005,980	4,017,231

- 1) The Company has obtained financing facilities on Murabaha basis with a term of 10 years. Average finance cost of 2.14% (2017: 2.38%) was paid by the Company during the year 2018. The Murabahas were repayable in quarterly instalments with the final instalment paid in April 2018.
- 2) The Company has issued Sukuk Program up to a maximum of SR 5 billion. Sukuk certificates have a face value of SR 1 million each and were issued at face value with a term of 10 years.
- 3) VIVA Bahrain has murabaha facilities secured by a land and a building. A substantial portion of these Murabaha facilities has been hedged for profit rate risk. Subject to certain exceptions, materiality tests and carve-outs, the significant covenants of these facilities are: restriction of financial indebtedness, limitation on disposal of assets and limitations on granting of loans and guarantees. Additional undertakings under these loans relate to certain specific financial ratios and satisfaction of financial position tests. The carrying values of the Murabaha facilities are not materially different from their fair values as the impact of discounting, credit risk and other market risk is not considered significant.
- 4) This facility is secured by a letter of guarantee provided by the Company.



24. PROVISIONS

	31 December 2018	31 December 2017	1 January 2017
Legal and regulatory provisions (i)	7,336,057	8,392,198	6,417,649
Decommissioning provisions (ii)	382,510	442,933	389,880
Other provisions	2,794	1,301	1,021
	7,721,361	8,836,432	6,808,550
Current	6,829,451	7,633,280	5,686,284
Non-current	891,910	1,203,152	1,122,266
	7,721,361	8,836,432	6,808,550

	Legal and regulatory provision (i)	Decommissioning and other provisions (ii)
Balance as at 1 January 2017	6,417,649	423,813
Additions	2,460,427	28,573
Reductions / adjustment resulting from re-measurement and others	7,412	(30,874)
Payment / settlements	(493,290)	22,722
Balance as at 31 December 2017	8,392,198	444,234
Balance as at 1 January 2018	8,392,198	444,234
Additions	1,298,823	7,079
Reductions / adjustment resulting from re-measurement and others	(1,945)	(66,009)
Payment / settlements	(2,353,019)	-
Balance as at 31 December 2018	7,336,057	385,304

- i) 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 short term in nature.
- ii) 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.



25. DEFERRED INCOME

	31 December 2018	31 December 2017 (Restated - note 3)	1 January 2017 (Restated - note 3)
Government grants (i)	2,138,098	984,082	661,888
Others	47,333	102,624	89,905
	2,185,431	1,086,706	751,793
Current	41,141	96,431	81,654
Non-current	2,144,290	990,275	670,139
	2,185,431	1,086,706	751,793

- i) 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).

26. RETIREMENT BENEFIT PLANS

26.1 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 2018 is SR 401 million (31 December 2017: SR 411 million).

26.2 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 year, 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 risk	A decrease in the discount rate will increase the plan liability.
Salary 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 salary of the plan participants will increase the plan's liability.

The most recent actuarial valuation of the present value of the end of service benefit obligation was carried out as at 31 December 2018. During the financial year, there were no material fluctuations or events affecting the actuarial assumptions used as at 31 December 2017.

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 2018, used in determining the end of service benefit obligation represent the discount rates of (4.25% - 5%) and the expected increase in salary (3.2% - 5%) (2017: between 4% - 5% and the expected increase 2%-5%).

The net expenses recognized in the consolidated statement of profit or loss are as follows:

	2018	2017
Cost of services	354,101	348,874
Interest cost	176,477	176,629
	530,578	525,503



26. RETIREMENT BENEFIT PLANS (CONTINUED)

26.2 End of service benefit provision (Continued)

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

	2018	2017
Balance at beginning of the year	3,922,065	3,776,269
Expenses recognized in the consolidated statement of profit or loss	530,578	525,503
Actuarial losses recognised in the consolidated statement of comprehensive income	(13,414)	117,361
paid during the year	(521,861)	(499,614)
Exchange differences on foreign plans	1,994	2,546
Balance at end of the year	3,919,362	3,922,065

The sensitivity analysis below has been determined based on reasonably possible changes of the respective assumptions occurring at the end of the financial year, while holding all other assumptions constant.

- If the discount rate is increases (decreases) by 50 basis points, the end of service benefit provision would (decrease) increase by SR 176 million (31 December 2017: (decrease) increase by SR 180 million).
- If the expected salary growth increases (decreases) by 0.5%, the end of service benefit provision would increase (decrease) by SR 191 million (31 December 2017: increase (decrease) by SR 190 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.

27. CONTRACT LIABILITIES

	31 December 2018	31 December 2017 (Restated-note 3)	1 January 2017 (Restated-note 3)
Deferred revenue from services	3,192,688	3,894,060	3,599,678
Customer loyalty programme	118,167	140,800	137,849
	3,310,855	4,034,860	3,737,527
Current	2,538,940	3,261,695	2,961,889
Non-current	771,915	773,165	775,638
	3,310,855	4,034,860	3,737,527



28. OTHER FINANCIAL LIABILITIES

	31 December 2018	31 December 2017 (Restated-note 3)	1 January 2017 (Restated-note 3)
Financial liabilities related to telecom licenses	1,528,923	56,604	198,985
Dividends due	81,927	48,570	37,662
Derivative liabilities	6,140	9,221	16,454
	1,616,990	114,395	253,101
Current	90,731	54,640	44,138
Non-current	1,526,259	59,755	208,963
	1,616,990	114,395	253,101

29. OTHER LIABILITIES

	31 December 2018	31 December 2017 (Restated-note 3)	1 January 2017 (Restated-note 3)
Government charges	3,699,077	6,871,643	3,784,284
Statutory dues and Other	411,226	496,840	432,698
	4,110,303	7,368,483	4,216,982
Current	4,077,577	7,281,256	4,126,095
Non-current	32,726	87,227	90,887
	4,110,303	7,368,483	4,216,982

30. TRADE AND OTHER PAYABLES

	31 December 2018	31 December 2017 (Restated-note 3)	1 January 2017 (Restated-note 3)
Accrued expenses	10,901,180	8,558,799	9,448,353
Trade payables	3,050,348	1,841,443	1,247,279
Employee accruals	1,424,912	1,532,933	1,504,891
Other trade payables	1,031,981	707,093	1,164,380
Capital supplier dues and retentions	234,630	346,165	418,279
Customer refundable deposits	27,907	169,494	125,206
	16,670,958	13,155,927	13,908,388

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



31. ZAKAT AND TAX LIABILITIES

	31 December 2018	31 December 2017	1 January 2017
Zakat (a)	1,443,224	1,488,001	1,361,590
Income taxes (b)	22,551	19,880	17,370
	1,465,775	1,507,881	1,378,960

a) Zakat

The Group calculates and records the zakat provision based on the zakat base in its consolidated statements in accordance with the zakat rules and principles in the Kingdom of Saudi Arabia:

	31 December 2018	31 December 2017
Share capital - beginning of the year	20,000,000	20,000,000
Additions:		
Retained earnings, reserves and provisions - beginning of the year	60,377,908	54,087,010
Borrowings and payables	4,589,524	4,911,130
Adjusted net income	10,097,775	13,412,664
Adjusted total shareholders' equity	95,065,207	92,410,804
Deductions:		
Net property (adjusted) and investments	58,050,032	56,061,670
Dividends paid	8,000,000	8,000,000
Deferred expenses and other balances	326,064	558,782
Total adjusted deductions	66,376,096	64,620,452
Zakat base	28,689,111	27,790,352
Zakat on wholly owned companies	717,228	694,758
Add: Zakat on partially owned companies	6,718	6,011
Total zakat provision for the year	723,946	700,769



31. ZAKAT AND TAX LIABILITIES (CONTINUED)

Zakat provision

	31 December 2018	31 December 2017
Balance at beginning of the year	1,488,001	1,361,590
Charge for the year	723,946	700,769
Adjustment during the year	(99,535)	55,875
Amounts paid during the year	(669,188)	(630,233)
Balance at end of the year	1,443,224	1,488,001

The Company submitted its zakat returns since its inception through 2017. Effective from the year 2009, the Company started the submission of consolidated zakat return for the Company and its wholly owned subsidiaries (whether directly or indirectly) in accordance with the Ministerial Decree No.1005 dated 28/4/1428H.

The Company received Zakat assessments from inception until 2011. The Company has submitted objections for the years 2008 to 2011. The total Zakat differences for these objections amounted to SR 625 million. The Company has reached a partial settlement for the years 2010-2011 and GAZT is in the process of issuing an amended zakat assessment for those years. The objections related to the years 2008-2009 remain before the Appeals Committee until the date of preparation of these consolidated financial statements. The majority of the zakat differences subject for objections are for the years 2008-2009 in relation to the comparison between the Zakat base and the adjusted profit whichever is higher. On 28/2/1438H, the Appeals Committee passed its decision No. (1642)/1438H; upholding the Company's appeal for the year 2007 which cancels the process of GAZT comparison between the Zakat base and the adjusted profit whichever is higher, reinforcing the position of the Company in the objections for subsequent years pending before the Appeals Committee. Accordingly, The Company believes that the results of these objections will be in its favour and will not result in any additional provisions.

Zakat declarations for the years 2012 to 2017 are still pending with the GAZT until the date of preparation of these consolidated financial statements.

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 2018 amounts to SR 23 million (2017: SR 20 million).

32. REVENUES

	For the year ended 31 December	
	2018	2017 (Restated-note 3)
Rendering of services	43,142,069	44,700,972
Sale of goods	8,372,850	5,686,282
Others	448,324	274,081
	51,963,243	50,661,335



33. COST OF REVENUES

	For the year ended 31 December	
	2018	2017 (Restated-note 3)
Network access charges	4,998,609	5,830,410
Government charges (*)	4,482,144	3,973,084
Cost of devices sold	4,386,167	2,337,133
Employees' costs	2,968,010	2,134,816
Repair and maintenance	2,275,012	2,493,319
Cards recharge and printing cost	1,532,359	1,702,615
Amortisation and impairment of contract costs	373,644	388,470
Others	400,983	3,246,079
	21,416,928	22,105,926

"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	
	2018	2017
Commercial service provisioning fees	3,716,740	3,381,036
License fees	398,250	295,573
Frequency spectrum fees	367,154	296,475
	4,482,144	3,973,084



34. SELLING AND MARKETING EXPENSES

	For the year ended 31 December	
	2018	2017 (Restated-note 3)
Employees' costs	2,312,609	2,267,221
Impairment loss on trade receivables (see note 10-1)	741,583	848,495
Advertising and publicity	560,114	666,535
Sales commissions	490,623	438,682
Call centre expenses	268,534	327,281
Impairment on contract assets	206,503	135,562
Repairs and maintenance	195,201	197,266
Sport activities sponsorship cost	142,414	117,480
Postage and courier	57,998	20,780
Printing of telephone cards and office supplies	44,856	79,834
Amortisation and impairment of contract costs	42,989	55,436
Consultancy, legal and professional fees	20,304	32,957
Others	379,484	421,105
	5,463,212	5,608,634

"Others" comprises various items, the main ones are: rent of equipment, property and vehicles, security and safety, telephone and utility expenses.

35. GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended 31 December	
	2018	2017 (Restated-note 3)
Employees' costs	2,620,501	2,291,117
Repair and maintenance	986,591	855,596
Operating lease costs	359,351	279,216
Consultancy, legal and professional fees	247,202	221,527
Utilities expenses	179,683	133,998
Security and safety expenses	140,311	120,091
Others	713,709	614,484
	5,247,348	4,516,029

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



36. FINANCE INCOME

	For the year ended 31 December	
	2018	2017 (Restated-note 3)
Income from murabaha	378,307	421,528
Income from sukuk	173,493	145,545
Others	3,109	17,609
	554,909	584,682

37. FINANCE COST

	For the year ended 31 December	
	2018	2017 (Restated-note 3)
Financing costs relating to Murabaha	63,325	95,941
Financing costs relating to Sukuk	59,104	50,774
Other finance cost	7,885	2,293
Unwinding of discounts on provisions and financial obligations	268,500	204,534
	398,814	353,542

38. OTHER GAINS AND LOSSES, NET

	For the year ended 31 December	
	2018	2017 (Restated-note 3)
Net gain arising on financial assets designated as FVTPL	7,465	216,923
Loss on sale/disposal of property, plant and equipment	(291,431)	(248,965)
Net foreign exchange gain	68,473	9,959
Net gain on derivatives	-	3,678
	(215,493)	(18,405)



39. 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:

	2018	2017 (Restated-note 3)
Profit for the year attributable to owners of the Company	10,779,771	10,015,576
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)	5.39	5.01

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

40. FINANCIAL INSTRUMENTS

40.1 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 requirement. The Group did not introduce any amendments to the capital management objectives and procedures during the year ended 31 December 2018.

The Group's Capital Management Department reviews the capital structure of the company on annual basis to evaluate the cost of capital and the risks associated with capital. The Group has the following target ratios:

- i) Debt to EBITDA level of 2 or below
- ii) Debt to (Debt + Equity) level of 50% or below

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

	2018	2017 (Restated-note 3)
Debt (i)	4,286,012	4,653,743
EBITDA (ii)	19,835,755	18,430,746
Debt to EBITDA	0.22	0.25
Debt	4,286,012	4,653,743
Debt + Equity (iii)	70,947,610	68,455,324
Debt to (Debt + Equity)	6.04%	6.8%

- i) Debt is defined as current and non-current borrowings as described in note 23.
- ii) EBITDA is defined as operating profit for the year adjusted for depreciation and amortization expenses.
- iii) Equity is defined as total equity including issued capital, reserves, non-controlling interest and retained earnings.



40. FINANCIAL INSTRUMENTS (CONTINUED)

40.2 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, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- 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
- Level 3 inputs are unobservable inputs for the asset or liability.

The fair values of the Group's assets and liability are as follows:

	31 December 2018		
	Carrying amount	Fair value	Fair value measurement using
Financial assets (Note 15):			
At fair value through profit or loss	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 loans and receivables	86,174	86,174	Level 2
At fair value through other comprehensive income	1,394,602	1,394,602	Level 3
	8,861,261	8,861,261	
Financial liabilities (Note 28):			
At amortised cost:			
Borrowings:			
Murabahas – unsecured	605,052	605,052	Level 2
Sukuk – unsecured	2,000,000	2,000,000	Level 2
Murabahas – secured	1,680,960	1,680,960	Level 2
Other financial liabilities	1,528,923	1,528,923	Level 2
Dividends payable	81,927	81,927	Level 2
At fair value through profit or loss			
Derivative liabilities	6,140	6,140	Level 2
	5,903,002	5,903,002	



40. FINANCIAL INSTRUMENTS (CONTINUED)

40.2 Fair value of financial instruments (continued)

	31 December 2017		
	Carrying amount	Fair value	Fair value measurement using
Financial assets (Note 15):			
At fair value through profit or loss	4,148,368	4,148,368	Level 2
At amortised cost:			
Sukuk	1,559,371	1,559,371	Level 2
Murabahas	1,186,173	1,186,173	Level 2
Loans to employees	612,918	612,918	Level 2
Others loans and receivables	86,314	86,314	Level 2
At fair value through other comprehensive income	535,634	535,634	Level 3
	8,128,778	8,128,778	
Financial liabilities (Note 28):			
At amortised cost:			
Borrowings:			
Murabahas – unsecured	1,175,156	1,175,156	Level 2
Sukuk – unsecured	2,000,000	2,000,000	Level 2
Murabahas – secured	1,478,587	1,478,587	Level 2
Other financial liabilities	56,604	56,604	Level 2
Dividends payable	48,570	48,570	Level 2
At fair value through profit or loss			
Derivative liabilities	9,221	9,221	Level 2
	4,768,138	4,768,138	



40. FINANCIAL INSTRUMENTS (CONTINUED)

40.2 Fair value of financial instruments (continued)

	1 January 2017		
	Carrying amount	Fair value	Fair value measurement using
Financial assets (Note 15):			
At fair value through profit or loss	3,986,104	3,986,104	Level 2
At amortised cost:			
Sukuk	1,422,602	1,422,602	Level 2
Murabahas	1,309,312	1,309,312	Level 2
Loans to employees	632,726	632,726	Level 2
Others loans and receivables	68,362	68,362	Level 2
At fair value through other comprehensive income	415,005	415,005	Level 3
	7,834,111	7,834,111	
Financial liabilities (Note 28):			
At amortised cost:			
Borrowings:			
Murabahas – unsecured	2,536,589	2,536,589	Level 2
Sukuk – unsecured	2,000,000	2,000,000	Level 2
Murabahas – secured	1,347,862	1,347,862	Level 2
Other financial liabilities	198,985	198,985	Level 2
Dividends payable	37,662	37,662	Level 2
At fair value through profit or loss			
Derivative liabilities	16,454	16,454	Level 2
	6,137,552	6,137,552	



40. FINANCIAL INSTRUMENTS (CONTINUED)

40.3 Profit rate risk

The Group's main profit rate risk arises from borrowings and financial assets with variable profit margin rates. The Group 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.

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 4.5 million. This hypothetical effect on profit of the Group primarily arises from potential effect of variable profit financial liabilities.

40.4 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.

40.5 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 exposure to an investment/issue should not exceed 20% of the total outstanding investment issued by that counter party. The Group's credit risk is monitored on a quarterly basis.

Other than the concentration of credit risk disclosed in note 10, 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 10).

In addition, the Group is exposed to credit risk in relation to financial guarantees given to some subsidiaries. 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.

40.6 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 on a monthly basis 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 tables detail the Group's remaining contractual maturity for financial liabilities with agreed repayment periods. The tables 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.



40. FINANCIAL INSTRUMENTS (CONTINUED)

40.6 Liquidity risk management (Continued)

	Carrying amount	1 year or less	Above 1 – 5 years	Above 5 years
31 December 2018				
Trade and other payables (note 30)	4,082,329	4,082,329	-	-
Borrowings (note 23)	4,286,012	320,533	1,965,479	2,000,000
Dividends payable	81,927	81,927	-	-
Other financial liabilities	1,528,923	-	1,528,923	-
Derivative liabilities	6,140	1,876	4,264	-
	9,985,331	4,486,665	3,498,666	2,000,000
31 December 2017				
Trade and other payables (note 30)	2,548,536	2,548,536	-	-
Borrowings (note 23)	4,653,743	647,763	2,249,509	1,756,471
Dividends payable	48,570	48,570	-	-
Other financial liabilities	56,604	-	56,604	-
Derivative liabilities	9,221	6,265	2,956	-
	7,316,674	3,251,134	2,309,069	1,756,471
1 January 2017				
Trade and other payables (note 30)	2,411,659	2,411,659	-	-
Borrowings (note 23)	5,884,451	1,867,220	1,804,523	2,212,708
Dividends payable	37,662	37,662	-	-
Other financial liabilities	198,985	-	198,985	-
Derivative liabilities	16,454	12,924	3,530	-
	8,549,211	4,329,465	2,007,038	2,212,708

The Group has unused financing facilities amounting to SR 1,072 million. In addition, The Group has secured a 75% LTV (loan to value) readily available borrowing facility against its diversified investment portfolio (see Note 15.1).

The Group expects to meet its obligations from operating cash flows, cash and cash equivalents and proceeds of maturing financial assets.



40. FINANCIAL INSTRUMENTS (CONTINUED)

40.6 Fair value measurement of financial assets and liabilities

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 2018			
Financial assets			
Trade and other receivables	16,981,559	(2,559,381)	14,422,178
Financial liabilities			
Trade payables	19,230,339	(2,559,381)	16,670,958
31 December 2017 (Restated-note 3)			
Financial assets			
Trade and other receivables	22,097,651	(1,729,120)	20,368,531
Financial liabilities			
Trade payables	14,885,047	(1,729,120)	13,155,927
1 January 2017 (Restated-note 3)			
Financial assets			
Trade and other receivables	15,916,179	(1,580,668)	14,335,511
Financial liabilities			
Trade payables	15,489,056	(1,580,668)	13,908,388

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.

40.7 Changes in liabilities arising from financial activities

Changes in liabilities arising from financial activities are as follows:

	1 January 2018	Cash flows	Others	31 December 2018
Borrowings – current portion	647,763	(460,840)	133,610	320,533
Borrowings – non-current portion	4,005,980	-	(40,501)	3,965,479
Total	4,653,743	(460,840)	93,109	4,286,012
1 January 2017				
Borrowings – current portion	1,867,220	(1,852,033)	632,576	647,763
Borrowings – non-current portion	4,017,231	328,467	(339,718)	4,005,980
Total	5,884,451	(1,523,566)	292,858	4,653,743



41. OPERATING LEASE ARRANGEMENTS

41.1 Leasing arrangements

Operating leases mainly relate to leases of land with lease terms of between 5 and 10 years. All operating lease contracts over 5 years contain clauses for 5-yearly market rental reviews. The Group does not have an option to purchase the leased land at the expiry of the lease term.

41.2 Payments recognised as an expense for the year ended 31 December:

	2018	2017
Minimum lease payments	460,313	455,876

41.3 Non-cancellable operating lease

	31 December 2018	31 December 2017	1 January 2017
Less than a year	750,565	574,398	523,303
1 to 5 years	1,388,672	1,146,870	1,087,329
Later than 5 years	362,585	309,493	381,254
	2,501,822	2,030,761	1,991,886

42. CAPITAL COMMITMENTS

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

43. CONTINGENT LIABILITIES

- The Group has outstanding letters of guarantee amounting to SR 6,597 million as at 31 December 2018 (31 December 2017: SR 3,712 million).
- The Group has outstanding letters of credit as at December 31 2018 amounting to SR 655 million (31 December 2017: SR 420 million).
- On 21 March 2016, the Company received a letter from a key customer requesting a refund for paid balances amounted to SR 742 million related to construction of a fibre optic network. Based on the independent legal opinions obtained, the management believes that the customer's claims have no merit and therefore this dispute has no material impact on the financial results of the Group.
- 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.
- 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 this service should not be subject to withholding tax as the Saudi tax regulations do not cover withholding tax on the rental of international operators' networks as well as recognition of source of income is outside Saudi Arabia. Based on the opinions of tax specialists, the nature of the services and existing similar cases where the decision was in the favour of the companies in the telecom sector, the Company's management believes that this assessment will not result into any additional provisions.



43. CONTINGENT LIABILITIES (CONTINUED)

- The agreement signed with government agencies during the fourth quarter of 2018 (see Note 42) includes detailed mechanisms relating to the performance indicators that the Company is required to achieve within three years starting from the current year. The Company has re-evaluated the related provisions in line with the expectations of the target performance indicators which shall be reviewed periodically.

44. SUBSEQUENT EVENTS

- In its meeting held on 4 Jumada Al-Awal 1440H (corresponding to 10 January 2019), the Board of Directors approved to acquire an additional (39%) stake in Virgin Mobile Saudi Arabia for SR 151 million. The legal procedures and regulatory approvals concerning the transaction are expected to be completed during 2019 after which the Company's shareholding in Virgin Mobile Saudi Arabia will increase to (49%).
- During February 2019, the Group has subscribed for government sukuk issuances amounting to SR 1,772 million.

45. DIVIDENDS

Dividends declared and paid

During the year of 2018, the company distributed cash dividends to its shareholders for the fourth quarter of 2017 and for the first, second and third quarters of 2018 with an amount of SR 2,000 million for each quarter representing SR 1 per share which is in line with the company's previous dividends policy for the three-year period starting from the fourth quarter of 2015, approved by the Company's Board of Directors on 28 Muharram 1437H (corresponding to 10 November 2015) and approved by the General Assembly on 4 April 2016. The total dividends distributed during 2018 was SR 4 per share (2017: SR 4 per share).

Dividends proposed

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

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

In line with the above policy, the Company's Board of Directors recommended to distribute cash dividends to the shareholders of the Company for the fourth quarter of 2018, amounting to SR 2,000 million, at a rate of SR 1 per share. Furthermore, after evaluating the financial position, future expectations and capital requirements of the Company, the Board of Directors has recommended to distribute an amount of SR 4,000 million representing 2 SR per share as an additional one-time special dividends for the year 2018.

46. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

At its meeting held on 13 Rajab 1440 H (corresponding to 20 March 2019), the Board of Directors approved the consolidated financial statements for the year 2018.





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