



Saudi Telecom Company
(A Saudi Joint Stock Company)

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS PERIODS ENDED
30 SEPTEMBER 2022
(UNAUDITED)**

**Third Quarter
2022**

Saudi Telecom Company
A Saudi Joint Stock Company
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND NINE MONTHS PERIODS ENDED 30 SEPTEMBER 2022

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

Introduction:

We have reviewed the accompanying interim condensed consolidated statement of financial position of Saudi Telecom Company - a Saudi Joint Stock Company ("the Company") and its subsidiaries (collectively referred to as "the Group") as at 30 September 2022, and the related interim condensed consolidated statements of profit or loss and comprehensive income, for the three and nine months periods ended 30 September 2022, and the related interim condensed consolidated statements of cash flows and changes in equity for the nine months period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review:

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

Conclusion:

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

For Ernst & Young
Professional Services

Saad M. Al-Khathlan
Certified Public Accountant
License No. (509)



Riyadh: 7 Rabi' al Thani 1444H
(1 November 2022)

Saudi Telecom Company
A Saudi Joint Stock Company

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2022

(All amounts in Saudi Riyals thousands unless otherwise stated)

	<i>Note</i>	<i>30 September 2022</i> <i>(Unaudited)</i>	<i>31 December 2021</i> <i>(Audited)</i>
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	5	45,948,410	47,205,038
Investment properties	6	149,897	70,523
Intangible assets and goodwill	7	10,824,121	10,734,798
Right of use assets	8	3,107,429	2,951,652
Investments in associates and joint ventures	22	4,492,020	5,924,858
Contract costs		420,581	521,374
Contract assets		525,842	535,809
Financial assets and others	9	8,739,725	8,367,291
TOTAL NON-CURRENT ASSETS		74,208,025	76,311,343
CURRENT ASSETS			
Inventories		759,087	917,510
Contract assets		6,454,655	5,732,865
Trade and other receivables	11,12	33,567,416	25,464,155
Financial assets and others	9	3,229,593	3,127,894
Short term murabahas		2,334,459	7,944,349
Cash and cash equivalents	21-1	12,473,622	8,281,301
TOTAL CURRENT ASSETS		58,818,832	51,468,074
TOTAL ASSETS		133,026,857	127,779,417
EQUITY AND LIABILITIES			
EQUITY			
Share capital	18	50,000,000	20,000,000
Statutory reserves		10,000,000	10,000,000
Treasury shares	17	(387,241)	(286,563)
Other reserves		2,311,424	1,572,457
Retained earnings	18	11,406,902	37,984,611
Equity attributable to the equity holders of the Parent Company		73,331,085	69,270,505
Non-controlling interests		2,698,050	2,115,474
TOTAL EQUITY		76,029,135	71,385,979
LIABILITIES			
NON-CURRENT LIABILITIES			
Long term borrowings		8,886,633	7,846,606
End of service benefit provision	13	4,742,195	5,466,916
Lease liabilities	14	2,304,985	2,353,593
Contract liabilities		771,915	771,915
Provisions		594,190	550,741
Financial liabilities and others	15	5,548,567	5,843,115
TOTAL NON-CURRENT LIABILITIES		22,848,485	22,832,886
CURRENT LIABILITIES			
Trade and other payables		18,439,047	17,114,298
Contract liabilities		3,876,941	3,591,950
Provisions		2,162,499	3,647,727
Zakat and income tax	16	1,864,259	1,833,840
Short term borrowings		1,324,917	1,456,684
Lease liabilities	14	922,840	869,574
Financial liabilities and others	15	5,558,734	5,046,479
TOTAL CURRENT LIABILITIES		34,149,237	33,560,552
TOTAL LIABILITIES		56,997,722	56,393,438
TOTAL EQUITY AND LIABILITIES		133,026,857	127,779,417





Group Chief Financial Officer
Group Chief Executive Officer
Authorized Board Member

The accompanying notes from 1 to 26 form an integral part of these interim condensed consolidated financial statements.

Saudi Telecom Company
A Saudi Joint Stock Company

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)
FOR THE THREE AND NINE MONTHS PERIODS ENDED 30 SEPTEMBER 2022

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	For the three months period ended 30 September		For the nine months period ended 30 September	
		2022	2021	2022	2021
Revenues	4	16,467,627	15,735,352	50,397,688	47,329,619
Cost of revenues	4	(6,427,518)	(7,366,469)	(22,033,096)	(22,051,437)
GROSS PROFIT		10,040,109	8,368,883	28,364,592	25,278,182
OPERATING EXPENSES					
Selling and marketing		(1,493,569)	(1,465,537)	(4,296,579)	(4,335,625)
General and administration		(1,473,628)	(1,297,788)	(4,491,184)	(3,869,292)
Depreciation and amortization	5,7,8	(2,496,418)	(2,413,847)	(7,456,910)	(7,149,661)
TOTAL OPERATING EXPENSES		(5,463,615)	(5,177,172)	(16,244,673)	(15,354,578)
OPERATING PROFIT		4,576,494	3,191,711	12,119,919	9,923,604
OTHER INCOME AND EXPENSES					
Cost of early retirement program		(81,383)	(110,565)	(284,281)	(272,207)
Finance income		125,874	85,539	349,049	278,207
Finance cost		(184,720)	(152,625)	(510,712)	(444,437)
Net other income (expenses)		22,113	(66,080)	(67,860)	(120,484)
Net share in results and impairment of investments in associates and joint ventures	22	(775,879)	21,100	(1,288,107)	82,264
Net other gains		213,076	194,620	192,235	163,906
TOTAL OTHER EXPENSES		(680,919)	(28,011)	(1,609,676)	(312,751)
NET PROFIT BEFORE ZAKAT AND INCOME TAX		3,895,575	3,163,700	10,510,243	9,610,853
Zakat and income tax	16	(285,084)	(195,650)	(862,707)	(770,571)
NET PROFIT		3,610,491	2,968,050	9,647,536	8,840,282
Net profit attributable to:					
Equity holders of the Parent Company		3,540,996	2,924,390	9,413,443	8,697,693
Non-controlling interests		69,495	43,660	234,093	142,589
		3,610,491	2,968,050	9,647,536	8,840,282

Earnings per share attributable to equity holders of the Parent Company (in Saudi Riyals):

- Basic	17	0.71	0.58	1.89	1.74
- Diluted	17	0.70	0.58	1.88	1.74


Group Chief Financial Officer


Group Chief Executive Officer


Authorized Board Member

The accompanying notes from 1 to 26 form an integral part of these interim condensed consolidated financial statements.

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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE THREE AND NINE MONTHS PERIODS ENDED 30 SEPTEMBER 2022**

(All amounts in Saudi Riyals thousands unless otherwise stated)

	<i>Note</i>	For the three months period ended 30 September		For the nine months period ended 30 September	
		2022	2021	2022	2021
NET PROFIT		3,610,491	2,968,050	9,647,536	8,840,282
OTHER COMPREHENSIVE INCOME:					
<i>Item that will not be reclassified subsequently to consolidated statement of profit or loss:</i>					
Remeasurement of end of service benefit provision	13	179,089	82,255	871,428	250,985
<i>Items that may be reclassified subsequently to consolidated statement of profit or loss:</i>					
Foreign currency translation differences		(27,828)	(6,924)	(66,676)	23,061
Net share of other comprehensive loss of associates and joint ventures		(68,518)	(68,103)	(141,204)	(60,992)
<i>Total items that may be reclassified subsequently to consolidated statement of profit or loss</i>		(96,346)	(75,027)	(207,880)	(37,931)
TOTAL OTHER COMPREHENSIVE INCOME		82,743	7,228	663,548	213,054
TOTAL COMPREHENSIVE INCOME		3,693,234	2,975,278	10,311,084	9,053,336
<i>Total comprehensive income attributable to:</i>					
Equity holders of the Parent Company		3,635,201	2,934,581	10,108,905	8,900,254
Non-controlling interests		58,033	40,697	202,179	153,082
		3,693,234	2,975,278	10,311,084	9,053,336



Group Chief Financial Officer



Group Chief Executive Officer



Authorized Board Member

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Saudi Telecom Company
A Saudi Joint Stock Company

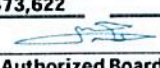
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2022

(All amounts in Saudi Riyals thousands unless otherwise stated)

		<i>For the nine months period ended</i>	
		<i>30 September</i>	
	<i>Note</i>	<i>2022</i>	<i>2021</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit before zakat and income tax		10,510,243	9,610,853
Adjustments for:			
Depreciation and amortization	5,7,8	7,456,910	7,149,661
Impairment loss and amortization of contract costs and contract assets		339,727	398,774
Impairment loss on trade receivables		545,343	619,066
Allowance for slow moving inventories		16,980	52,692
Finance income		(349,049)	(278,207)
Finance costs		510,712	444,437
(Reversal) provision for end of service benefit and other provisions		(647,503)	1,116,373
Net share in results and impairment of investments in associates and joint ventures	22	1,288,107	(82,264)
Share- based payment expenses	23	83,589	19,138
Net other gains		(192,235)	(163,906)
Changes in:			
Trade and other receivables		(8,267,015)	(10,685,939)
Contract costs and contract assets, inventory and others		(257,428)	734,936
Trade and other payables		540,951	(3,063,279)
Contract liabilities and others		(952,911)	(602,873)
Cash generated from operations		10,626,421	5,269,462
Less: Zakat and income tax paid	16	(767,878)	(1,169,474)
Less: Provision for end of service benefit paid		(321,699)	(318,490)
Net cash generated from operating activities		9,536,844	3,781,498
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment	5	(3,689,755)	(3,428,165)
Additions to intangible assets	7	(1,256,977)	(929,096)
Additions to investment properties		(80,222)	-
Proceeds from sale of property and equipment		877	6,307
Acquisition by a subsidiary of a new subsidiary	21-2	(231,027)	-
Proceeds from the initial public offering of a stake in a subsidiary		-	3,560,295
Dividends from associates		38,802	-
Proceeds from finance income		336,948	237,669
Proceeds and payments related to financial assets and others, net		5,260,243	9,812,752
Net cash generated from investing activities		378,889	9,259,762
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to the equity holders of the Parent Company		(5,964,652)	(7,963,320)
Dividends paid to non-controlling interests		(273,133)	(184,172)
Purchase of treasury shares		(136,403)	-
Repayment of lease liabilities		(790,186)	(733,676)
Repayment of borrowings		(97,802)	(653,504)
Proceeds from borrowings		1,088,605	948,549
Transactions with non-controlling interests		648,300	750,000
Finance costs paid		(182,971)	(167,992)
Net cash used in financing activities		(5,708,242)	(8,004,115)
NET INCREASE IN CASH AND CASH EQUIVALENTS		4,207,491	5,037,145
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		8,281,301	9,004,286
Net foreign exchange difference		(15,170)	7,444
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	21-1	12,473,622	14,048,875


Group Chief Financial Officer


Group Chief Executive Officer


Authorized Board Member

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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2022**

(All amounts in Saudi Riyals thousands unless otherwise stated)

Note	<u>Total equity attributable to the equity holders of the Parent Company</u>						<u>Non-controlling interests</u>		<u>Total equity</u>
	<u>Share capital</u>	<u>Statutory reserves</u>	<u>Treasury shares</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Total</u>			
Balance as at 1 January 2021	20,000,000	10,000,000	(300,000)	(3,262,245)	37,508,027	63,945,782	1,321,233	65,267,015	
Net profit	-	-	-	-	8,697,693	8,697,693	142,589	8,840,282	
Other comprehensive income	-	-	-	202,561	-	202,561	10,493	213,054	
Total comprehensive income	-	-	-	202,561	8,697,693	8,900,254	153,082	9,053,336	
Dividends to the equity holders of the Parent Company	-	-	-	-	(7,988,333)	(7,988,333)	-	(7,988,333)	
Dividends to non-controlling interests	-	-	-	-	-	-	(181,425)	(181,425)	
Share-based payment transactions	23	-	13,437	6,398	-	19,835	-	19,835	
Transactions with non-controlling interests	-	-	-	3,631,042	-	3,631,042	679,254	4,310,296	
Net share of other reserves of a joint venture	-	-	-	(5,148)	-	(5,148)	-	(5,148)	
Balance as at 30 September 2021	20,000,000	10,000,000	(286,563)	572,608	38,217,387	68,503,432	1,972,144	70,475,576	
Balance as at 1 January 2022	20,000,000	10,000,000	(286,563)	1,572,457	37,984,611	69,270,505	2,115,474	71,385,979	
Net profit	-	-	-	-	9,413,443	9,413,443	234,093	9,647,536	
Other comprehensive income (loss)	-	-	-	695,462	-	695,462	(31,914)	663,548	
Total comprehensive income	-	-	-	695,462	9,413,443	10,108,905	202,179	10,311,084	
Dividends to the equity holders of the Parent Company	24	-	-	-	(5,991,152)	(5,991,152)	-	(5,991,152)	
Dividends to non-controlling interests	-	-	-	-	-	-	(273,087)	(273,087)	
Share-based payment transactions	23	-	(100,678)	41,809	-	(58,869)	5,184	(53,685)	
Bonus shares issued	18	30,000,000	-	-	(30,000,000)	-	-	-	
Transactions with non-controlling interests	21	-	-	-	-	-	648,300	648,300	
Net share of other reserves of a joint venture	-	-	-	1,696	-	1,696	-	1,696	
Balance as at 30 September 2022	50,000,000	10,000,000	(387,241)	2,311,424	11,406,902	73,331,085	2,698,050	76,029,135	


Group Chief Financial Officer


Group Chief Executive Officer


Authorized Board Member

The accompanying notes from 1 to 26 form an integral part of these interim condensed consolidated financial statements.

Saudi Telecom Company
A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND NINE MONTHS PERIODS ENDED 30 SEPTEMBER 2022

(All amounts in Saudi Riyals thousands unless otherwise stated)

1- GENERAL INFORMATION

A) ESTABLISHMENT OF THE COMPANY

Saudi Telecom Company (the "Company") was established as a Saudi Joint Stock Company pursuant to Royal Decree No. M/35 dated 24 Dhul Hijja 1418H (corresponding to 21 April 1998) that authorised the transfer of the telegraph and telephone division of the Ministry of Post, Telegraph and Telephone ("MoPTT") with its various components and technical and administrative facilities to the Company, and in accordance with the Council of Ministers' Resolution No. 213 dated 23 Dhul Hijja 1418H (corresponding to 20 April 1998) that approved the Company's by-laws ("By-laws"). The Company was wholly owned by the Government of the Kingdom of Saudi Arabia (the "Government"). The Government sold 30% of its shares pursuant to the Council of Ministers Resolution No. 171 dated 2 Rajab 1423H (corresponding to 9 September 2002). The Public Investment Fund ("PIF") is the ultimate controlling party of the Company through its ownership of 64% after the sale of 6% of the Company's shares through a secondary offering during the year 2021.

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 al-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 of telecommunications, information, media services and digital payments, which include, among other things:

- 1) Establish, manage, operate and maintain fixed and mobile telecommunication networks, systems and infrastructure.
- 2) Deliver, provide, maintain and manage diverse telecommunication and information technology (IT) services to customers.
- 3) Prepare the required plans and necessary studies to develop, implement and provide telecommunication 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, cloud services, and internet of things, etc.
- 6) Provide information-based systems and technologies to customers including providing telecommunication means for the transfer of internet services.
- 7) Wholesale and retail trade, import, export, purchase, own, lease, manufacture, promote, sell, develop, design, setup and maintenance of devices, equipment, and components and executing contracting works that are related to different telecom networks including fixed, moving and private networks. In addition, computer programs and other intellectual properties.
- 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, asset 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 banking services.
- 15) Provide cybersecurity services.
- 16) Construction, maintenance and repair of telecommunication and radar stations and towers.

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

Saudi Telecom Company
A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND NINE MONTHS PERIODS ENDED 30 SEPTEMBER 2022 (CONTINUED)

(All amounts in Saudi Riyals thousands unless otherwise stated)

2- BASIS OF PREPARATION

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants ("SOCPA") ("IAS 34").

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements in accordance with International Financial Reporting Standards and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants. Therefore, these interim condensed consolidated financial statements should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2021.

3- THE GROUP'S ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2021.

There are amendments to the standards that could be applicable to the Group and come into effect at 1 January 2022, but they do not have any material impact on the Group interim condensed consolidated financial statements.

Amendments and interpretations
Amendments to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IFRS 3: Reference to Conceptual Framework
Amendments to IAS 16: Property, Plant, and Equipment: Proceeds before Intended Use
Amendments to IFRS 1: First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter
Amendments to IFRS 9: Financial Instruments – Fees in the "10 percent" test for derecognition of financial liabilities
IFRS 17, 'Insurance contracts
Amendments to IAS 12: Deferred tax related to assets & liabilities

4- SEGMENT INFORMATION

The Group is engaged mainly in providing telecommunication services and related products. The majority of the Group's revenues, income and assets relate to its operations within the Kingdom (Saudi Telecom Company, Channels by stc, and Solutions). 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% of total external Group revenue threshold and therefore all other operating segments are combined and disclosed as "Other segments".

Saudi Telecom Company
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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND NINE MONTHS PERIODS ENDED 30 SEPTEMBER 2022 (CONTINUED)

(All amounts in Saudi Riyals thousands unless otherwise stated)

4- SEGMENT INFORMATION (CONTINUED)

The following is an analysis of the Group's revenues and results based on segments for the three and nine months periods ended 30 September:

	For the three months period ended 30 September		For the nine months period ended 30 September	
	2022	2021	2022	2021
Revenues ⁽¹⁾				
Saudi Telecom Company	12,370,962	11,469,191	36,890,768	33,951,070
Channels by stc	2,596,555	4,745,069	8,445,195	15,002,705
Solutions	2,227,188	1,951,461	6,900,136	5,755,454
Other operating segments ⁽²⁾	2,692,052	2,473,087	7,894,126	7,079,958
Eliminations / adjustments	(3,419,130)	(4,903,456)	(9,732,537)	(14,459,568)
Total revenues	16,467,627	15,735,352	50,397,688	47,329,619
Cost of operations (excluding depreciation and amortization) ⁽³⁾	(9,394,715)	(10,129,794)	(30,820,859)	(30,256,354)
Depreciation and amortization	(2,496,418)	(2,413,847)	(7,456,910)	(7,149,661)
Cost of early retirement	(81,383)	(110,565)	(284,281)	(272,207)
Finance income	125,874	85,539	349,049	278,207
Finance cost	(184,720)	(152,625)	(510,712)	(444,437)
Net other income (expenses)	22,113	(66,080)	(67,860)	(120,484)
Net share in results and impairment of investments in associates and joint ventures	(775,879)	21,100	(1,288,107)	82,264
Net other gains	213,076	194,620	192,235	163,906
Zakat and income tax	(285,084)	(195,650)	(862,707)	(770,571)
Net profit	3,610,491	2,968,050	9,647,536	8,840,282
Net profit attributable to:				
Equity holders of the Parent Company	3,540,996	2,924,390	9,413,443	8,697,693
Non-controlling interests	69,495	43,660	234,093	142,589
	3,610,491	2,968,050	9,647,536	8,840,282

Following is the gross profit analysis on a segment basis for the three and nine months periods ended 30 September:

	For the three months period ended 30 September		For the nine months period ended 30 September	
	2022	2021	2022	2021
Saudi Telecom Company	8,555,110	6,586,346	23,516,704	20,093,228
Channels by stc	583,496	345,964	1,731,467	1,122,092
Solutions	536,795	522,794	1,613,996	1,388,093
Other operating segments ⁽²⁾	1,418,848	1,287,074	4,319,427	3,814,225
Eliminations / adjustments	(1,054,140)	(373,295)	(2,817,002)	(1,139,456)
Gross profit	10,040,109	8,368,883	28,364,592	25,278,182

Information about geographical segmentation:

Following is the geographical segmentation of revenues for the three and nine months periods ended 30 September:

	For the three months period ended 30 September		For the nine months period ended 30 September	
	2022	2021	2022	2021
Kingdom of Saudi Arabia	15,178,677	14,487,186	46,583,218	43,702,372
Outside the Kingdom of Saudi Arabia	1,288,950	1,248,166	3,814,470	3,627,247
	16,467,627	15,735,352	50,397,688	47,329,619

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4- SEGMENT INFORMATION (CONTINUED)

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

	<u>30 September 2022</u>	<u>31 December 2021</u>
Assets		
Saudi Telecom Company	135,031,482	133,034,376
Channels by stc	7,859,104	8,146,496
Solutions	8,630,799	7,172,748
Other operating segments ⁽²⁾	36,991,308	34,662,393
Eliminations / adjustments	(55,485,836)	(55,236,596)
Total assets	133,026,857	127,779,417
Liabilities		
Saudi Telecom Company	47,225,538	51,024,262
Channels by stc	6,463,185	6,603,833
Solutions	5,952,868	4,902,180
Other operating segments ⁽²⁾	22,594,843	20,409,577
Eliminations / adjustments	(25,238,712)	(26,546,414)
Total liabilities	56,997,722	56,393,438

- (1) Segment revenue reported above represents revenue generated from external and internal customers. There were SR 3,419 million and SR 9,733 of inter-segment sales and adjustments (between the Group's Companies) for the three and nine months periods ended 30 September 2022 (for the three and nine months periods ended 30 September 2021: SR 4,903 million and SR 14,460 million, respectively) which were eliminated at consolidation.
- (2) Other operating segments include: Telecommunications Towers Company "TAWAL", stc Bank, stc Kuwait, stc Bahrain, Public Telecommunications Company "specialized by stc", Advanced Technology and Cybersecurity Company "sirar by stc", Aqalat, RSS, Gulf Digital Media Model Company, stc Gulf Investment Holding, stc GCC Cable Systems W.L.L., Innovation Fund Investment Company, Digital Centers for Data and Telecommunications, Internet of Things Information Technology Company, and General Cloud Computing Company for Information Technology.
- (3) Cost of revenues for the three and nine months periods ended 30 September 2022 includes a non-recurring item that represents a reversal of a provision amounting to SR 1,079 million. This reversal has been made based on recent developments on this matter.

5- PROPERTY AND EQUIPMENT

During the nine months period ended 30 September 2022, the Group acquired property and equipment with total cost of SR 4,071 million, including non-cash additions with an amount of SR 381 million (30 September 2021: SR 3,573 million, including non-cash additions with an amount of SR 145 million).

During the nine months period ended 30 September 2022, the Group disposed of property and equipment with a net book value of SR 87 million (30 September 2021: SR 62 million) resulting in a loss on sale of property and equipment for the nine months period ended 30 September 2022 with an amount SR 86 million (for the nine months period ended 30 September 2021: SR 56 million).

The following table shows the breakdown of depreciation expense if allocated to operating costs items for the three and nine months periods ended 30 September:

	<u>For the three months</u> <u>period ended 30 September</u>		<u>For the nine months</u> <u>period ended 30 September</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Cost of revenues	1,418,557	1,413,090	4,225,483	4,119,904
Selling and marketing expenses	2,099	3,522	6,073	6,752
General and administration expenses	274,484	286,603	829,431	874,441
	1,695,140	1,703,215	5,060,987	5,001,097

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6- INVESTMENT PROPERTIES

	<i>30 September 2022</i>	<i>31 December 2021</i>
Land	36,980	36,980
Work in-progress (*)	112,917	33,543
	149,897	70,523

(*) During the nine months period ended 30 September 2022, the Group added projects in progress amounting to SR 79 million (30 September 2021: SR 26 million).

The fair value of the land amounted to SR 268 million as at 30 September 2022 (31 December 2021: SR 254 million), which was valued by Esnad Real Estate appraisal Company License No. (784/18/323) appointed as an independent, professionally qualified valuer accredited by the Saudi Authority for Accredited Valuers (Taqeem). The fair value measurement is classified within level 3 based on valuation techniques applied (residual value method).

7- INTANGIBLE ASSETS AND GOODWILL

During the nine months period ended 30 September 2022, the net additions in intangible assets amounted to SR 1,603 million, including non-cash additions with an amount of 346 million (30 September 2021: SR 1,044 million, including non-cash additions with an amount of SR 115 million).

During the second quarter of the year 2022, one of the Group's subsidiaries (stc Kuwait) completed the acquisition of a new subsidiary resulting into the recording of provisional goodwill amounting to KD 11.1 million (equivalent to SR 134.4 million) (note 21-2).

The following table shows the breakdown of amortization expense if allocated to operating costs items for the three and nine months periods ended 30 September:

	For the three months period ended 30 September		For the nine months period ended 30 September	
	<i>2022</i>	<i>2021</i>	<i>2022</i>	<i>2021</i>
Cost of revenues	158,093	122,774	481,922	400,885
Selling and marketing expenses	1,452	906	4,387	2,471
General and administration expenses	407,273	363,500	1,215,668	1,100,401
	566,818	487,180	1,701,977	1,503,757

8- RIGHT OF USE ASSETS

During the nine months period ended 30 September 2022, the net additions in right of use assets amounted to SR 830 million (30 September 2021: SR 802 million) all of which are non-cash additions.

The following table shows the breakdown of depreciation expense if allocated to operating costs items for the three and nine months periods ended 30 September:

	For the three months period ended 30 September		For the nine months period ended 30 September	
	<i>2022</i>	<i>2021</i>	<i>2022</i>	<i>2021</i>
Cost of revenues	186,567	172,591	546,591	497,424
Selling and marketing expenses	2,284	5,195	7,999	11,788
General and administration expenses	45,609	45,666	139,356	135,595
	234,460	223,452	693,946	644,807

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9- FINANCIAL ASSETS AND OTHERS

9-1 Financial assets

	<u>30 September 2022</u>	<u>31 December 2021</u>
Financial assets measured at FVTPL	2,756,614	2,135,246
Financial assets at amortized cost:		
Sukuk	5,171,448	5,315,129
Customers' trust accounts of stc Bank	1,814,276	1,151,208
Loans to employees	352,662	353,076
Others	460,701	567,710
	<u>7,799,087</u>	<u>7,387,123</u>
	<u>10,555,701</u>	<u>9,522,369</u>
Current	1,997,293	1,298,301
Non-current	8,558,408	8,224,068
	<u>10,555,701</u>	<u>9,522,369</u>

9-2 Other assets

	<u>30 September 2022</u>	<u>31 December 2021</u>
Advances	871,581	1,446,265
Prepaid expenses	210,301	237,979
Deferred expenses	187,475	147,935
Others	144,260	140,637
	<u>1,413,617</u>	<u>1,972,816</u>
Current	1,232,300	1,829,593
Non-current	181,317	143,223
	<u>1,413,617</u>	<u>1,972,816</u>

10- FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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

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

The fair values of the financial instruments represented in trade and other receivables, short-term murabahas, cash and cash equivalents, and trade and other payables closely approximate their book value due to the short maturity.

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10- FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets and liabilities measured at fair value:

<i>30 September 2022</i>	<i>Carrying amount</i>	<i>Fair value</i>		
		<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
<u>Financial assets</u>				
<i>At fair value through profit or loss:</i>				
stc Ventures Fund and STV LP Fund	2,756,614	-	-	2,756,614
<i>31 December 2021</i>	<i>Carrying amount</i>	<i>Fair value</i>		
		<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
<u>Financial assets</u>				
<i>At fair value through profit or loss:</i>				
stc Ventures Fund and STV LP Fund	2,135,246	-	-	2,135,246
<u>Financial liabilities</u>				
<i>At fair value through profit or loss:</i>				
Other financial liabilities	675	-	675	-

There were no transfers between levels of the fair value hierarchy during the nine months period ended 30 September 2022.

The fair value of the Group's investment in the units of stc Ventures Fund and STV LP Fund (the "Funds") is obtained from the net asset value ("NAV") reports received from the Funds' managers.

The Funds' managers deploy various techniques (such as discounted cash flow models and multiples method) for the valuation of underlying financial instruments classified under level 3 of the respective Fund's fair value hierarchy. Significant unobservable inputs embedded in the models used by the Funds' managers include risk adjusted discount rates, marketability and liquidity discounts and control premiums.

The following is a reconciliation of the Group's investment in these Funds, which are categorised within Level "3" of the fair value hierarchy:

	<u>30 September 2022</u>	<u>31 December 2021</u>
Net assets value as at beginning of the period	2,135,246	1,119,413
Contributions paid to the funds during the period	345,350	375,020
Distributions received from the funds during the period	(284)	(172,395)
Net unrealised gain recognised in the interim condensed consolidated statement of profit or loss ^(*)	276,302	813,208
Net assets value as at ending of the period	<u>2,756,614</u>	<u>2,135,246</u>

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

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10- FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets and liabilities measured at amortized cost:

The Group believes that the other financial assets and liabilities carried at cost in the interim condensed consolidated financial statements approximate their fair value except for the following:

<i>30 September 2022</i>	<u>Carrying amount</u>	<u>Fair value</u>		
		<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
Financial assets				
Financial assets at amortized cost - Sukuk	<u>3,949,306</u>	<u>-</u>	<u>3,870,812</u>	<u>-</u>
Financial liabilities				
Borrowings - Sukuk	<u>4,674,384</u>	<u>-</u>	<u>4,410,882</u>	<u>-</u>
<i>31 December 2021</i>	<u>Carrying amount</u>	<u>Fair value</u>		
		<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
Financial assets				
Financial assets at amortized cost - Sukuk	<u>3,955,568</u>	<u>-</u>	<u>4,268,749</u>	<u>-</u>
Financial liabilities				
Borrowings - Sukuk	<u>4,673,254</u>	<u>-</u>	<u>5,381,490</u>	<u>-</u>

There were no transfers between levels of the fair value hierarchy during nine months period ended 30 September 2022.

11- TRADE AND OTHER RECEIVABLES

	<u>30 September 2022</u>	<u>31 December 2021</u>
Trade receivables	<u>35,774,535</u>	<u>27,194,290</u>
Less: allowance for impairment loss	<u>(2,739,240)</u>	<u>(2,758,363)</u>
	<u>33,035,295</u>	<u>24,435,927</u>
Non trade receivables	<u>532,121</u>	<u>1,028,228</u>
	<u>33,567,416</u>	<u>25,464,155</u>

12- RELATED PARTY TRANSACTIONS

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

The Group trading transactions with related parties during the three and nine months periods ended 30 September were as the following:

	<u>For the three months period ended 30 September</u>		<u>For the nine months period ended 30 September</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Services provided				
<i>Associates</i>	<u>91,437</u>	<u>69,979</u>	<u>288,502</u>	<u>248,593</u>
<i>Joint ventures</i>	<u>1,187</u>	<u>1,138</u>	<u>4,825</u>	<u>3,287</u>
	<u>92,624</u>	<u>71,117</u>	<u>293,327</u>	<u>251,880</u>
Services received				
<i>Associates</i>	<u>3,594</u>	<u>597</u>	<u>9,222</u>	<u>5,380</u>
<i>Joint ventures</i>	<u>88,233</u>	<u>109,295</u>	<u>323,366</u>	<u>282,975</u>
	<u>91,827</u>	<u>109,892</u>	<u>332,588</u>	<u>288,355</u>

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12- RELATED PARTY TRANSACTIONS (CONTINUED)

12.1 Trading transactions and balances with related parties (Associates and Joint Ventures) (continued)

The following balances are outstanding with related parties:

	<i>Amounts due from related parties</i>		<i>Amounts due to related parties</i>	
	<u>30 September 2022</u>	<u>31 December 2021</u>	<u>30 September 2022</u>	<u>31 December 2021</u>
<i>Associates</i>	330,132	292,223	11,510	72,006
<i>Joint ventures</i>	14,597	27,717	168,683	158,634
	344,729	319,940	180,193	230,640

The sale and purchase transactions are carried out by the relevant parties in accordance with the normal terms of trade. The outstanding balances are unguaranteed, without commission and no guarantees have been provided or received in relation to the balances due or from the related parties.

12-2 Trade transactions and related parties' balances (government and government related entities)

Revenues from transactions with government and government related entities for the three and nine months periods ended 30 September 2022 amounted to SR 4,428 million and SR 11,472 million, respectively (for the three and nine months periods ended 30 September 2021 amounted SR 3,169 million and SR 8,794 million, respectively) and expenses related to transactions with government and government related entities for the three and nine months periods ended 30 September 2022 (including government charges) amounted to SR 1,056 million and SR 4,048 million, respectively (for the three and nine months periods ended 30 September 2021 amounted to SR 1,784 million and SR 4,562 million, respectively).

As at 30 September 2022, accounts receivable from government entities totalled SR 29,882 million (31 December 2021: SR 21,616 million) and as at 30 September 2022, accounts payable due to government entities totalled SR 1,134 million (31 December 2021: SR 1,062 million).

The total balance of accounts receivable with government related entities as at 30 September 2022 was SR 1,265 million (31 December 2021: SR 931 million). Total balance of accounts payable with government related entities as at 30 September 2022 was SR 203 million (31 December 2021: SR 120 million).

Receivable aging from government entities is as follows:

	<u>30 September 2022</u>	<u>31 December 2021</u>
Less than a year	13,323,286	12,675,429
More than one year to two years	10,766,762	7,626,172
More than two years	5,792,122	1,314,687
	29,882,170	21,616,288

Based on the table above, the receivables from government entities were discounted by an amount of SR 189 million to reflect the impact of time value of money as at 30 September 2022 (31 December 2021: nil).

13- END OF SERVICE BENEFIT PROVISION

Calculation of end of service benefit provision was performed using the most recent actuarial valuation as at 30 September 2022. During the period, the actuarial assumptions relating mainly to the discount rate have been updated which ranged from 4.7% - 5% for the nine months period ended 30 September 2022 (for the nine months period ended 30 September 2021: 1.8% - 3%), resulting in recording of net actuarial gain included in the interim condensed consolidated statement of comprehensive income for the three and nine months periods ended 30 September 2022 amounting to SR 179 million and SR 871 million, respectively (for the three and nine months periods ended 30 September 2021 amounted to SR 82 million and SR 251 million, respectively).

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14- LEASE LIABILITIES

	<u>30 September 2022</u>	<u>31 December 2021</u>
Current	922,840	869,574
Non-current	2,304,985	2,353,593
	<u>3,227,825</u>	<u>3,223,167</u>

The interest expense on lease liabilities for the three and nine months periods ended 30 September 2022 amounted to SR 20 million and SR 62 million respectively which was included in finance costs (for the three and nine months periods ended 30 September 2021 amounted to SR 24 million and SR 69 million, respectively).

15- FINANCIAL LIABILITIES AND OTHERS

15-1 Financial liabilities

	<u>30 September 2022</u>	<u>31 December 2021</u>
Dividends payable (note 24)	2,227,263	2,193,995
Financial liabilities related to frequency spectrum licenses	1,733,694	2,017,113
Customers' deposits – stc Bank	1,664,929	1,197,294
Government charges	1,228,870	1,170,805
Other financial liabilities	105,248	85,503
	<u>6,960,004</u>	<u>6,664,710</u>
Current	5,226,310	4,619,656
Non-current	1,733,694	2,045,054
	<u>6,960,004</u>	<u>6,664,710</u>

15-2 Other liabilities

	<u>30 September 2022</u>	<u>31 December 2021</u>
Deferred income	3,805,261	3,793,616
Others	342,036	431,268
	<u>4,147,297</u>	<u>4,224,884</u>
Current	332,424	426,823
Non-current	3,814,873	3,798,061
	<u>4,147,297</u>	<u>4,224,884</u>

16- ZAKAT AND INCOME TAX

The Group submitted all zakat returns until the end of 2021, with payment of zakat due based on those returns, and accordingly the Group received zakat certificates for those years. Effective from year 2009, the Group started the submission of a consolidated zakat return for the Company and its wholly owned subsidiaries whether directly or indirectly in accordance with the executive regulations for collecting zakat.

The Group received from Zakat, Tax, and Customs Authority the final zakat assessments up to 2011 and the years ended 31 December 2014 and 2018. The Group did not receive the zakat assessments from the years 2019 up to 2021.

The Group received a decision from the Tax Committee for Resolution of Tax Violations and Disputes rejecting the objections on zakat assessments for the years from 2015 to 2017 amounting to SR 134 million. The Group submitted its appeal to the Appeal Committee for Tax Violations and Disputes. The Group believes in the merit of its zakat position and therefore it will not result in any material additional provisions.

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17- EARNINGS PER SHARE

The following is the calculation of basic and diluted earnings per share after giving the retrospective effect of the bonus shares issuance (note 18) for the three and nine months periods ended 30 September:

	For the three months		For the nine months	
	period ended 30 September		period ended 30 September	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Net profit attributable to equity holders of the Parent Company	3,540,996	2,924,390	9,413,443	8,697,693
Number of shares "in thousands":				
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	4,993,052	4,992,653	4,993,052	4,992,653
Weighted average number of repurchased ordinary shares	<u>6,948</u>	<u>7,347</u>	<u>6,948</u>	<u>7,347</u>
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	<u>5,000,000</u>	<u>5,000,000</u>	<u>5,000,000</u>	<u>5,000,000</u>
Earnings per share attributable to equity holders of the Parent Company (in Saudi Riyals):				
Basic	<u>0.71</u>	<u>0.58</u>	<u>1.89</u>	<u>1.74</u>
Diluted	<u>0.70</u>	<u>0.58</u>	<u>1.88</u>	<u>1.74</u>

The following is the number of outstanding shares and treasury shares (in thousands) as at:

	<u>30 September 2022</u>	<u>31 December 2021</u>
Outstanding shares as at the beginning of the period	1,997,149	1,997,017
Outstanding shares issued	357	132
Effect of bonus shares issuance	<u>2,996,259</u>	<u>2,995,724</u>
	4,993,765	4,992,873
Treasury shares purchased during the period	(3,394)	-
Outstanding shares as at the end of the period	<u>4,990,371</u>	<u>4,992,873</u>
	<u>30 September 2022</u>	<u>31 December 2021</u>
Treasury shares as at the beginning of the period	2,851	2,983
Treasury shares re-issued	(357)	(132)
Effect of bonus shares issuance	<u>3,741</u>	<u>4,276</u>
	6,235	7,127
Treasury shares purchased during the period	3,394	-
Treasury shares as at the end of the period	<u>9,629</u>	<u>7,127</u>

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18- SHARE CAPITAL

During the second quarter of the year 2022, the Board of Directors recommended on 11 June 2022 (corresponding to 12 Thul-Qi'dah 1443H) to the EGA to increase the Company's share capital from SR 20,000 million to SR 50,000 million via the capitalization of SR 30,000 million of retained earnings. Each shareholder is granted 1.5 shares for each 1 share owned at the eligibility date. The proposed increase in share capital was approved by the EGA on 30 August 2022 (corresponding to 3 Safar 1444H) and bonus shares issuance to shareholders was completed during third quarter of the year 2022. Consequently, the number of ordinary shares issued to the company increased from 2,000 million shares to 5,000 million shares, an increase of 3,000 million shares during the third quarter of 2022. The Company is still in the process of completing the relevant regulatory requirements, including the update of the Commercial Registration for the revised capital amount, and the amendment of the Company's by-laws.

19- CAPITAL COMMITMENTS

1. One of the Group's subsidiaries has an agreement to invest in a fund aiming to improve the telecommunication and information technology sector in the Kingdom of Bahrain and other GCC Countries with an amount of SR 806 million (equivalent to USD 215 million) as at 30 September 2022 (31 December 2021: SR 1,125 million (equivalent to USD 300 million)).
2. The Group has contractual commitments for the acquisition of property and equipment and intangible assets amounting to SR 5,339 million as at 30 September 2022 (31 December 2021: SR 4,193 million).

20- CONTINGENT LIABILITIES

1. The Group has outstanding letters of guarantee on behalf of the parent and its subsidiaries amounting to SR 4,793 million as at 30 September 2022 (31 December 2021 : SR 4,695 million).
2. The Group has outstanding letters of credit as at 30 September 2022 amounting to SR 1,630 million (31 December 2021: SR 1,394 million).
3. On 21 March 2016, the Company received a letter from a key customer requesting a refund for paid balances amounting to SR 742 million related to construction of a fiber optic network. Based on independent legal opinions obtained, the management believes that the customer's claim has no merit and therefore this claim has no material impact on the financial results of the Group.
4. 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 Group's financial position or on the results of its operations as reflected in these interim condensed consolidated financial statements.
5. The Group received the Appeal Committee for Tax Violations and Disputes' decision with respect to the withholding tax assessment on international operators' networks rentals for the years from 2004 to 2015, rejecting its appeal with an amount of SR 1,500 million. The Group submitted a petition for reconsideration, as it believes that Saudi tax regulations do not impose withholding tax on international interconnection services since the source of income does not occur inside the Kingdom, and therefore these services should not be subject to withholding tax. During September 2022, the Group received the minutes of meeting of the Appeal Committee for Tax Violations and Disputes' regarding the petition for reconsideration which included the rejection of the petition by the Group. The Group submitted a petition for reconsideration based on new development on this matter. Based on the opinions of tax specialists, the nature of the technical dispute, and new development on this matter, the Group believes that this assessment will not result into additional provisions.
6. The Group received claims from the Communications and Information Technology Commission related to imposing government fees on devices sold in instalments for the period from 2018 until the end of the first quarter of 2021, totalling SR 782 million. The Group has objected to these claims within the statutory deadline and an Appeal court ruling was issued in favor of the Group in regards to one of the claims amounting to SR 641 million. A preliminary court ruling was issued in favor of the Group in regards to the remaining claims amounting to SR 141 million.

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(All amounts in Saudi Riyals thousands unless otherwise stated)

21- SUBSIDIARIES

1. During the second quarter of the year 2021, the Council of Ministers approved granting Saudi Digital Payments Company a digital banking services license to become a digital bank with a share capital of SR 2.5 billion. Accordingly, WU and the Group deposited an amount of SR 750 million and SR 802 million, respectively in a restricted account by the Saudi Central Bank (SAMA) until the final approval is obtained. Therefore, the cash and cash equivalents balance include an amount of SR 1,552 million, which represents cash balances restricted by the Saudi Central Bank (SAMA) as at 30 September 2022.
2. During the fourth quarter of the year 2021, stc Kuwait has signed a binding agreement to acquire a 100% equity shareholding of E-Portal Holding Company in the State of Kuwait for a consideration of KD 23 million (equivalent to SR 286 million). On 6 April 2022, the sale purchase agreement has been executed.
3. During the first quarter of the year 2022, the Group established a new wholly owned subsidiary, Digital Centers for Data and Telecommunications, a limited liability company with a share capital of SR 100 million. Main activities include providing services related to big data, data analytics and cloud computing.
4. During the first quarter of year 2022, the Company signed a shareholder agreement with PIF to establish Internet of Things Information Technology Company - a limited liability company in the field of Internet of Things ("IoT") with a share capital amounting to SR 492 million with 50% shareholding for each. During the second quarter of year 2022, the establishment of the new company was completed with its headquarter in the Kingdom of Saudi Arabia.
5. During the first quarter of the year 2022, Tawal has entered into an initial agreement to acquire a 100% equity shareholding of AWAL Telecom Company, registered in the Republic of Pakistan, subject to regulatory approvals. AWAL is licensed by the Pakistan Telecommunication Authority, to build and operate telecommunication infrastructure primarily in the northwest region of the Republic of Pakistan. As at 30 September 2022, the Company is still in the process of obtaining regulatory approval in the Republic of Pakistan.
6. During the first quarter of the year 2022, Solutions has signed a binding agreement for the acquisition of 89.5% ownership of Giza Systems Company, in addition to 34% of Giza Arabia, a subsidiary of Giza Systems Company. The acquisition value amounts to USD 158 million (equivalent to SR 592.5 million). In October 2022, the acquisition has been completed.
7. During the second quarter of the year 2022, the Company signed a shareholder agreement with eWTP Arabia Technology Innovation Limited Company ("eWTPA"), Alibaba (Singapore) Private Limited ("Alibaba Cloud"), Saudi Company for Artificial Intelligence ("SCAI"), and Saudi Information Technology Company ("SITE") to establish General Cloud Computing Company for Information Technology - a limited liability company specialized in cloud computing services with a capital amounting to SR 894 million. The Company's shareholding in the new company is 55%. The new company was established in the same quarter with its headquarter in the Kingdom of Saudi Arabia.

22- INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

During the year 2022, the Group recorded an impairment provision for the three and nine months periods ended 30 September 2022 amounting to SR 722 million and SR 1,259 million (for the three and nine months periods ended 30 September 2021: nil) related to its investment in BGSM (a joint venture) due to decline in fair value as a result of the decline in market conditions and quoted share prices of key underlying investment. The Group determined the recoverable amount of its investment in BGSM based on the value in use method.

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(All amounts in Saudi Riyals thousands unless otherwise stated)

23- EMPLOYEES LONG-TERM INCENTIVES PROGRAM

23-1 Group's long-term incentives program

The Board of Directors approved on 17 March 2020 (corresponding to 22 Rajab 1441H) to repurchase a number of the Company's shares for an amount not to exceed SR 300 million to be allocated for the employees long-term incentives program (the Program). The Board raised its recommendation to the EGA to approve the Program and to repurchase the shares. The EGA has voted on the approval of this Program during its meeting held on 20 April 2020 (corresponding to 27 Shaban 1441 H).

The Board of Directors approved on 28 June 2022 (corresponding to 29 Thul-Qi'dah 1443H) to repurchase a number of the Company's shares for an amount not to exceed SR 453 million to be allocated for the Program and to raise its recommendation to the EGA for voting. Further, the shares shall be repurchased within 12 months from EGA's approval date. The EGA has voted on the approval during its meeting held on 30 August 2022 (corresponding to 3 Safar 1444H).

The shares repurchased or to be repurchased will not have the right to vote in the Company's shareholders General Assembly ("GA"), and will not be entitled to any dividends while the shares still under the Company's possession.

The Program intends to attract, motivate and retain employees responsible for the achievement of the Group's goals and strategy. The Program provides a share-based payment plan for eligible employees participating in the Program by granting them shares in the Company upon completing the duration of service and performance requirements and achieving the targets determined by the Group.

The program is generally equity-settled. However, in certain circumstances, the awards are settled in cash.

23-2 Subsidiary's long-term incentives program

During the fourth quarter of the year 2021, one of the Group's subsidiaries (Solutions) started its own long-term incentive program whereby employees render services as consideration for a fixed number of its own shares.

24- DIVIDENDS

On 27 September 2021 (corresponding to 20 Safar 1443H) the Board of Directors have approved the Company's dividends policy for the next three years starting from the fourth quarter of 2021, which was approved by the GA on 30 November 2021 (corresponding to 25 Rabi al-Thani 1443H). The objective of the dividends policy is based on maintaining a minimum level of dividend of SR 1 per share on a quarterly basis. The Company will consider and pay additional dividend subject to the Board of Directors recommendation to the GA after assessment and determination of the Company's financial situation, outlook and capital expenditure requirements. It is probable that additional dividends are likely to vary on a quarterly basis depending on the Company's performance.

The dividends policy will remain subject to:

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

In line with the same policy, the Company distributed cash dividends to the shareholders of the Company for the fourth quarter of 2021, first quarter of 2022 and second quarter of 2022 at a rate of SR 1 per share, per quarter.

The Board of Directors recommended on 11 June 2022 (corresponding to 12 Thul-Qi'dah 1443H) to the GA to amend the dividends policy to reflect the proposed capital increase (note 18) which is:

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24- DIVIDENDS (CONTINUED)

The objective of the policy is based on maintaining a minimum dividend of SR 0.40 per share on a quarterly basis, for the same period covered by the current policy. The Board's recommendation was approved by the EGA on 30 August 2022 (corresponding to 3 Safar 1444H) The Company will consider and pay additional dividend subject to the Board of Directors recommendation to the GA after assessment and determination of the Company's financial situation, outlook and capital expenditure requirements. It is probable that additional dividends are likely to vary on a quarterly basis depending on the Company's performance.

In line with this policy, the Company will distribute cash dividends to the shareholders of the Company for the third quarter of 2022 at a rate of SR 0.40 per share.

Treasury shares allocated to the employee long-term incentives program are not entitled for any dividends during the period while the shares still under the Company's possession.

25- SUBSEQUENT EVENT

During October 2022, the Company received a non-binding offer from the Public Investment Fund (PIF) (a related party: the ultimate controlling party- note 1-A) to acquire 51% of the shares of Telecommunications Towers Company (Tawal), while stc will maintain 49% of the shares of Tawal. Tawal was valued at SR 21,940 million (100% enterprise value on cash free and debt free basis). The offer does not represent any binding commitment on both parties and it remains subject to completing the due diligence and reaching final and binding agreement which will be conditional upon obtaining all regulatory approvals from relevant authorities including the approval from the General Authority for Competition, internal approvals of the respective parties, and any other conditions that may be agreed between the parties.

26- APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Audit Committee (delegated by the Board of Directors) approved the interim condensed consolidated financial statements for the three and nine months periods ended 30 September 2022 on 2 Rabi' al-Thani 1444H (corresponding to 27 October 2022).