



Saudi Telecom Company
(A Saudi Joint Stock Company)

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED
31 MARCH 2020
(Unaudited)**

**First Quarter
2020**

Saudi Telecom Company
A Saudi Joint Stock Company
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS PERIOD ENDED 31 March 2020

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

Introduction:

We have reviewed the accompanying interim condensed consolidated statement of financial position of Saudi Telecom Company - a Saudi Joint Stock Company ("the Company") and its subsidiaries (collectively referred to as "the Group") as at 31 March 2020, and the related interim condensed consolidated statements of profit or loss and comprehensive income, cash flows and changes in equity for the three months period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review:

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

Conclusion:

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

for Ernst & Young

Rashid S. AlRashoud
Certified Public Accountant
License No. (366)

Riyadh: 3 Ramadan 1441H
(26 April 2020)



Saudi Telecom Company
A Saudi Joint Stock Company

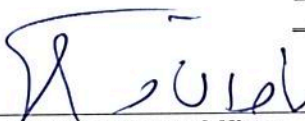
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
AS AT 31 MARCH 2020

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	31 March 2020	31 December 2019
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	5	44,971,171	45,085,342
Intangible assets and goodwill	6	9,834,808	9,906,688
Right of use assets	7	2,989,096	2,887,933
Investments in associates and joint ventures		6,546,025	6,618,526
Contract assets		599,527	648,069
Contract costs		892,348	922,922
Other non-current assets	8	7,540,551	7,415,284
TOTAL NON-CURRENT ASSETS		73,373,526	73,484,764
CURRENT ASSETS			
Inventories		1,174,204	1,721,530
Trade and other receivables	12	23,277,121	21,372,368
Short term murabahas		2,701,015	2,181,416
Contract assets		7,269,829	6,793,755
Other current assets	9	4,180,020	4,473,685
Cash and cash equivalents		8,783,430	8,031,010
		47,385,619	44,573,764
Assets held for sale	10	-	267,728
TOTAL CURRENT ASSETS		47,385,619	44,841,492
TOTAL ASSETS		120,759,145	118,326,256
EQUITY AND LIABILITIES			
EQUITY			
Issued capital		20,000,000	20,000,000
Statutory reserves		10,000,000	10,000,000
Other reserves		(2,550,620)	(2,745,608)
Retained earnings		35,420,947	34,508,202
Equity attributable to the equity holders of the Parent Company		62,870,327	61,762,594
Non-controlling interests		1,146,642	1,292,452
TOTAL EQUITY		64,016,969	63,055,046
LIABILITIES			
NON-CURRENT LIABILITIES			
Long term borrowings	13	8,844,689	8,923,476
End of service benefits provision	14	4,490,703	4,812,805
Lease liabilities	15	1,519,678	1,580,935
Provisions		879,199	891,210
Contract liabilities		771,915	771,915
Other non-current liabilities	16	5,028,753	5,100,617
TOTAL NON-CURRENT LIABILITIES		21,534,937	22,080,958
CURRENT LIABILITIES			
Trade and other payables		16,636,224	18,694,412
Provisions		4,900,508	5,157,110
Contract liabilities		2,653,087	2,465,735
Zakat and income tax	18	1,712,187	1,482,278
Lease liabilities	15	1,496,464	1,300,242
Short term borrowings	13	321,960	389,339
Other current liabilities	17	7,486,809	3,701,136
TOTAL CURRENT LIABILITIES		35,207,239	33,190,252
TOTAL LIABILITIES		56,742,176	55,271,210
TOTAL EQUITY AND LIABILITIES		120,759,145	118,326,256



Chief Financial Officer



Chief Executive Officer



Authorized Board Member

Saudi Telecom Company
A Saudi Joint Stock Company

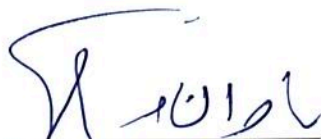
INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

(All amounts in Saudi Riyals thousands unless otherwise stated)

		For the three months period ended	
	Note	31 March	
		2020	2019
Revenues	4	13,934,852	13,385,753
Cost of revenues		(5,738,971)	(5,482,277)
GROSS PROFIT		8,195,881	7,903,476
OPERATING EXPENSES			
Selling and marketing		(1,404,972)	(1,115,657)
General and administration		(1,461,017)	(1,402,316)
Depreciation and amortisation	5,6,7	(2,325,865)	(2,110,299)
TOTAL OPERATING EXPENSES		(5,191,854)	(4,628,272)
OPERATING PROFIT		3,004,027	3,275,204
OTHER INCOME AND EXPENSES			
Cost of early retirement program		(199,017)	(150,000)
Finance income		131,459	181,120
Finance costs		(172,765)	(164,176)
Net other income (expenses)		5,716	(126,314)
Net share in results of investments in associates and joint ventures		(18,719)	(35,538)
Net other gains		430,811	7,427
TOTAL OTHER INCOME (EXPENSES)		177,485	(287,481)
NET PROFIT BEFORE ZAKAT AND INCOME TAX		3,181,512	2,987,723
Zakat and income tax	18	(230,383)	(180,553)
NET PROFIT		2,951,129	2,807,170
<i>Net profit attributable to:</i>			
Equity holders of the Parent Company		2,912,745	2,749,735
Non-controlling interests		38,384	57,435
		2,951,129	2,807,170
 Basic and diluted earnings per share (In Saudi Riyals)		1.46	1.37



Chief Financial Officer



Chief Executive Officer



Authorized Board Member

Saudi Telecom Company
A Saudi Joint Stock Company

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	For the three months period ended 31 March	
		2020	2019
NET PROFIT		<u>2,951,129</u>	<u>2,807,170</u>
OTHER COMPREHENSIVE INCOME (LOSS):			
<i>Items that will not be reclassified subsequently to consolidated statement of profit or loss:</i>			
Re-measurement of end of service benefit provision	14	294,614	(4,461)
Fair value changes on equity instruments measured at fair value through other comprehensive income (FVOCI)		<u>-</u>	<u>(34)</u>
Total items that will not be reclassified subsequently to consolidated statement of profit or loss		<u>294,614</u>	<u>(4,495)</u>
<i>Items that may be reclassified subsequently to consolidated statement of profit or loss:</i>			
Foreign currency translation differences		(80,555)	(8,613)
Fair value changes from cash flow hedges		(4,964)	(906)
Net share of other comprehensive (loss)/income of associates and joint ventures		<u>(62,919)</u>	<u>113,185</u>
Total items that may be reclassified subsequently to consolidated statement of profit or loss		<u>(148,438)</u>	<u>103,666</u>
TOTAL OTHER COMPREHENSIVE INCOME		<u>146,176</u>	<u>99,171</u>
TOTAL COMPREHENSIVE INCOME		<u>3,097,305</u>	<u>2,906,341</u>
<i>Total comprehensive income attributable to:</i>			
Equity holders of the Parent Company		3,098,788	2,850,132
Non-controlling interests		<u>(1,483)</u>	<u>56,209</u>
		<u>3,097,305</u>	<u>2,906,341</u>



Chief Financial Officer



Chief Executive Officer



Authorized Board Member

Saudi Telecom Company
A Saudi Joint Stock Company

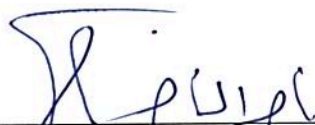
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	For the three months period ended	
		31 March	
		2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit before zakat and income tax		3,181,512	2,987,723
Adjustments for:			
Depreciation and amortisation	5,6,7	2,325,865	2,110,299
Impairment loss and amortisation of contract costs and contract assets		114,097	148,782
Impairment loss on trade receivables		281,639	82,009
Allowance for slow moving inventories		25,057	19,339
Finance income		(131,459)	(181,120)
Finance costs		172,765	164,176
Provision for end of service benefits and other provisions		123,678	249,739
Net share in results of investments in associates and joint ventures		18,719	35,538
Net other gains		(430,811)	(7,427)
Movements in:			
Trade receivables and others		(2,185,586)	(1,047,599)
Inventories		522,269	(61,756)
Contract costs		(62,118)	(54,631)
Contract assets		(448,937)	(339,834)
Other assets		(309,757)	(328,020)
Trade payables and others		(2,499,360)	(3,244,956)
Contract liabilities		187,351	(291,825)
Other liabilities		1,302,073	(2,949,647)
Cash generated from (used in) operations		2,186,997	(2,709,210)
Less: Zakat and income tax paid	18	(196)	-
Less: Provision for end of service benefits paid		(169,124)	(115,192)
Net cash generated from (used in) operating activities		2,017,677	(2,824,402)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment	5	(1,020,178)	(171,798)
Additions to intangible assets	6	(268,617)	(214,097)
Proceeds from sale of property and equipment		12,367	85,550
Proceeds from sale of an associate		451,542	-
Proceeds from finance income		80,747	701,595
Proceeds related to financial assets		4,093,131	5,997,028
Payments related to financial assets		(4,173,939)	(5,208,888)
Net cash (used in) generated from investing activities		(824,947)	1,189,390
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(1,017)	(1,528)
Repayment of lease liabilities		(221,712)	(175,697)
Repayment of borrowings	13	(138,862)	(131,700)
Proceeds from borrowings	13	-	50,000
Finance costs paid		(58,494)	(77,799)
Net cash used in financing activities		(420,085)	(336,724)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		772,645	(1,971,736)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		8,031,010	8,153,865
Net foreign exchange difference		(20,225)	(1,975)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		8,783,430	6,180,154



Chief Financial Officer



Chief Executive Officer



Authorized Board Member

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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020**

(All amounts in Saudi Riyals thousands unless otherwise stated)

	<u>Total equity attributable to the equity holders of the Parent Company</u>						<u>Non-controlling interests</u>		<u>Total equity</u>
	<u>Note</u>	<u>Issued Capital</u>	<u>Statutory reserves</u>	<u>Other Reserves</u>	<u>Retained earnings</u>	<u>Total</u>			
Balance as at 1 January 2019		20,000,000	10,000,000	(1,903,878)	37,417,562	65,513,684	1,147,914		66,661,598
Net profit		-	-	-	2,749,735	2,749,735	57,435		2,807,170
Other comprehensive income		-	-	100,397	-	100,397	(1,226)		99,171
Total comprehensive income		-	-	100,397	2,749,735	2,850,132	56,209		2,906,341
Dividends to non-controlling interests		-	-	-	-	-	(118,812)		(118,812)
Transfers		-	-	(425,974)	425,974	-	-		-
Balance as at 31 March 2019		20,000,000	10,000,000	(2,229,455)	40,593,271	68,363,816	1,085,311		69,449,127
Balance as at 1 January 2020		20,000,000	10,000,000	(2,745,608)	34,508,202	61,762,594	1,292,452		63,055,046
Net profit		-	-	-	2,912,745	2,912,745	38,384		2,951,129
Other comprehensive income		-	-	186,043	-	186,043	(39,867)		146,176
Total comprehensive income		-	-	186,043	2,912,745	3,098,788	(1,483)		3,097,305
Dividends to the equity holders of the Parent Company	24	-	-	-	(2,000,000)	(2,000,000)	-		(2,000,000)
Dividends to non-controlling interests		-	-	-	-	-	(144,327)		(144,327)
Share of changes in other reserves of a joint venture's equity		-	-	8,945	-	8,945	-		8,945
Balance as at 31 March 2020		20,000,000	10,000,000	(2,550,620)	35,420,947	62,870,327	1,146,642		64,016,969

Chief Financial Officer

Chief Executive Officer

Authorized Board Member

Saudi Telecom Company
A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020

(All amounts in Saudi Riyals thousands unless otherwise stated)

1- GENERAL INFORMATION

A) ESTABLISHMENT OF THE COMPANY

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

The Company commenced its operation as the provider of telecommunications services throughout the Kingdom of Saudi Arabia ("the Kingdom") on 6 Muharram 1419H (corresponding to 2 May 1998) and received its Commercial Registration No. 1010150269 as a Saudi Joint Stock Company on 4 Rabi Awal 1419H (corresponding to 29 June 1998). The Company's head office is located in King Abdulaziz Complex, Imam Mohammed Bin Saud Street Al Mursalat Area, Riyadh, Kingdom of Saudi Arabia.

B) GROUP ACTIVITIES

The main activities of the Company and its subsidiaries (the "Group") comprise the provision and introduction of telecommunications, information, media services and digital payments, which include, among other things:

- 1) Establish, manage, operate and maintain fixed and mobile telecommunication networks, systems and infrastructure.
- 2) Deliver, provide, maintain and manage diverse telecommunication and information technology (IT) services to customers.
- 3) Prepare the required plans and necessary studies to develop, implement and provide the telecom and IT services covering all technical, financial and administrative aspects. In addition, prepare and implement training plans in the field of telecommunications and IT, and provide consultancy services.
- 4) Expand and develop telecommunication networks, systems, and infrastructure by utilizing the most current devices and equipment in telecom technology, especially in the fields of providing and managing services, applications and software.
- 5) Provide integrated communication and information technology solutions which include among other things (telecom, IT services, managed services, and cloud services, etc.).
- 6) Provide information-based systems and technologies to customers including providing telecommunication means for the transfer of internet services.
- 7) Wholesale and retail trade, import, export, purchase, own, lease, manufacture, promote, sell, develop, design, setup and maintain of devices, equipment, and components of different telecom networks including fixed, moving and private networks. 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.



Chief Financial Officer



Chief Executive Officer



Authorized Board Member

Saudi Telecom Company
A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020 (CONTINUED)

(All amounts in Saudi Riyals thousands unless otherwise stated)

2- BASIS OF PREPARATION

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

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements in accordance with International Financial Reporting Standards and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2019.

3- THE GROUP'S ACCOUNTING POLICIES

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

Note that there are some other amendments to IFRS and IFRIC that were applied by the Group with effective date on 1 January 2020 and had no material impact on the Group's consolidated financial statements as follows:

Amendments and interpretations
Amendments on some references to the Conceptual Framework for Financial Reporting
Amendments to IFRS 7, IFRS 9 - Interest Rate Benchmark Reform
Amendments to IFRS 3 – Definition of a Business
Amendments to IAS 1 and IAS 8 – Definition of Material

4- SEGMENT INFORMATION

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

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

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

Saudi Telecom Company
A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020 (CONTINUED)

(All amounts in Saudi Riyals thousands unless otherwise stated)

4- SEGMENT INFORMATION (CONTINUED)

The following is an analysis of the Group's revenues and results based on segments for the three months period ended 31 March:

	<i>2020</i>	<i>2019</i>
Revenues ⁽¹⁾		
Saudi Telecom Company	10,333,042	9,512,199
Channels by stc	4,295,210	4,375,815
Other operating segments ⁽²⁾	3,610,188	2,531,062
Eliminations / adjustments	(4,303,588)	(3,033,323)
Total revenues	13,934,852	13,385,753
Cost of operations (excluding depreciation and amortisation)	(8,604,960)	(8,000,250)
Depreciation and amortisation	(2,325,865)	(2,110,299)
Cost of early retirement	(199,017)	(150,000)
Finance income	131,459	181,120
Finance cost	(172,765)	(164,176)
Net other income (expenses)	5,716	(126,314)
Net share in results of investments in associates and joint ventures	(18,719)	(35,538)
Net other gains	430,811	7,427
Zakat and income tax	(230,383)	(180,553)
Net profit	2,951,129	2,807,170
Net profit attributable to:		
Equity holders of the Parent Company	2,912,745	2,749,735
Non-controlling interests	38,384	57,435
	2,951,129	2,807,170

Following is the gross profit analysis on a segment basis for the three months period ended 31 March:

	<i>2020</i>	<i>2019</i>
Saudi Telecom Company	6,508,586	6,762,856
Channels by stc	330,730	352,359
Other operating segments ⁽²⁾	1,475,333	870,435
Eliminations / adjustments	(118,768)	(82,174)
Gross profit	8,195,881	7,903,476

Information about geographical segmentation:

Following is the geographical segmentation of revenues for the three months period ended 31 March:

	<i>2020</i>	<i>2019</i>
Kingdom of Saudi Arabia	12,884,025	12,309,836
Others	1,050,827	1,075,917
	13,934,852	13,385,753

Saudi Telecom Company
A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020 (CONTINUED)

(All amounts in Saudi Riyals thousands unless otherwise stated)

4- SEGMENT INFORMATION (CONTINUED)

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

	<i>31 March 2020</i>	<i>31 December 2019</i>
Assets		
Saudi Telecom Company	127,266,977	125,104,941
Channels by stc	4,336,913	4,560,238
Other operating segments ⁽²⁾	34,997,523	34,355,695
Eliminations / adjustments	(45,842,268)	(45,694,618)
Total assets	120,759,145	118,326,256
Liabilities		
Saudi Telecom Company	50,446,378	49,484,795
Channels by stc	2,834,778	3,122,999
Other operating segments ⁽²⁾	23,357,601	22,438,203
Eliminations / Adjustments	(19,896,581)	(19,774,787)
Total liabilities	56,742,176	55,271,210

(1) Segment revenue reported above represents revenue generated from external and internal customers. There were SR 4,304 million of inter-segment sales and adjustments (between the Group's Companies) for the three months period ended 31 March 2020 (for the three months period ended 31 March 2019: SR 3,033 million) which were eliminated at consolidation.

(2) Other operating segments include: Kuwait Telecommunications Company (stc Kuwait), stc Bahrain, Solutions by stc, Specialized by stc, stc Gulf, Sapphire, Aqalat, Telecommunications Towers Company, and Saudi Digital Payments Company.

5- PROPERTY AND EQUIPMENT

During the three months period ended 31 March 2020, the Group acquired property and equipment with total cost of SR 1,472 million, including non-cash additions with an amount of to SR 452 million (for the three months period ended 31 March 2019: SR 919 million ,including non-cash additions with an amount of to SR 747 million).

During the three months period ended 31 March 2020, the Group disposed of property and equipment with a net book value of SR 18 million (for the three months period ended 31 March 2019: SR 95 million) resulting in a loss on sale of property and equipment for the three months period ended 31 March 2020 with an amount of to SR 6 million (for the three months period ended 31 March 2019: SR 9 million).

The following table shows the breakdown of depreciation expense if allocated to operating costs items for the three months period ended 31 March:

	<i>2020</i>	<i>2019</i>
Cost of revenues	1,287,104	1,204,142
Selling and marketing expenses	1,737	4,061
General and administration expenses	294,861	273,469
	1,583,702	1,481,672

Saudi Telecom Company
A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2020 (CONTINUED)

(All amounts in Saudi Riyals thousands unless otherwise stated)

6- INTANGIBLE ASSETS AND GOODWILL

During the three months period ended 31 March 2020, the net additions in intangible assets amounted to SR 462 million, including non-cash additions with an amount of SR 193 million (for the three months period ended 31 March 2019: SR 299 million, including non cash additions with an amount of SR 85 million).

The following table shows the breakdown of amortisation expense if allocated to operating costs items for the three months period ended 31 March:

	<i>2020</i>	<i>2019</i>
Cost of revenues	171,861	128,456
Selling and marketing expenses	657	967
General and administration expenses	349,172	311,458
	521,690	440,881

7- RIGHT OF USE ASSETS

During the three months period ended 31 March 2020, the net additions in right of use assets amounted to SR 311 million (for the three months period ended 31 March 2019: SR 131 million).

The following table shows the breakdown of depreciation expense if allocated to operating costs items for the three months period ended 31 March:

	<i>2020</i>	<i>2019</i>
Cost of revenues	172,425	136,318
Selling and marketing expenses	615	1,986
General and administration expenses	47,433	49,442
	220,473	187,746

8- OTHER NON-CURRENT ASSETS

	<i>31 March 2020</i>	<i>31 December 2019</i>
Financial assets	6,809,352	7,323,433
Others	731,199	91,851
	7,540,551	7,415,284

9- OTHER CURRENT ASSETS

	<i>31 March 2020</i>	<i>31 December 2019</i>
Other assets	3,768,508	4,097,096
Financial assets	411,512	376,589
	4,180,020	4,473,685

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10- ASSETS HELD FOR SALE

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

The total financial consideration of the agreement consists of the following:

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

The acquisition was completed by Uber on 2 January 2020 after obtaining the approval of most of the regulatory authorities in the relevant countries with a holdback of an equivalent of 25% of the deal value till all regulatory and legal requirements accomplished. The impact of this acquisition on the Group's results from the sale of its direct investment in Careem was recognized during the first quarter of 2020 that resulted in a profit of USD 132 million (equivalent to approximately SR 496 million) excluding the holdback. The profit included within net other gains item in the interim condensed consolidated statement of profit or loss for the period.

11- FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

There was no transfer between the level 1 and level 2 during the period and there were no transfers to or from level 3 to measure fair value during the three months period ended 31 March, 2020. Note that the Group policy includes the recognition of the transfer to and from the fair value hierarchy levels at the end of the financial period.

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

The Group believes that the carrying value of other financial assets and liabilities listed in the interim condensed consolidated financial statements approximate their fair values.

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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 months period ended 31 March were as the following:

	<i>2020</i>	<i>2019</i>
<i>Telecommunication services provided</i>	<u>54,740</u>	<u>131,250</u>
<i>Telecommunication services received</i>	<u>13,857</u>	<u>3,027</u>

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

The following balances are outstanding with related parties:

	<i>Amounts due from related parties</i>		<i>Amounts due to related parties</i>	
	<u>31 March 2020</u>	<u>31 December 2019</u>	<u>31 March 2020</u>	<u>31 December 2019</u>
Associates	329,073	292,020	94,985	38,910
Joint ventures	12,762	12,215	144,263	168,173
	<u>341,835</u>	<u>304,235</u>	<u>239,248</u>	<u>207,083</u>

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 months period ended 31 March 2020 amounted to SR 1,849 million (for the three months period ended 31 March 2019: SR 1,360 million). Expenses related to transactions with government and government related entities for the three months period ended 31 March 2020 (including government charges) amounted to SR 945 million (for the three months period ended 31 March 2019: SR 1,106 million).

As at 31 March 2020, accounts total receivable from government entities was SR 20,272 million (31 December 2019: SR 18,508 million). And as at 31 March 2020, total accounts payable due to government entities was SR 1,935 million (31 December 2019: SR 953 million). Among the commercial transactions with government entities, the Group invested in the Sukuk issued by the Ministry of Finance during the first quarter of 2019 with an amount of SR 3,902 million.

The following is the existing ageing with government:

	<i>31 March 2020</i>	<i>31 December 2019</i>
Less than a year	<u>8,099,183</u>	7,903,051
More than one year to two years	<u>7,416,594</u>	6,393,629
More than two years	<u>4,756,498</u>	4,211,395
	<u>20,272,275</u>	<u>18,508,075</u>

13- BORROWINGS

Total borrowings paid during the three months period ended 31 March 2020 amounted to SR 139 million (the three months period ended 31 March 2019: SR 132 million). Total borrowings received during the three months period ended 31 March 2020: Nil (the three months period ended 31 March 2019: SR 50 million).

14- END OF SERVICE BENEFIT PROVISION

Calculation of end of service benefit provision as at 31 March 2020 was done using the most recent actuarial valuation as at 31 March 2020. During the period, the actuarial assumptions relating to the discount rate have been updated, resulting in a decrease in the present value of the defined benefits obligations.

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15- LEASE LIABILITIES

	<i>31 March 2020</i>	<i>31 December 2019</i>
Current	1,496,464	1,300,242
Non-current	1,519,678	1,580,935
	3,016,142	2,881,177

The interest expense on lease liabilities for the three months period ended 31 March 2020 amounted to SR 27 million included in finance costs (for the three months period ended 31 March 2019: SR 20 million). Total cash payments of lease liabilities for the three months period ended 31 March 2020 amounted to SR 222 million (for the three months period ended 31 March 2019: SR 176 million).

16- OTHER NON-CURRENT LIABILITIES

	<i>31 March 2020</i>	<i>31 December 2019</i>
Deferred income (Government grants)	3,370,892	3,320,684
Financial liabilities	1,630,504	1,591,911
Other	27,357	188,022
	5,028,753	5,100,617

17- OTHER CURRENT LIABILITIES

	<i>31 March 2020</i>	<i>31 December 2019</i>
Financial liabilities	4,487,054	2,145,276
Other	2,595,659	1,534,601
Deferred income	404,096	21,259
	7,486,809	3,701,136

18- ZAKAT AND INCOME TAX LIABILITIES

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

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

In January 2020, the group received a zakat assessment that includes differences related to zakat declaration for the year 2018 amounted to SR 226 million, and the Group has objected to it within the statutory deadline. The Group sees the merit of its legal position and it will not result in any material additional provisions as at 31 March 2020.

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19- FINANCIAL INSTRUMENTS

Fair value of financial instruments

Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety (Note 11):

			<i>31 March 2020</i>		<i>31 December 2019</i>	
			<i>Fair value</i>			
	<i>measurement</i>	<i>Carrying</i>		<i>Carrying</i>		
	<i>hierarchy</i>	<i>amount</i>	<i>Fair value</i>	<i>amount</i>	<i>Fair value</i>	
Financial assets						
Trade and other receivables	Level 3	23,277,121	23,277,121	21,372,368	21,372,368	
Short term murabahas	Level 2	2,701,015	2,701,015	2,181,416	2,181,416	
At fair value through profit or loss	Level 3	1,070,968	1,070,968	1,550,869	1,550,869	
At amortised cost:						
Sukuk	Level 2	5,353,572	5,353,572	5,600,543	5,600,543	
Loans to employees	Level 2	442,463	442,463	438,481	438,481	
Others	Level 2	353,861	353,861	110,129	110,129	
		33,199,000	33,199,000	31,253,806	31,253,806	
Financial liabilities						
At amortised cost:						
Borrowings:						
Murabahas and Tawaruq – unsecured	Level 2	1,086,108	1,086,108	1,232,554	1,232,554	
Sukuk – unsecured	Level 2	6,670,352	6,670,352	6,670,038	6,670,038	
Murabahas – secured	Level 2	1,410,189	1,410,189	1,410,223	1,410,223	
Other financial liabilities	Level 2	1,702,788	1,702,788	1,618,653	1,618,653	
Dividends payable	Level 2	4,406,802	4,406,802	2,111,161	2,111,161	
At fair value through profit or loss:						
derivative liabilities	Level 2	7,968	7,968	7,373	7,323	
		15,284,207	15,284,207	13,050,002	13,050,002	

20- CAPITAL COMMITMENTS

- (a) During the fourth quarter of 2018, the Company signed an agreement with the Ministry of Finance, the Ministry of Communications & Information Technology and the authority of Communications and Information Technology ("Government Entities") for a comprehensive and final settlement of the outstanding dispute related to commercial services provisioning fees provided by the Company and the licences fees granted to the Company for the period from 1 January 2008 to 31 December 2017. In return, the Company is committed to provide capital investments in its infrastructure which is in line with the Kingdom's vision to develop the telecommunications infrastructure within a period of three years from 1 January 2018 according to the terms and conditions of the comprehensive Settlement Agreement (Referred to as "Target Performance Indicators").
- (b) One of the subsidiaries has an agreement to invest in a fund aiming to improve the telecommunication and internet environment for USD 300 million (equivalent to SR 1,125 million) as at 31 March 2020 (31 December 2019: USD 300 million (equivalent to SR 1,125 million)).

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21- CONTINGENT LIABILITIES

- (a) The Group has outstanding letters of guarantee as at 31 March 2020 amounting to SR 4,209 million (31 December 2019 : SR 4,514 million).
- (b) The Group has outstanding letters of credit as at 31 March 2020 amounting to SR 789 million (31 December 2019: SR 961 million).
- (c) On 21 March 2016, the Company received a letter from a key customer requesting a refund for paid balances amounted to SR 742 million related to construction of a fibre optic network. Based on the independent legal opinions obtained, the management believes that the customer's claim have no merit and therefore this claim has no material impact on the financial results of the Group.
- (d) The Group, in its ordinary course of business, is subject to proceedings, lawsuits and other claims. However, these matters are not expected to have any material impact on the Company's financial position or on the results of its operations as reflected in these condensed interim consolidated financial statements.
- (e) The Company has submitted an objection to the appeal committee with respect to GAZT withholding tax assessment on international operators' networks rentals outside Saudi Arabia for the years from 2004 to 2015 for an amount of SR 2.9 billion. The management believes that Saudi tax regulations do not impose withholding tax on the rental of international operators' networks since the source of income did not occur inside the Kingdom, therefore this service should not be subject to withholding tax. Based on the opinions of tax specialists in this matter, the nature of the services and existing similar cases where the decision was in the favour of the companies in the telecom sector, the Company's management believes that this assessment will not result into any additional provisions.

During the first quarter 2020, the Company received a value added tax (VAT) assessment issued by the General Authority of Zakat and Tax (GAZT) for the year 2018 and January of 2019, for an amount to SR 99 million, other than fines. The Company will submit an objection on the aforementioned tax assessment due to the merit of its tax position, from its point of view. The management of the Company also believes that the result of this objection will be on its favor with no additional provisions required as at 31 March 2020.
- (f) The agreement signed with government entities during the fourth quarter of 2018 includes detailed mechanisms relating to the performance indicators that the Company is required to achieve within three years starting from 2018. The Company has re-evaluated the related provisions in line with the expectations of the target performance indicators which shall be reviewed periodically.

22- ACQUISITION OF A NEW SUBSIDIARY

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

Given the logistical challenges caused by the emerging of Coronavirus (COVID-19) pandemic and the need for more time to complete procedures related to the transaction, including due diligence, the two parties have agreed to extend the MoU for 90 days starting 13 April 2020. The parties will work during this period to move forward in the transaction procedures as specified in the MoU, provided that any material developments to be announced in due course.

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23- EMPLOYEE STOCK INCENTIVE PLAN

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

During the EGM meeting referred above, the plan was approved, taking into consideration that the shares to be purchased will not have the right to vote in the Company's shareholders general assemblies, and will not be entitled to any dividends while the shares still under the Company's custody.

24- DIVIDENDS

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

The dividends policy will remain subject to:

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

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

25- IMPACT OF CORONAVIRUS (COVID-19) OUTBREAK

A novel strain of coronavirus (COVID-19) was first identified at the end of December 2019, subsequently in March 2020 was declared as a pandemic by the World Health Organization (WHO). COVID-19 continues to spread throughout in nearly all regions around the world including the Kingdom of Saudi Arabia and resulted in travel restrictions and curfew in the cities which resulted in a slowdown of economic activities and shutdowns of many sectors at global and local levels.

The extent to which coronavirus pandemic impacts the Company's business, operations, and financial results, is uncertain and depends on many factors and future developments, that the Company may not be able to estimate reliably during the current period. These factors include the virus transmission rate, the duration of the outbreak, precautionary actions that may be taken by governmental authorities to reduce the spread of the epidemic and the impact of those actions on economic activity, the impact to the businesses of the Company's customers and partners and other factors.

Thus far and as of the date of preparation of the interim condensed consolidated financial statements for the three months period ended 31 March 2020, the Company's operations have not incurred significant impact from the COVID-19 outbreak. The Company will continue to evaluate the nature and extent of the impact on its business and financial results.

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26- APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

At its meeting held on 21 April 2020, the audit committee (delegated by the Company's Board of Directors) approved the interim condensed consolidated financial statements for the three months period ended 31 March 2020.